AREVA Group

First half financial report

June 30, 2003

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1. First half highlights

1.1. Nuclear power

- Reactors and Services division [January 24 press release]: the Equipment business unit was chosen to supply two more reactor vessel heads to the North Anna power station in the United States operated by Dominion.

- Reactors and Services division [February 24 press release]: the Reactors business unit starts up the second unit of the Ling Ao nuclear power station in China, whose nuclear island comes from Framatome ANP, two months ahead of schedule.

- Reactors and Services division [March 31 press release]: the Reactors business unit submitted a bid to Teollisuuden Voima Oy (TVO) to build Finland's fifth nuclear power reactor.

- Reactors and Services division [April 4 press release]: the Services business unit was awarded a contract to update the emergency backup generators at the Comanche Peak nuclear power plant in the U.S.

- Front end division [April 8 and July 4 press releases]: the McArthur River uranium mine in Canada ceased mining operations due to flooding on April 6, 2003. Production restarted on July 4, 2003, after the Canadian regulatory authorities granted the necessary permits.

- Reactors and Services division [May 15 press release]: the Services business unit, through its subsidiary Intercontrôle, won an inspection contract for 29 pressurized water reactor vessels over the 2005-2010 time frame.

- Back end division [May 21 press release]: the Engineering business unit won its first contract for the Yucca Mountain project, valued at €30M, from the U.S. Department of Energy (US-DOE). The contract calls for the design of handling systems for the spent fuel to be disposed of at the site.

- Front end division [June 18 press release]: the fuel business unit is awarded a long-term contract valued at €20M for fuel reloads at the Isar nuclear power plant in Germany.

- Front end division [June 24 press release]: the Chemistry business unit wins two contracts to supply natural uranium conversion services to EDF (France) and to Enusa (Spain), for a total of approximately €240M.

- Reactors and Services division [June 30 press release]: the Equipment business unit was chosen by Florida Power & Light Company to supply replacement reactor vessel heads.

- Front End division: Progress on negotiations with Urenco in the enrichment field. Negotiations continued with Urenco relating to the group's acquisition of ultra-centrifuge technology for uranium enrichment. Presently in the final phase, the negotiations are based on a Memorandum of Understanding (MOU) signed by both groups on October 6, 2002.

- Overall revisions to nuclear facility dismantling estimates: negotiations begun in 2002 with EDF and the CEA concerning dismantling estimates for the group's facilities continued during the year. Significant progress has been made. In particular, EDF and COGEMA/AREVA came to an agreement on an estimated figure for dismantling of the La Hague spent fuel reprocessing plant and on a formula for sharing the related expenses. These two components are part of a comprehensive negotiation process that includes waste retrieval and packaging costs as well as a commitment by EDF to continue to reprocess its spent fuel beyond the 2015 cut-off date. The results of all negotiations will be communicated once the overall process is complete.

1.2. Connectors

- **Sale of the Military/Aerospace & Industrial business unit (MAI):** FCI sold the Military/Aerospace & Industrial business unit on April 30, 2003. The sale signals AREVA's intention of focusing on markets in which the group holds a leadership position. The Military/Aerospace & Industrial business unit had consolidated sales of €149M in 2002 and employed 1,204 people as of December 31, 2002.

- **Sale of the Cable & Assembly business.** On May 8, 2003, FCI signed an agreement with Sanmina-SCI to sell its production assets in the Cable & Assembly field. These products are not part of the group's core business, are viewed as insufficiently profitable, and could compete with the operations of some of its customers.

  Annual sales for the business were around €70M. The transaction is scheduled to close on January 9, 2004.

- FCI received the 2003 Distribution Award from the Italian electronics distributors association, which has 120 distributor members. The award recognizes the group's efforts to improve its distribution strategy in Italy.

2. Income statement

2.1. Sales

First half 2003 sales for the AREVA Group were €4,137M, compared with €3,982M for the first half of 2002, an increase of +3.9%.

In **Nuclear Power**, sales were €3,402M compared with €3,123M, an increase of +8.9%. Like for like, the increase was 12.9%. **Connectors** posted first half 2003 sales of €689M, compared with €813 million in the first half of 2002, a decrease of –15.2%.

In €M	1H2003	1H2002	Change (%)	2002
Nuclear power	3,402	3,123	+8.9%	6,576
Connectors	689	813	-15.2%	1,560
Other	46	46	+0.0%	129
Total	4,137	3,982	+3.9%	8,265

Sales were up +9.1% like for like [1]:
- +12.9% in nuclear power, with strong growth in the front end and in reactor services and equipment, though the growth rate is the result of timing differences in deliveries from 2002 to 2003 and is not indicative of the projected rate for the year;
- –1% for connectors, where business remained stable during the first half of 2002 even as the U.S. telecom and energy markets continued to sag.

2.2. Operating income

Operating income for the group was €161M, down slightly at -4.2% compared with the first half 2002 (€168M).

In €M	1H2003		1H2002		Change	2002	
	M€	% Sales	M€	% Sales	(%)	M€	% Sales
Nuclear power	274	8.1%	306	9.8%	-10.5%	649	9.9%
Connectors	-62	-9.1%	-95	-11.7%	n.a	-406	-26%
Other	-50	n.a	-43	n.a	n.a	-63	n.a
Total	161	3.9%	168	4.2%	-4.2%	180	2.2%

(1) a) Changes in consolidated operations (acquisition of Duke Engineering & Services in April 2002, sale of the MAI business unit by the connectors division in April 2003); b) exchange rate fluctuations (negative impact of €177M); and c) contract options (in the enrichment business, some customers have exercised contract options allowing them to provide the energy needed for our services; to be comparable with the sales figures for the first half of 2002, first half sales for 2003 must be adjusted by the value of the energy, which was previously purchased with the cost passed through to the customers).

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Before restructuring expenses, first half 2003 operating income was €251M compared with €204M in 2002. This 23% increase reflects sharply reduced losses in connectors.

In **Nuclear power**, operating income before restructuring expenses was €289M, compared with €323M in first half 2002, a period characterized by a very high level of business in the Fuel business unit (Front end division). After restructuring expenses of €15M, operating income settled at €274M compared with €306M in the first half of 2002, for an operating rate of return of 8.1%.

In **Connectors**, performance improved considerably, with operating losses before restructuring expenses divided by more than four: operating income before restructuring expenses went from –€77 million in the first half of 2002 to –€18M in the first half of 2003 [(1)]. Including restructuring expenses, operating income for Connectors settled at –€62 million for first half 2003 compared with –€95 million for first half 2002, reflecting higher restructuring expenses for the current period (€44M in first half 2003 versus €18 million in first half 2002).

"Other" items consist of:

- expenses incurred by AREVA SA and its direct, non-core subsidiaries;
- certain overhead expenses of COGEMA and Framatome-ANP that relate to the Nuclear power business in general, such as Research and Development expenses for the fourth-generation reactor, and are therefore not allocated among the divisions;
- income from non-strategic operations that will eventually be sold, such as Duke Engineering & Services' hydroelectric services operations.

2.3. Net financial income

	1H2003	1H2002
Investment income and expenses	9	-21
Currency conversion income	2	-4
Net gain on sales of securities	1	46
Dividends from securities	28	53
Depreciation of securities	19	-69
Income from "decommissioning assets" portfolio	-31	54
Inflation on decommissioning provision	-16	-14
Other	-6	-46
Net financial income	6	-1

Net financial income for the first half of 2003 was €6M, compared with a loss of €1M for the same period in 2002.

