Notes to unaudited combined pro forma financial statements_

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

The Nexans Group, which was incorporated in November 2000, essentially groups together the former Alcatel energy cable, electrical wires, and distribution activities, as well as the copper telecommunication cable activities for both private and public networks, and related accessories.

The combined pro forma financial statements of Nexans and its subsidiaries (the "Group") were drawn up on the basis of the combined financial statements (presented in Note 23), which were adjusted to reflect, retroactively, the impact of the following items on the three fiscal years:

- the harmonization of the activities sold, on a comparable basis;
- the projected financial structure of the overall Group as of the date of its initial public offering;
- the effects of the legal reorganization which led to the incorporation of the Group.

The principles used to draw up the combined pro forma financial statements and the resulting figures are described in Note 23.

The combined pro forma financial statements of the Group are presented since January 1, 1999, in accordance with the "New principles and methodology relative to consolidated financial statements" Regulation 99-02 approved by decree dated June 22, 1999 of the "Comité de Réglementation Comptable". The effect of this change in accounting principles for the previous years is considered as not significant.

The combined financial statements of the Group comply with the essential accounting principles described hereafter.

The "Comité de la Réglementation Comptable" approved the CNC n° 00-01 recommendation on liabilities issued on April 20, 2000. This new accounting law will be effective as from January 1, 2002. However, its application is permetted as from January 1, 2000. This new accounting law has not been applied to issue the financial statements at December 31, 2000. The effect of the application of this new accounting principle is being evaluated by the Group.

1.a] Combination methods

Companies over which the Group has control are fully combined.

Companies over which the Group has a significant influence ("equity affiliates") are accounted for under the equity method. Significant influence is generally assumed when the Group interest is between 20% and 50%.

The combined financial statements are prepared on the basis of year-end (or interim) financial statements at December 31.

All significant intra-group transactions are eliminated.

1.b] Translation of financial statements denominated in foreign currencies

The balance sheets of non-French combined subsidiaries are translated into euros at the year-end rate of exchange, and their income statements and cash flow statements are translated at the average annual rate of exchange. The resulting translation adjustments are included in net assets' under the line item "Cumulative Translation adjustments".

1.c] Translation of foreign currency transactions

Foreign currency transactions are translated at the rate exchange applicable on the transaction date. At year-end, foreign currency receivables and payables are translated at the rate of exchange prevailing on that date. The resulting exchange gain and losses are recorded in the income statement.

1.d] Research and Development expenses

These are recorded as expenses for the year in which they are incurred, except for:

- certain software development costs which are included in intangible assets, when they strictly comply with the following criteria:

– the project is clearly defined, and costs are separately identified and measured reliably,

– the technical feasibility of the software is demonstrated,

– the software will be sold or used in-house,

– a potential market exists for the software, or its usefulness, in case of internal use, is demonstrated, and,

– adequate resources required for completion of the project are available.

In that case, software development costs are amortized as follows:

– in case of internal use over their probable service lifetime,

– in case of external use according to prospects for sale, rental or other forms of distribution.

The amortization corresponds to the highest of either the cumulative amounts using straight-line amortization or the cumulative amounts based on the above mentioned criteria;

• recoverable amounts disbursed under the terms of contracts with customers, which are included in work in progress on long-term contracts.

1.e] Intangible assets

Whenever events or changes in market indicate a risk of impairment of intangible assets and property, plant and equipment, a detailed review is carried out in order to determine whether the carrying amount of such assets remains lower than their forecast undiscounted operating cash flows.

Whenever such review indicates that such value is lower than carrying amount, the Group further considers the effects of possible business strategies, such as restructuring plans of involved companies, on its future cash flows.

If necessary, an exceptional amortization of these intangible assets and plant, property and equipment is accounted for to reduce their carrying amount to the value measured by discounted forecasted operating cash flow or market value if any.

1.f] Property, plant and equipment

Property, plant and equipment are valued at historical cost for the Group (excluding any revaluation). Depreciation is generally calculated over the following useful lives:

Industrial buildings, plant and equipment:	
– buildings for industrial use	20 years
– infrastructure and fixtures	10-20 years
– equipment and tools	5-10 years
– small equipment and tools	3 years
Buildings for administrative and commercial use	**20-40 years**

Depreciation expense is determined using primarily the straight-line method.

Fixed assets acquired through capital lease arrangements or long-term rental arrangements that transfer substantially all of the benefits and risks of ownership to the Group are capitalized.

1.g] Investments

Investments are stated at the lower of historical cost (excluding revaluations) or fair value (market value for investments in listed companies), assessed investment by investment, taking into consideration the diversity of the activities they represent.

1.h] Long-term contracts

Work in progress on long-term contracts is stated at production cost, excluding administrative and selling expenses and interest expense. Provisions are established to cover all foreseeable losses at completion.