There were no significant gains on sales of securities during the first half of 2003.

2.4. Exceptional items

First half 2003 exceptional items totaled €81M compared with €76M for first half 2002. These items are primarily gains from the sale of the Connector division's Military/Aerospace & Industrial (MAI) business and the recapture of a provision for tax penalties following the favorable outcome of a dispute with the tax administration. Exceptional items for first half 2002 primarily related to the sale of subsidiary Sovaklé.

2.5. Income tax

Income tax expense for first half 2003 represented €107M, compared with €51M for first half 2002

The €56M increase, despite almost identical income before tax, may be explained as follows:
- a reduced-rate income tax on the sale of subsidiary Sovaklé in 2002, which did not apply to the sale of the MAI business in first half 2003, resulting in an additional +€26M in tax expense;
- a significant increase in dividends paid to AREVA S.A. by its subsidiaries, translating into a €13M increase in tax expense subject to parent company / subsidiary tax rates;
- a decrease in losses eligible for consolidation in the consolidated tax return, for a +€9M in additional income tax.

(1) During the second quarter of 2003, the connectors business returned to profitability (excluding Military/Aerospace & Industrial, which was sold in late April 2003).

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2.6. Share in net income of equity affiliates

The share in net income of equity affiliates was €18M in first half 2003, compared with €31M for the same period in 2002. The decrease reflects a lower contribution from ST Microelectronics. AREVA consolidates 17.3% of ST Microelectronics' net income, corresponding to the percentage of ST Microelectronics held by FT1CI, a holding company in which the group is the majority shareholder. The share of ST Microelectronics' net income corresponding to France Telecom's participating interest in FT1CI is offset under "minority interests in subsidiaries earnings".

2.7. Goodwill amortization

A total of €55M in goodwill was amortized in first half 2003, compared with €75M in first half 2002. The decrease is linked to write-downs taken in 2002 for goodwill in the connectors business and to the write-off of goodwill recognized during AREVA's creation and booked in 2002 following the sale of part of AREVA's Total shares.

Consistent with previously used accounting methods, the group performed an "impairment test" on goodwill recorded in its balance sheet for the Connectors business. No additional write-offs were deemed necessary.

2.8. Minority interests in subsidiary earnings

Minority interests in subsidiary earnings were stable, at €48M in first half 2003 compared with €44M in first half 2002. For first half 2003, the minority interests in subsidiaries' earnings were as follows:

In €M	1H2003
34% Siemens interest in Framatome-ANP	23
6.3% France Telecom interest in ST Microelectronics	12
40% minority interests in Eurodif	11
Other	2

2.9. Consolidated net income

Taking into account the foregoing, consolidated net income for first half 2003 was €55M, compared with €104M for the same period in 2002.

Net earnings per share were €1.56 in first half 2003, compared with €2.93 in first half 2002.

3. Performance by division

3.1. Front end division

In €M	1H2003	1H2002	Change (%)
Sales	1,425	1,300	+9.6%
Operating income before restructuring expenses	176	242	-27.3%
Operating income	168	238	-29.4%
As % of sales	*11.8%*	*18.3%*	

Sales

Sales in the Front end division rose 9.6% over those of first half 2002, to €1,425M. Like for like, the rate of growth was +19% [1]. This rate is considerably higher that the rate expected for the entire year.

The increase in sales is primarily due to sales of *Enrichment* services, which rose 24.2%. This growth rate is significantly higher than company anticipations for the full year, since sales were particularly strong during the second half of 2002. The business grew significantly in North America and Asia in first half 2003.

(1) Negative effect of exchange rates / negative effect of pass-though electricity costs for some enrichment contracts / change in consolidated operations with the integration of Duke Engineering & Services in first half 2002.

Sales of the *Mining* business unit were slightly down (-2.9%). The increase in sales volume was offset by a lower average sales price. The five-month outage of the McArthur mine in Canada due to operating difficulties had no impact on sales. Customer deliveries were covered by the group's inventory. The mine resumed operations in July 2003.

Fuel sales rose 6.5%, in line with annual projections. Volumes were flat but sales revenue benefited from a favorable product mix.

Operating Income

Operating income was €168M compared with €238M in 2002. Factors affecting operating income were as follows:
- the temporary shut-down of the McArthur mine in Canada in second quarter 2003, though it restarted in early July;
- significant growth in Enrichment sales, with increased volumes;
- major but non-recurring deliveries in the Fuel business in 2002 (delivery of the first reload to Ling Ao in China) and margin erosion due to a less favorable product mix in first half 2003 (sales volumes, however, increased for the period).

3.2. Reactors and Services division

In €M	1H2003	1H2002	Change (%)
Sales	990	840	+17.9%
Operating income before restructuring expenses	60	22	+172.7%
Operating income	57	11	+418.2%
As % of sales	*5.8%*	*1.3%*	

Sales

Sales in the Reactors and Services division rose 17.9% compared with first half 2002, to €990M. Corrected for changes in consolidated operations [(1)] and fluctuations in foreign exchange rates, the increase was 18.9%. This rate of growth is considerably higher than the rate of growth anticipated over the whole year. The U.S. alone, a key business development area for the group, represented half of the division's total sales growth.

Business was strong for the *Equipment* business unit (+19.9%) and the *Reactor Services* business unit (+25.9%), especially in the United States, where a substantial number of nuclear power reactors are undergoing heavy component inspections and replacements.

The *Reactors* business unit (+39.5%) saw increases in the instrumentation and control (I&C) business and wind-up of the construction contracts for the Angra 2 and Civaux power plants in Brazil and France respectively.

Sales for the *Technicatome* business unit were up 36.8% due to major contracts awarded in late 2002 for naval propulsion systems and test reactors.

Operating income

Operating income was sharply up for the period, at €57M compared with €11M for first half 2002, despite the lack of new reactor projects.

The *Reactors* business unit made the strongest contribution, buoyed by contract closeout operations at the Civaux and Angra 2 reactors (billings tied to the release of the performance bonds and the meeting of operating performance objectives).

3.3. Back end division

In €M	1H2003	1H2002	Change (%)
Sales	987	983	+0.4%
Operating income before restructuring expenses	53	59	-10.2%
Operating income	49	57	-14.0%
As % of sales	*5.0%*	*5.8%*	

(1) Consolidation of Duke Engineering & Services in the first half of 2002.

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Sales

Sales were flat (+0.4%) in the Back end division, at €987M. Currency fluctuations do not affect this business, which bills most of its services in euros.

Sales for the *Reprocessing* and *Recycling* business units were stable. Together, these business units generate four-fifths of the division's sales. Work progressed under the contract with JNFL to train the future operators of the Rokkasho Mura plant in Japan, and major reprocessing-recycling contracts were fulfilled according to plan.

In *Recycling*, mixed oxide (MOX) fuel pellet production was slightly less than the nominal capacity due to technical difficulties.

Sales for the *Logistics* business unit continued to increase.

Operating income

Operating income was €49M for the period, compared with €57M in 2002. This change is consistent with the change in sales revenue.