Sales and contract revenue are recognized on percentage-of-completion basis.

1.i] Inventories and work in progress

Inventories are valued at the lower of cost (including indirect production costs where applicable) or net realizable value. Cost is primarily calculated on a weighted-average price basis. The cost of the copper in the inventories is valued according to the LIFO method (last in–first out) in order to better represent economic reality given the variations in the price of copper.

1.j] Cash and cash equivalents

Cash and cash equivalents comprise receivables from disposal of assets having a maturity less than three months and which are liquid and transferable as well as cash on hand and marketable securities. These items are valued at the lower of cost or market value.

1.k] Pension and retirement obligations

In accordance with the laws and practices of each country, the Group participates in employee benefit plans by offering early retirement benefits and special termination benefits.

For defined contribution pension plans and multi-employer plans, expenses are recorded as incurred. For defined benefit pension plans, in order to harmonize the procedure throughout the Group, liabilities and prepaid expenses are determined from January 1, 1999 as follows:

• using the Projected Unit Credit Method (with projected final salary);

• recognizing, over the expected average remaining working lives of the employees participating in the plan, actuarial gains and losses in excess of more than 10% of the present value of the defined benefit obligation or 10% of the fair value of any plant assets.

The effect of the change as of January 1, 1999 between the reserves calculated in accordance with the new accounting method and the reserves previously calculated according to local accounting standards is recorded under the caption "other revenue (expense)".

1.l] Reserves for restructuring

Reserves for restructuring costs are provided for when the restructuring programs have been finalized and approved by Group management and have been announced before approvals of the financial statements. Such costs primarily relate to severance payments, early retirement of employees, costs for notice periods not worked and retraining costs of terminated employees, shut down facilities and write-off of fixed assets, inventories and other assets.

1.m] Deferred taxation

Deferred income taxes are computed under the liability method for all timing differences arising between taxable income and accounting income, including reversal of entries recorded in individual accounts of subsidiaries solely for tax purposes. All amounts resulting from changes to the tax rate are recorded in the year which the tax rate change has been decided.

Provisions are made for taxes on proposed dividends to be distributed by subsidiaries. No provision is made for taxes payable on undistributed retained earnings.

Deferred income tax assets are recorded in the combined balance sheet when it is more likely than not that the tax benefit will be realized.

1.n] Net sales

Net sales represent sales and revenues net of value added taxes (VAT).

1.o] Income from operations

Income from operations includes research and development expenses (Note 1.d), pension costs (Note 1.k) and employee profit sharing. Income from operations is calculated before financial income (loss) and complies with practices of many of the company's competitors.

1.p] Financial instruments

The Group uses financial instruments to manage and reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and metal prices. When these contracts qualify as hedges, gains and losses on such contracts are accounted for in the same period as the item being hedged; otherwise, changes in the market value of these instruments are recognized in the period of change.

1.q] Introduction of the euro

The combined pro forma financial statements prior to January 1, 1999 were denominated in French francs and have been converted into euros using the fixed exchange rate applicable since January 1, 1999 (1 euro = FF 6.55957). Since January 1, 1999 financial statements are denominated in euros.

NOTE 2 CHANGE IN THE COMBINED COMPANIES

The main changes for 2000 in the combined companies are as follows:

• on April 28, 2000 Nexans acquired the Italian company Safi Conel for 8 million euros. This company is combined from May 1, 2000.

The main changes for 1999 in the combined companies are as follows:

• on December 21, 1998 Nexans acquired for 4 million US dollars Optech Dai-Ichi Denko, a Portugal based company. This company is combined from January 1, 1999.

The main changes for 1998 in the combined companies are as follows:

• on October 9, 1998 Nexans acquired for 26 million US dollars Optech Dai-Ichi Denko, an US and Canada based company. This company is combined from October 9, 1998.

NOTE 3 INFORMATION BY BUSINESS DIVISION AND BY GEOGRAPHICAL AREA

3.a] Information by business division

The tables below break down information for the following business divisions:

- the "Electrical wire" Division, made up of wire rods, electrical wires and enameled wire;
- the "Energy" Division, which includes equipment cables, power cables for networks and special cables;
- the "Telecom" Division, containing cables for private telecommunications networks, special cables for electronics applications, junction components for telecommunications network cables, copper cables for public telecommunications networks, and optical fiber cables for public networks;
- the "Distribution" Division, made up of retail activities for distribution to installers of electrical equipment (equipment and network cables).

"Other" includes the net impact of the various head offices and interdivisional eliminations in trade receivables.