3.4. Connectors division

In €M	1H2003	1H2002	Change (%)
Sales	689	813	-15.3%
Operating income before restructuring expenses	-18	-77	n.a
Operating income	-62	-95	n.a
As % of sales	*-9.1%*	*-11.7%*	

Sales

The Connectors division recorded first half 2003 sales of €689M, a drop of –15.3% compared with sales for first half 2002. Sales were essentially stable (–1.0%) on a like-for-like basis (i.e., corrected for changes in consolidated operations [1] and variations in currency conversion rates).

Second quarter 2003 sales were up +3.9% compared with fisrt quarter 2003 sales on a like-for-like basis.

Communications Data Consumer (CDC) sales were down 18.3% compared with first half 2002, primarily due to changes in currency conversion rates (excluding currency conversion, sales were down –2.1%). However, second quarter 2003 sales were up +1.3% over first quarter 2003 sales on a like-for-like basis. Business in the telecom sector continues to be lackluster.

The *Electrical Power Interconnect (EPI)* business unit saw its sales recede 22.1% (-11.6% on a like-for-like basis). However, second quarter 2003 sales were up +6.3% on a like-for-like basis compared with first quarter 2003 sales.

The *Automotive* business unit continued its forward thrust, will sales up +1.2% (+6.5% on a like-for-like basis).

In a soft market for the smart card, the *Microconnections* business unit posted a 15.9% decline in sales for the period.

Operating income

The recovery plan instituted in early 2002 continued to produce results: the operating loss before restructuring expenses was €18M, compared with a €77M loss in first half 2002. This was achieved through:

- the sale of MAI, for an impact of –€9M;
- currency conversions, for an impact of +€7M;
- changes in volumes and prices, for an impact of -€18M;
- production cost reductions in the amount of €48M;
- non-production cost reductions in the amount of €31M

(1) Sale of Military/Aerospace & Industrial business unit (MAI) on April 30, 2003, which had 2002 sales of €149M.

Excluding the *Military/Aerospace & Industrial (MAI)* business, sold April 30, 2003, and before restructuring expenses, the division reached break-event in second half 2003 with operating income of +€0.8M, compared with -€16.7M in the first quarter.

The operating loss for the *Communication Data Consumer (CDC)* business unit was cut in half from first half 2002 to first half 2003.

The *Automotive* business unit maintained its level of profitability.

Operating income for the *Electrical Power Interconnect (EPI)* business unit was penalized by the relatively lackluster U.S. and European markets for electrical connectors in the first half.

First half 2003 restructuring expenses of €44M were considerably higher than in first half 2002, when they were €18M.

The first half 2003 operating loss after restructuring expenses was -€63M, compared with -€95M in first half 2002.

4. Cash flow

4.1. Summary cash flow statement

In €M	1H2003	1H2002	Full year 2002
Cash flow from operations	495	535	1,011
Changes in working capital requirement	453	(120)	(104)
Cash flow from operating activities	**947**	**415**	**907**
Net investment in tangible and intangible assets	(155)	(178)	(200)
Change in customer prepayments invested in fixed assets	(30)	(56)	(71)
Free cash flow	**762**	**181**	**636**
Net investment in long-term financial assets	84	(164)	(213)
Capital contributions received		18	-
Dividends paid	(295)	(38)	(262)
Increase (decrease) in debt	(108)	(25)	72
Sale (purchase) of marketable securities	80		995
Gain (loss) from currency conversion	3	(13)	23
Increase (decrease) in net cash	**526**	**(41)**	**1,250**
Beginning cash position before reclassifications*	1,929	1,499	1,499
Less reclassification of marketable securities			(819)
Beginning cash position*	**1,929**	**1,499**	**680**
Ending cash position*	**2,456**	**1,458**	**1,929**

** Net cash from bank credit balances.*

4.2. Free cash flow

Cash flow from operations was slightly down in first half 2003, at €495M, versus €535M in first half 2002. First half 2003 EBITDA[1] for the group was €558M.

The working capital requirement decreased on a non-recurrent basis in first half 2003. The working capital requirement decreased by €453M, including €471M for changes in operating working capital requirement. Customer advances rose sharply, a major customer payment was collected ahead of schedule, and mine inventories were down, primarily due to the incident at the McArthur mine. It should be noted that the change in working capital requirement for the entire year 2003 should be less than it was for the first half.

Given the relatively stable level of capital spending, at €155M net of asset sales, the group's free cash flow is sharply up at €762M compared with €181M in first half 2002, when the change in working capital requirement was -€120M.

The businesses generated €809M in operating cash flow in first half 2003, including +€864M for nuclear power and -€43M for connectors.

(1) Earnings before interest, tax, depreciation and amortization (excluding provisions for working capital).

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4.3. Investment in long-term financial assets

Net investment in financial assets was -€84M in first half 2003. This figure primarily reflects the sale of the Connectors division's MAI business, a second installment payment for the 2002 sale of subsidiary Sovaklé, and payment of a surety bond to U.S. customs in connection with the ongoing dispute with USEC.

4.4. Ending cash position

A total of €295M in dividends relating to 2002 were paid out in June 2003. AREVA shareholders received €220M, while €50M were paid to Siemens, 34% shareholder in Framatome-ANP.

On a net basis, first half 2003 saw an increase in cash and equivalents of €526M. Cash at the beginning of the year [1] stood at €1,929M, giving a first half 2003 closing cash position of €2,456M.

5. Balance sheet

The consolidated balance sheet is provided in section 7.3.

5.1. Fixed assets

Net goodwill was €1,434M at June 30, 2003, compared with €1,537M at year-end 2002. No write-offs of goodwill were taken over the period. Other net intangible assets were essentially stable over the period.

Net tangible assets decreased by €170M since year-end 2002. This trend is expected to continue on a mid-term basis (assuming no change in the consolidated group) since all major industrial facilities required for the company's ongoing operations are now in service and the amount of depreciation exceeds capital expenditures.

Equity in net assets of affiliates and other long-term notes and investments remain much the same as at year-end 2002.

5.2. Assets and provisions for decommissioning and waste management

Changes in the balance sheet from December 31, 2002 to June 30, 2003 relating to decommissioning and waste retrieval/packaging assets and liabilities are summarized in the following table:

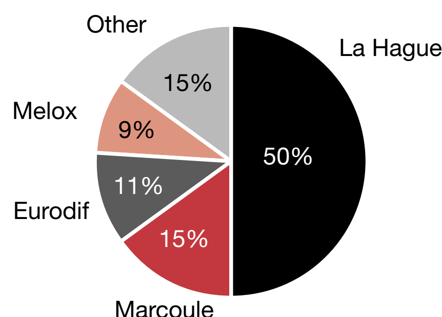
In €M	June 30, 2003	Dec. 31, 2002
ASSETS		
Decommissioning and waste management assets	**9,161**	**9,223**
- AREVA share (yet to be amortized)	*1,176*	*1,194*
- Third party share	*7,985*	*8,029*
Earmarked financial assets	**2,063**	**2,127**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Provisions (AREVA share)	**4,274**	**4,263**
Provisions (third party share)	**7,985**	**8,029**

The period saw few changes. The nature of the commitments and the method of determining the provision are described in note 12 to the consolidated financial statements.

In first half 003, the group undertook a review of the La Hague plant decommissioning estimate, which represents the preponderant share of the group's total facility decommissioning estimate. The new estimate was prepared by SGN, the group engineering subsidiary that designed and managed construction of the facilities. Bureau Véritas, an independent organization, certified the calculation methods and tools and the estimating process. The results were not significantly different from the previous estimate.

(1) Cash available within a period of less than three months (see note 11 of the notes to the consolidated financial statements) – short-term bank facilities (see note 13 of the notes to the consolidated financial statements).

Decommissioning provision breakdown by site as of June 30, 2003*



** Areva share: 4,274 million euros as of June 30, 2003.*

The Marcoule plant decommissioning estimate is also undergoing review. Together, the Marcoule and La Hague plants represent 86% of the total decommissioning provision (1) and 70% of AREVA's share of the provision (2). The reviews will not be completed until late 2003, and the provisions at June 30, 2003 were therefore not revised.

For the other facilities – Melox, Eurodif and Cadarache – the estimates used for the provisions are recent and were not subject to review in 2003, except for inflation.

Meanwhile, negotiations continued with third parties affected by the decommissioning of these facilities, particularly the CEA and EDF.

EDF and COGEMA have committed to a comprehensive negotiation process aimed at defining:

- legal and financial conditions for transferring EDF's current financial obligations for participating in decommissioning of the La Hague site to COGEMA, which could include a full and final payment of EDF's long-term obligation;
- EDF's financial participation in waste retrieval and packaging at the La Hague site; and
- commercial terms and conditions for the future spent fuel reprocessing contract for the 2008-2020 time frame.

In this regard, information arising out of the review of the reference decommissioning estimate and the establishment of respective funding percentages to perform decommissioning are now the subject of a joint position statement accepted by the parties. However, given the comprehensive nature of the negotiations and the fact that they have not yet reached the final stage, AREVA maintained the evaluation methods used for the provisions as of December 31, 2002 in the half-year accounts at June 30, 2003.

To meet its share of decommissioning provisions, the assets earmarked for decommissioning costs had a net value before tax of €1,932M at June 30, 2003 (€2,024M at September 25, 2003). Given the schedule of decommissioning expenses, the group estimates that the portfolio, based on its value as of the end of September 2003, must achieve a net annual rate of return of 3.5%.

5.3. Working capital requirement

The group's working capital requirement is negative due to the size of customer advances, mainly for long-term operations in the Back end division.

The operating working capital requirement dropped sharply in first half 2003, by €471M, largely due to the increase in advances from customers, the booking of a large customer prepayment, and the drawdown of uranium inventories during the break in production at the McArthur mine in second quarter 2003. These are all temporary situations, and the change in working capital requirement for the entire year should be lower than it was for the first half.

(1) The total provision is €12,259M.
(2) AREVA's share of the total provision is €4,274M.

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5.4. Net cash position

The group's net cash position [1] at June 30, 2002, was €1,737M, versus €1,113M at December 31, 2002. The change came primarily from net cash flow generated during the period, as described in section 4.

The following points should be taken into consideration to determine the pro forma net cash position:

- The stated net cash position includes €33M in cash in decommissioning assets which should be deducted to determine the pro forma position, since this cash is part of the assets intended to cover decommissioning provisions.

- Some customer advances, totaling €403M at June 30, 2003, are interest-bearing and should therefore be considered as a financing arrangement; they should be deducted from net cash to calculate the pro forma cash position.

- The stated net cash position:
  - includes €25M in provisions for marketable securities, which should be adjusted before the present market value of the securities is determined;

  - values marketable securities at their original acquisition cost; underlying gains before tax were €330M at June 30, 2003.

Taking these factors into account, the group's pro forma net cash position is €1,656M [2] at June 30, 2003.

5.5. Shareholders' equity

Shareholders' equity went from €4,020M at December 31, 2002, to €3,809M at June 30, 2003. The decrease is largely the combined impact of consolidated net income recorded in first half 2003 and dividends paid out for 2002.

6. Post-closing events

Signature of an agreement to acquire the Transmission & Distribution (T&D) division of Alstom

Following a period of due diligence during the summer, an agreement was signed on September 25, 2003 and should close on January 9, 2004. The acquisition will give AREVA a stronger international position in its core business of supplying goods and services to electric utilities. It will also give the group greater understanding of the challenges facing its customers, at a time when grid management is becoming an especially strategic subject for utilities.

Finland's fifth nuclear reactor: the EPR is utility TVO's preferred option

On October 16, 2003, Finnish utility Teollissuden Voima Oy (TVO) selected the AREVA-led team for negotiations relating to turnkey construction of the country's fifth reactor. The EPR constitutes TVO's preferred technology. Subject to signature of a satisfactory final contract by the end of this year, the AREVA and Siemens subsidiary Framatome-ANP will supply the nuclear island and other components.

(1) Cash and cash equivalents + marketable securities – debt (see note 13 to the consolidated financial statements).
(2) 1,737 – 33 – 403 + 25 + 330 = 1,656.

7. Consolidated financial statements

7.1. Limited Auditors' report on consolidated six-month financial statements – January 1 to June 30, 2003 Period

In accordance with our appointment as Auditors and article 232-7 of the french Commercial code, we performed a limited audit of the financial data and income statement in the form of consolidated financial statements of AREVA for the period January 1 to June 30, 2003, attached to this report, and verified the information contained in the half-year report.

The consolidated half-year financial statements have been prepared by the Executive Board. Our role is to express an opinion on these financial statements based on our limited audit.

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform our limited audit to obtain reasonable assurance that the consolidated half-year financial statements are free of material misstatements. A limited audit does not include all of the tests performed in an audit, but includes setting up analytical procedures and obtaining information deemed necessary from management or any other designated person.

In our opinion, based on our limited audit, the consolidated half-year financial statements give a true and fair view of the financial position and the assets and liabilities of the consolidated group and the half-year results of its operations in accordance with accounting principles generally accepted in France.

Without prejudice to the opinion above, we call your attention to note 12 of the financial statements, which mentions the uncertainties inherent in assessing decommissioning costs, the revisions in progress to certain decommissioning estimates, and the amount to be charged to customers, particularly EDF.

We have also verified, in accordance with professional standards applicable in France, the operating data contained in the half-year report relative to the consolidated half-year financial statements that were the subject of our limited audit.

We have no comment to make as to the fair presentation of this information, or its consistency with the consolidated half-year financial statements.

Done in Paris, October 1, 2003

The Auditors

DELOITTE TOUCHE TOHMATSU / Pascal Colin, Jean-Paul Picard
MAZARS & GUERARD / Thierry Blanchetier, Michel Rosse
RSM SALUSTRO REYDEL / Denis Marangé, Hubert Luneau

7.2. Consolidated income statement

In €M	Note	1H2003	1H2002	Full-year 2002
SALES		**4,137**	**3,982**	**8,265**
Cost of sales		(3,150)	(2,977)	(6,129)
GROSS MARGIN		**987**	**1,005**	**2,136**
Research and development expenses		(141)	(164)	(332)
Sales and marketing expenses		(169)	(203)	(384)
General and administrative expenses		(278)	(306)	(624)
Other operating income and expenses	3	(237)	(164)	(616)
OPERATING INCOME		**161**	**168**	**180**
Net financial income	4	6	(1)	587
EARNINGS OF CONSOLIDATED COMPANIES		**167**	**167**	**767**
Extraordinary items	5	81	76	289
Income tax	6	(107)	(51)	(220)
NET INCOME OF CONSOLIDATED COMPANIES		**141**	**192**	**836**
Share in net income of equity affiliates	9	18	31	83
NET INCOME BEFORE GOODWILL AMORTIZATION		**159**	**223**	**919**
Goodwill amortization	7	(55)	(75)	(593)
NET INCOME BEFORE MINORITY INTERESTS		**103**	**148**	**326**
Minority interests in subsidiary earnings		(48)	(44)	(86)
CONSOLIDATED NET INCOME		**55**	**104**	**240**
Average number of outstanding shares		35,442,701	35,442,701	35,442,701
Net earnings per share		1.56	2.93	6.77
Diluted net earnings per share		1.56	2.93	6.77

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7.3. Consolidated balance sheet

Assets

In €M	Note	1H2003	Full-year 2002
FIXED ASSETS			
Goodwill	7	1,435	1,537
Net intangible assets		518	510
Decommissioning assets	8	9,161	9,223
Net tangible assets		4,477	4,647
Equity in net assets of affiliates	9	1,610	1,652
Other long-term notes and investments	10	2,612	2,580
TOTAL FIXED ASSETS		**19,813**	**20,149**
WORKING CAPITAL			
Inventories and in-process		1,768	1,960
Customer accounts receivable and related accounts		2,193	2,552
Other accounts receivable		1,447	1,400
Cash and marketable securities	11	3,826	3,302
TOTAL WORKING CAPITAL		**9,234**	**9,214**
TOTAL ASSETS		29,047	29,363

Liabilities and shareholders' equity

In €M	Note	1H2003	Full-year 2002
Share capital		1,347	1,347
Consolidated reserves and premiums		2,362	2,333
Currency translation reserves		45	100
Consolidated net income		55	240
TOTAL SHAREHOLDERS' EQUITY		**3,809**	**4,020**
OTHER SHAREHOLDERS' EQUITY		**216**	**215**
MINORITY INTERESTS		**947**	**988**
Pensions and retirement obligations		635	568
Provisions for risks and liabilities	12	14,369	14,485
Debt	13	2,107	2,217
Customer advances and prepayments		4,285	4,066
Accounts payable		851	1,056
Other operating liabilities		1,827	1,748
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29,047	29,363

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7.4. Consolidated cash flow statement

In €M	1H2003	1H2002	Full-year 2002
CASH FLOW FROM OPERATING ACTIVITIES			
CONSOLIDATED NET INCOME	55	104	240
Minority interests in subsidiary earnings	48	44	86
Net income before minority interests	103	148	326
Share of loss (gain) in net income of equity affiliates, net of dividends	12	(5)	(55)
Net depreciation of fixed assets	470	406	1,380
Net provisions	(17)	120	331
Loss (gain) on sale of fixed assets and marketable securities	(63)	(144)	(977)
Other non-cash items	(10)	10	6
CASH FLOW FROM OPERATIONS	495	535	**1,011**
Changes in working capital requirement	453	(120)	(104)
CASH FROM OPERATING ACTIVITIES	**947**	**415**	**907**
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in tangible and intangible assets	(180)	(191)	(430)
Investment in financial assets	(117)	(454)	(475)
Change in customer prepayments invested in fixed assets	(30)	(56)	(71)
Disposals of tangible and intangible assets	25	13	230
Disposals of financial assets	201	290	262
CASH FROM (USED FOR) INVESTMENT ACTIVITIES	**(101)**	**(398)**	**(484)**
CASH FLOW FROM FINANCING ACTIVITIES			
Capital contributions received		18	-
Dividends paid	(295)	(38)	(262)
Increase (decrease) in debt	(108)	(25)	72
CASH FROM FINANCING ACTIVITIES	**(403)**	**(45)**	**(190)**
Decrease (increase) in marketable securities	80		995
Foreign exchange adjustments	3	(13)	23
INCREASE (DECREASE) IN NET CASH	**526**	**(41)**	**1,250**
Beginning cash position	2,045	1,715	1,715
Less bank credit balances	(116)	(216)	(216)
Less reclassifications of marketable securities			(819)
NET CASH AT THE BEGINNING OF THE YEAR	**1,929**	**1,499**	**680**
Ending cash position	2,626	1,701	2,045
Less bank credit balances	(170)	(243)	(116)
NET CASH AT THE END OF THE YEAR	**2,456**	**1,458**	**1,929**

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7.5. Change in consolidated shareholders' equity

In €M	Outstanding shares and investment certificates	Share capital	Consol. premiums and reserves	Currency translation reserves	Shareholders' equity	Minority interests
January 1, 2002	**35,442,701**	**1,347**	**2,569**	**271**	**4,187**	**1,004**
Consolidated net income			240		240	86
Dividends paid			(220)		(220)	(41)
Changes in accounting method and other			(16)		(16)	(24)
Currency translation adjustments				(171)	(171)	(37)
December 31, 2002	**35,442,701**	**1,347**	**2,573**	**100**	**4,020**	**988**
Capital increase						
Consolidated net income			55		55	48
Dividends paid			(220)		(220)	(75)
Changes in accounting method and other			9	(8)	1	4
Currency translation adjustments				(47)	(47)	(18)
June 30, 2003	**35,442,701**	**1,347**	**2,417**	**45**	**3,809**	**947**

7.6. Operating data

By business division

First half 2003

in €M (except workforce)	Front end	Reactors and services	Back end	Nuclear power	Connectors	Holding and other operations and eliminations	Total for the group
Income							
Gross sales	1,437	1,065	1,085	**3,587**	**689**	(140)	**4,136**
Intercompany sales	(12)	(75)	(98)	**(185)**		185	**0**
Contribution to consolidated sales	1,425	990	987	**3,402**	**689**	45	**4,136**
Operating income	168	57	49	**274**	**(62)**	(51)	**161**
O.I. as a % of sales	*11.7%*	*5.7%*	*4.9%*	*8.0%*			*3.9%*
Cash							
EBITDA	248	70	263	**581**	**(9)**	(14)	**558**
% contribution to consolidated sales	17.4%	7%	26.6%	**17%**			**13.5%**
Net cash used in investing activities	51	25	104	**180**	**26**	19	**226**
Net gain (loss) on sales of tangible and intangible assets	(1)	1.5	1	**1.5**	**2.8**	0.8	**5.1**
Changes in operating working capital requirement	185.3	87.4	189.6	**462.3**	**(11.3)**	20.2	**471.3**
Operating cash flow	381.1	133.8	349.5	**864.4**	**(43.2)**	(12.1)	**809.1**
Other							
Fixed assets	2,098	525	11,921	**14,544**	**822**	4 447	**19,813**
Working capital requirement	(48)	45	628	**625**	**280**	(2,497)	**(1,592)**
Workforce	9,851	13,151	10,893	**33,895**	**12,383**	2,397	**48,675**

Duke Engineering & Services, acquired in April 2002, generated first half 2003 sales of €149M.

Through the date of its sale in May 2003, the MAI division of FCI generated sales of €40M.

EBITDA corresponds to earnings before interest, tax, depreciation and amortization.

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First half 2002

in €M (except workforce)	Front end	Reactors and services	Back end	Nuclear power	Connectors	Holding and other operations and eliminations	Total for the group
Income							
Gross sales	1,305	897	1,055	3,257	813	(88)	3,982
Intercompany sales	(6)	(57)	(71)	(134)		134	
Contribution to consolidated sales	1,300	840	983	3,123	813	46	3,982
Operating income	238	11	57	306	(95)	(43)	168
O.I. as a % of sales	*18.3%*	*1.3%*	*5.8%*	*9.8%*			*4.2%*

Some of Duke Engineering & Services' operations, which were acquired in May 2002, were in the process of being allocated to the relevant nuclear business units at June 30, 2002. These operations were recorded as "other operations" at the time, and were allocated in second half 2002.

First half 2002 sales for the Front end division (Eurodif) included rebillings in the amount of €60M for additional material needed to process natural uranium, which is no longer included in sales due to the fact that some customers have opted to supply their own energy to process their natural uranium.

Full-year 2002

in €M (except workforce)	Front end	Reactors and services	Back end	Nuclear power	Connectors	Holding and other operations and eliminations	Total for the group
Income							
Gross sales	2,583	2,074	2,271	6,928	1,560	(223)	8,265
Intercompany sales	(24)	(143)	(185)	(352)	0	352	0
Contribution to consolidated sales	2,559	1,931	2,086	6,576	1,560	129	8,265
Operating income	333	81	235	649	(406)	(63)	180
O.I. as a % of sales	*13.0%*	*4.2%*	*11.3%*	*9.9 %*	*(26.0%)*	*n.s.*	*2.2%*
Cash							
EBITDA	425	87	756	1,268	(26)	(92)	1,150
% contribution to consolidated sales	16.6%	4.5%	36.2%	19.3 %	-1.7%	n.s.	13.9%
Net cash used in investing activities	(93)	(49)	(228)	(370)	(88)	(25)	(483)
Net gain (loss) on sales of tangible and intangible assets	(1)	(1)	23	21	2	-	23
Change in operating working capital requirement	113	34	(280)	(133)	86	(25)	(72)
Operating cash flow	445	71	271	787	(26)	(143)	618
Other							
Fixed assets	2,076	551	12,057	14,684	944	4,521	20,149
Working capital requirement	600	277	(2,241)	(1,364)	352	54	(958)
Capital employed	1,955	906	509	3,370	1,611	1,050	6,031
Workforce	9,536	13,327	10,719	33,582	14,015	2,550	50,147

Capital employed includes net tangible and intangible assets, the operating working capital requirement, customer prepayments invested in fixed assets, and provisions for liabilities.

For the Front end division (Eurodif), 2002 sales were down due to the decision by some customers to supply their own energy to process their natural uranium. As a result, the value of the energy is not included in the cost of enrichment services nor in sales (€193M in 2002). In previous years, the energy was invoiced on a pass-through basis. Consequently, this change has no impact on income.

By geographic area

In €M	1H2003				1H2002	Full-year 2002
	Nuclear power	Connectors	Other	Total		
France	1,165	210	11	1,386	1,533	3,242
Europe (excl. France)	846	152	2	1,000	895	1,646
North America	699	168	33	901	513	1,703
Asia	654	159	1	813	237	1,350
Other	36	0		36	804	324
Total	3,400	689	47	4,136	3,982	8,265

8. Notes to the consolidated financial statements

Note 1 – Accounting principles

AREVA's consolidated half-year statements have been prepared in accordance with the accounting rules and methods used for the consolidated annual accounts in accordance with rule no. 99-02 from the Committee on Accounting Regulations (*Comité de la Réglementation Comptable*, "CRC") and recommendation no. 99.R.01 on interim financial statements of the National Accounting Board (*Conseil National de la Comptabilité*).

Note 2 – Consolidation scope

Transactions in 2003

In May 2003, the AREVA Group sold the MAI division of the FCI group, with a resulting gain of €66M. The division had first half 2002 sales of €75M and first half 2003 sales (up to the date of the sale) of €40M.

Transactions in 2002

On January 31, 2002, Framatome-ANP signed an agreement to acquire Duke Engineering & Services (DE&S), a subsidiary of U.S. utility Duke Energy. The acquisition, finalized in late April 2002, will boost the group's U.S. market share. The acquisition price for DE&S and its subsidiaries was $80.5M.

In the U.S., COGEMA group subsidiaries were reorganized by transferring the equity interests in the subsidiaries to a single structure, COGEMA, Inc. The reorganization streamlines the COGEMA group's economic interests in the U.S. by creating synergies in terms of revenue and related costs. COGEMA, Inc. received SGN's shares in COGEMA Services, Inc. (100%), COGEMA's shares in Canberra, Inc. (100%), and COGEMA Logistics' shares in Transnuclear, Inc. (100%).

AREVA sold Sovaklé, a property management company, in January 2002 for €122M. Pragodata was sold for one symbolic euro. Atea Industrie SA was sold on January 25, 2002.

Note 3 – Other net operating income and expenses

In €M	1H2003	1H2002	2002
Net gain (loss) on sales of non-financial fixed assets	(5)	(2)	(24)
Restructuring and CATS – CASA plan expenses	(91)	(36)	(345)
Other net gains (losses)	(141)	(126)	(247)
Total	(237)	(164)	(616)

Restructuring and CATS – CASA plan expenses include €44M pertaining to the connectors business (FCI) and €47M pertaining to the nuclear power business.

Other operating income and expenses primarily include net amortization and depreciation expenses related to decommissioning operations (€22M), increases in provisions for losses on contracts (€7M), and net provisions (€75M), after recapture of retirement provisions.

At June 30, 2002, other operating income and expenses included decommissioning provision of €61M.

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Note 4 – Net financial income

In €M	1H2003	1H2002	2002
Investment income	45	38	97
Interest on loans and credit lines	(35)	(60)	(87)
Net currency translation gain (loss)	2	(4)	1
Net gain (loss) on sales of securities	1	47	689
Dividends received	28	54	57
Provisions on securities	19	(18)	(46)
Debt write-off		(8)	(8)
Gain (loss) from decommissioning assets and other long-term contracts	(63)	(50)	(115)
Other income (loss) from financial activities	11	0	
Total	6	(1)	587

Financial income relating to decommissioning assets and other long-term investments includes depreciation of the long-term financial portfolio for decommissioning in the amount of €63.7M, compared with €57.4M at December 31, 2002.

Note 5 – Exceptional items

Exceptional items for first half 2003 mainly include the €66M gain on the sale of the MAI division and recapture of a provision for tax penalties in the amount of €20M, following the favorable outcome of a dispute with the tax administration pertaining to 1999 dividend payments.

At June 30, 2002, exceptional items consisted of the €77M gain on the sale of Sovaklé (see note 2).

Note 6 – Income tax

Analysis of income tax

In €M	1H2003	1H2002	2002
Current taxes (France)	(75)		(184)
Current taxes (other countries)	(30)		(50)
Total current taxes	(105)	(66)	(234)
Deferred taxes	(2)	15	14
Total	(107)	(51)	(220)

Reconciliation of income tax expense and income before tax

In €M	1H2003	1H2002	2002
Consolidated net income	55	104	240
Minority interests in subsidiary earnings	48	44	86
Net income of equity affiliates	(18)	(31)	(83)
Tax expense (income)	107	51	220
Income before tax	192	168	463
Theoretical tax income (expense)	(68)	(60)	(164)
Reconciliation			
Impact of foreign income tax			12
Transactions taxed at a reduced rate	2	26	125
Permanent differences	(1)	(17)	(236)
Income and other tax credits			21
Change in provision for depreciation of deferred tax assets	(39)		22
Actual tax (expense) or gain	(107)	(51)	(220)

Note 7 – Net goodwill

Net value *In €M*	December 31, 2002	Acquisition sale	Increase (recapture)	Goodwill and other	June 30, 2003
Nuclear power					
Framatome ANP	421	1	(16)	(8)	398
COGEMA	113		(3)	(10)	99
Technicatome	5			(1)	4
Connectors					
FCI	380		(12)	(30)	338
STMicroelectronics	87		(9)		78
Holding company and others					
AREVA	493		(13)		480
Eramet	38		(1)		37
Total	1,537	1	(54)	(49)	1,434

In an industry undergoing restructuring, the Connectors division acquired several companies in recent years to achieve global stature in interconnection systems for the global telecom and IT markets, including its 1998 acquisition of Berg in the U.S.

With the bursting of the speculative bubble burst in late 2000 and the resulting downturn in the telecom and media technologies market, which intensified in late 2001 and continued through the first quarter of 2002, the group reassessed the utility value of this business compared with its acquisition cost. As a result of this evaluation, the group wrote off €730M in goodwill recorded in connection with the acquisition of Berg in 2001 and €275M in 2002. Net goodwill for the division at December 31, 2002, after the write-off, was €352M.

The utility value of goodwill for this business was again assessed in the first half of 2003. No additional write-off was required as a result of this evaluation.

Note 8 – Decommissioning assets

The group records the deferred cost of decommissioning its nuclear facilities (dismantling and decontamination, including waste retrieval and packaging expenses), including the portion of the cost ultimately charged to certain customers when applicable, under “Tangible assets”. Conversely, as soon as a facility starts operating, a provision is established to cover its total estimated end-of-cycle cost, including the cost portion ultimately charged to customers.

Decommissioning assets totaled €9,161M as of June 30, 2003. No asset has been recorded for sites currently undergoing decommissioning.

The group’s estimated ultimate liability for future decommissioning expenses is €1,176M. The share that will be charged to certain customers is €7,985M.

In €M	1H2003			2002		
	Group share	Third party share	Total	Group share	Third party share	Total
Net value	1,176	7,985	9,161	1,194	8,029	9,223

Note 9 – Equity in net assets of affiliates

In €M	1H2003			2002		
	Interest (%)	Share of net income	Share of net equity	Interest (%)	Share of net income	Share of net equity
Comilog	7.7%	(3)	24	7.7%	1	27
STMicroelectronics holding [(1)]	17.3%	14	1,200	17.3%	75	1,230
Eramet	26.3%	6	227	26.3%	(1)	264
Eramet Manganèse Alliages	30.5%	(2)	54	30.5%	(6)	56
Groupe Assystem	38.6%	0	30	38.6%	5	34
Other		3	75		8	41
Total		18	1,610		82	1,652

(1) The group's financial interest was 11.04% as of June 30, 2003 (11.04% as of December 31, 2002).

Note 10 – Other long-term notes and investments

In €M	1H2003	2002
Equity interests	52	34
Assets earmarked for decommissioning	2,063	2,127
Investment-related accounts receivable	65	71
Loans, deposits and miscellaneous accounts receivable	432	348
Net book value	2,612	2,580

Long-term Financial Portfolio (LFP) for Facility Decommissioning

In €M	Net book value		Market value		After tax market value	
	June 30, 2003	December 31, 2002	June 30, 2003	December 31, 2002	June 30, 2003	December 31, 2002
Earmarked TIAP	2,063	2,127	1,821	1,809	1,899	1,889

The Long-term Financial Portfolio (LFP) contains investments in securities, either held directly or in the form of mutual funds, with a mid- to long-range perspective. The inventory value is determined as follows:

- Directly held lines: average of (a) market value at year-end, determined by a well-established panel of independent financial analysts, and (b) mid-term valuation, based on the growth rate of future profits, the stock market risk, and the risk specific to each individual investment. A provision may be recorded if necessary, based on an impairment test calculated as follows: if the average stock price for the six months before closing is 20% (or more) below the stock price at closing (or 30% or more below the stock price at closing when the market is particularly volatile), a provision is recorded for difference between the stock value established as indicated above and its book value.

- Mutual fund lines: running average of the net asset value over a maximum period of 24 months before closing.

An additional provision in the amount of €63.7M was recorded as of June 30, 2003.

Note 11 – Cash and marketable securities

In €M	1H2003	2002
Marketable securities (gross value)	3,645	3,115
Marketable securities (provision)	(25)	(39)
Cash	207	226
Net value	3,826	3,302

Marketable securities consist mainly of listed shares, mutual funds, bonds, open-ended funds and other marketable securities. At June 30, 2003, the market value of these marketable securities was €254M. The underlying gain is primarily due to an increase in value of Total shares.

Analysis of cash and marketable securities

In €M	Number of securities	Gross book value at June 30, 2003	Net book value at June 30, 2003	Market value at June 30, 2003
Marketable securities				
Listed shares				
Total	5,403,567	310	310	711
Alcatel	2,597,435	27	21	20
Société Générale	1,690,000	104	95	93
Cash equivalents with initial maturity > 3 months				
Other		783	774	804
Total marketable securities		**1,224**	**1,200**	**1,628**
Cash and cash equivalents				
Cash equivalents with initial maturity < 3 months		2,420	2,420	2,420
Cash		206	206	206
Cash and cash equivalents		**2,626**	**2,626**	**2,626**
Net value at June 30, 2003		3,850	3,826	4,254

Note 12 – Provisions for risk and liabilities

In €M	1H2003	2002
Nuclear facility decommissioning	8,459	8,504
Waste retrieval and packaging	3,800	3,779
Subtotal: provisions for decommissioning	**12,259**	**12,283**
Mine site reclamation and mill decommissioning	83	90
Provisions for risk	361	436
Restructuring and manpower adjustment plans	116	183
Contract performance risk	1,412	1,372
Other	138	120
Total	14,369	14,485

Provisions for decommissioning

▪ Type of commitments

As a nuclear facility operator, the AREVA Group has a legal obligation to ensure the safety and decommission any facility, or part thereof, that is permanently shut down. AREVA must also sort and package the waste and scrap from past operations or from decommissioning activities in accordance with standards in effect for purposes of their final disposal.

Group facilities subject to these obligations include facilities in the front end of the fuel cycle, such as Eurodif's enrichment plant at Pierrelatte, but are predominantly facilities in the back end of the fuel cycle, including the spent fuel reprocessing plants at Marcoule and La Hague and MOX fuel fabrication plants.

This obligation extends to nuclear facilities that that the group operates but does not own, such as CEA facilities operated by COGEMA in Pierrelatte or certain facilities located in Marcoule. Certain Framatome ANP sites are also subject to these obligations.

In certain instances, essentially in the case of spent fuel reprocessing services, customers have agreed to assume direct responsibility for a portion of the cost from decommissioning operations and final waste disposal. These contractual arrangements have the effect of transferring the financial impact of decommissioning and waste disposal from the group to third parties. In other instances, decommissioning costs were included in the price of the services provided by the group.

As required under CRC accounting rule no. 2000-06 on liabilities, the group has changed, as of January 1, 2001, its accounting methods applicable to provisions for the decommissioning of the facilities it operates (dismantling, decontamination and waste retrieval/packaging). A provision covering the estimated cost of decommissioning is now established as soon as a facility enters service, including any costs ultimately charged to third parties. Conversely, a decommissioning asset is recorded under fixed assets. The decommissioning provision stood at €12,259M as of June 30, 2003, in current euros, on a non-adjusted basis.

The bulk of these expenses will be incurred after 2015 and the spending period may extend beyond 2040.

▪ Determination of the provision

The decommissioning estimate was calculated facility by facility using the following bases:

- The group has opted for "level 2" decommissioning under the International Atomic Energy Agency (IAEA) system. After shut down, facilities are secured in passive safety condition.

- Expenses are estimated based on current costs for decommissioning operations, included estimated costs for interim monitoring and final waste disposal.

- Detailed estimates for decommissioning and waste management costs were established by SGN, the engineering company that managed the construction of the majority of reprocessing-recycling facilities and is deemed the most qualified to determine decommissioning procedures. For enrichment, Eurodif prepared the estimate.

- The estimates are adjusted annually for inflation. Inflation related adjustments are expensed. This charge is recorded under "Financial income and expenses" when financial assets have been earmarked for decommissioning costs.

With respect to waste retrieval and packaging, in terms of progress on programs prescribed by law no. 91-1381 (now consolidated by articles L.542-1 et sqq. of the Environmental Code) to establish the specification for final waste disposal (class B and C waste in the French system), and in the absence of firm estimates for final disposal, the group used technical and financial assumptions based on management and construction schedule scenarios contained in a study prepared by SGN in 1994.

The group decided to retain these cost scenarios for the following reasons:

- legal requirements governing class B and C waste disposal have not been finalized. The French government intends to submit to parliament a comprehensive assessment of assessments and research pertaining to these classes of waste. The government will also introduce draft legislation to authorize and regulate operations of a waste repository for high-level waste;

- financial cost estimates submitted by ANDRA, the French waste management agency, are purely indicative. These estimates, revised upward on many occasions, have never been finalized and approved;

- estimates for unit costs of deep disposal vary significantly depending on the assumptions used;

- ANDRA's costs are generally higher than an international comparative study conducted by the group based on rates in effect at existing sites capable of receiving this type of waste.

The estimates will be updated in the event of changes to the regulations or if technological breakthroughs are anticipated. In any event, the group has set an objective of reviewing each estimate regularly, within a period of time not to exceed six years.

EDF and COGEMA have embarked on general negotiations to define:

- legal and financial terms and conditions for transferring EDF's current financial obligations for decommissioning at the La Hague site to COGEMA, which could include terms for payment in full by EDF;

- EDF's financial participation in waste retrieval and packaging costs at the La Hague site;

- commercial terms and conditions for the next spent fuel reprocessing contract.

A joint position statement accepted by both parties in July 2003 establishes the main components of a decommissioning cost sharing arrangement between the parties. The joint statement also covers future adjustments to the base decommissioning cost estimate. These negotiations, covering a broad range of subjects, are still ongoing. Accordingly, AREVA's financial statements for the half-year ending June 30, 2003 include decommissioning provisions reflecting the principles in effect on December 31, 2002.

The provisions reflect reasonable estimates of the group's liabilities and correspond to the group's best estimate of future costs under current regulatory requirements, the technological state of the art, and operating experience in this area.

▪ Funding of decommissioning and waste retrieval/packaging expenses

AREVA has earmarked a portfolio comprised of cash, cash equivalents and financial securities to cover its decommissioning and waste disposal obligations. This portfolio, managed with a long-term perspective, is recorded on the balance sheet under "Other long-term notes and investments".

Note 13 - Debt

In €M	1H2003	2002
Loans from financial institutions	1,873	2,001
Short-term bank facilities	170	116
Other debt*	62	98
Bonds (in French francs)	2	2
Total debt	**2,107**	**2,217**
Short-term loans	18	28
Cash	3,826	3,302
Total short-term loans and cash	**3,844**	**3,330**
Net debt	(1,737)	(1,113)

** Including leasing debt (€9M).*

Note 14 – Related party transactions

The consolidated financial statements include arm's-length business transactions with companies in which the group has unconsolidated participating interests, with companies consolidated under the equity method or with shareholders controlling more than 5% of the parent company's equity.

In €M	CEA	STMicroelectronics
Loans (including short-term loans) to unconsolidated companies	-	-
Guarantees given to unconsolidated companies	-	-
Sales	120	-
Purchases	29	9

Note 15 – Other informations

Potential litigation and liabilities

Potential litigation and liabilities arising in the first half of 2003

No significant provision was set up for new litigation in first half 2003, based on the group's risk analyses and on the status of negotiations.

• Exelon

Framatome-ANP received a guarantee claim in first half 2003 relating to fuel supply from its customer Exelon.

Having observed leaking fuel rods in a few assemblies loaded in its reactors, for which the cause and responsibility remain to be determined definitively, Exelon has unilaterally decided to:

- suspend the current contract "for cause";

- unload the assemblies in question, as well as similar assemblies deemed questionable from another reactor. Exelon also indicated its intention to remove assemblies from two other reactors.

AREVA

Framatome-ANP is contesting the claim submitted by Exelon for non-performance of a guaranteed burnup rate.

Discussions are in progress with the customer to settle the dispute and reactivate the suspended contract.

• Paks

On April 10, 2003, an incident occurred during chemical cleaning of a batch of fuel assemblies at the Paks nuclear power plant in Hungary. Following the incident, an increase in radiation levels was measured and damage to the assemblies was observed.

According to the IAEA's June 25 report, responsibility was shared by the Paks operator, the Hungarian nuclear safety authority, and Framatome-ANP GmbH, which designed the chemical cleaning system.

Pending a final settlement with the customer, the group has continued to provide support by actively participating in decontamination of the area, in studies on restart of the off-line reactor, and in analyses of the causes of the incident.

Potential litigation and liabilities arising prior to January 1, 2003

• McClean

On September 23, 2002, the Trial Division of the Federal Court of Canada, ruling on a claim submitted by the Inter-Church Uranium Committee Educational Cooperative (ICUCEC) against the nuclear safety authority for violating the permitting process, cancelled the permit to operate the McClean uranium mine and mill issued by the Atomic Energy Control Board (AECB) in 1999. This decision was appealed by the Canadian Nuclear Safety Commission (CNSC), which replaced AECB, and COGEMA Resources, Inc., which also requested the right to continue operations at McClean pending a decision on their appeal. On November 7, 2002, a judge designated by the Federal Court of Appeal of Canada granted the group's request for a stay on the lower court decision. The appeal decision is expected in early 2004.

• USEC Litigation

The United States Department of Commerce (DOC) ordered that countervailing duties be levied on enrichment services imported to the United States from France, Germany, the Netherlands or Great Britain. This action followed complaints submitted in December 2000 by the United States Enrichment Corporation (USEC) against Eurodif and Urenco. To guarantee payment of these countervailing duties for alleged dumping and illegal subsidies, Eurodif deposited €35.1M with the U.S. Customs administration at the end of 2002. This deposit can be recovered after the case is adjudicated. Eurodif appealed the decision with the U.S. Court of International Trade (CIT) in April 2002. On March 25, 2003, the CIT rendered a decision qualifying Eurodif's supply as services, and thus not subject to countervailing duties for anti-dumping and illegal subsidies. The DOC must present new evidence if it wishes to modify the CIT decision, which may be appealed. The final outcome of the case is not expected in 2003.

Post-closing events

On September 25, 2003, the AREVA group signed an agreement with the Alstom group on the legal and financial terms and conditions for acquisition of the Transmission and Distribution business of the latter.