The reporting segment follows the same accounting policies used for the company's consolidated financial statements and described in the summary of significant accounting policies. Profit and loss used for each reportable segment is measured using the "income from operations".

in millions of euros	Electrical wires	Energy	Telecom	Distribution	Other	**Total Group**
2000						
Net sales at constant metal price	1,095	2,062	876	327	1	**4,361**
Income from operations	43	64	46	12	4	**169**
Depreciation and amortization	27	67	27	6	5	**132**
EBITDA*	70	131	73	18	9	**301**
Capital expenditures	71	80	64	4	20	**239**
Property, plant and equipment, net	208	332	181	37	68	**826**
Inventories and work in progress, net value	185	354	110	28	27	**704**
Trade receivables and related accounts, net value	179	469	198	26	133	**1,005**
Total assets from operations, net value	572	1,155	489	91	228	**2,535**
Staff	2,672	9,026	4,696	904	888	**18,186**
1999						
Net sales at constant metal price	945	2,060	821	318	5	**4,149**
Income from operations	43	46	36	17	(4)	**138**
Depreciation and amortization	25	68	26	4	3	**126**
EBITDA*	68	114	62	21	(1)	**264**
Capital expenditures	36	45	25	4	34	**144**
Property, plant and equipment, net	156	316	142	43	91	**748**
Inventories and work in progress, net value	139	335	105	51	(7)	**623**
Trade receivables and related accounts, net value	166	549	190	55	(143)	**817**
Total assets from operations, net value	461	1,200	437	149	(59)	**2,188**
Staff	2,709	9,259	4,197	962	1,246	**18,373**
1998						
Net sales at constant metal price	909	2,146	871	314	3	**4,243**
Income from operations	50	69	36	19	1	**175**
Depreciation and amortization	22	70	32	4	8	**136**
EBITDA*	72	139	68	23	9	**311**
Capital expenditures	28	46	28	4	22	**128**
Property, plant and equipment, net	130	360	140	44	55	**729**
Inventories and work in progress, net value	121	373	105	42	(18)	**623**
Trade receivables and related accounts, net value	116	602	192	49	(141)	**819**
Total assets from operations, net value	367	1,335	437	135	(104)	**2,170**
Staff	2,633	10,176	4,780	906	1,050	**19,545**

* The EBITDA is defined as income from operations, excluding depreciation and amortization.

3.b] Information by geographical area

In millions of euros and number of staff	France	Germany	Other Europe	North America	Rest of world	**Total Group**
2000						
Net sales:						
– by subsidiary location	1,461	645	1,456	1,064	157	**4,783**
– by geographical market	762	584	1,970	1,088	379	**4,783**
Income from operations	46	23	41	36	23	**169**
Property, plant and equipment, net	174	144	250	195	63	**826**
Total assets from operations, net value	693	349	924	430	139	**2,535**
Staff	5,188	3,243	6,118	2,453	1,184	**18,186**
1999						
Net sales:						
– by subsidiary location	1,253	647	1,360	777	145	**4,182**
– by geographical market	690	625	1,632	795	440	**4,182**
Income from operations	59	1	27	40	11	**138**
Property, plant and equipment, net	148	163	232	152	53	**748**
Total assets from operations, net value	603	356	773	342	114	**2,188**
Staff	5,421	3,618	6,023	2,225	1,086	**18,373**
1998						
Net sales:						
– by subsidiary location	1,380	716	1,427	676	131	**4,330**
– by geographical market	731	721	1,542	674	662	**4,330**
Income from operations	96	(2)	38	35	8	**175**
Property, plant and equipment, net	144	194	228	120	43	**729**
Total assets from operations, net value	616	389	794	273	98	**2,170**
Staff	5,659	4,274	6,281	2,275	1,056	**19,545**

Note: the above information is analyzed by subsidiary location, except for net sales which are also analyzed by geographical market.

NOTE 4 FINANCIAL INCOME (LOSS)

in millions of euros	2000	1999	1998
Net interest (expense) income*	(2)	6	(3)
Dividends**	1	11	20
Reserve for depreciation of investments	(2)	(3)	–
Net exchange gain (loss)	(2)	3	–
Financial component of the pension costs	(10)	(12)	(14)
Other financial items (net)	(5)	(5)	(5)
Net financial income (loss)	(20)	–	(2)

* The net debt of Nexans as of December 31, 2000 amounts to 76 millions euros (see Note 23). Financial expenses were subsequently adjusted on the basis of the historical cost of Alcatel plus 50 basis points.
** Received from uncombined companies.

NOTE 5 OTHER REVENUE (EXPENSE)

in millions of euros	2000	1999	1998
Net capital gains on disposal of fixed assets*	1	37	2
Other (net)**	–	43	–
Total	1	80	2

* Of which 31millions euros related to the transfer of Alcatel Contracting Germany shares in 1999.
** Of which 32 millions euros related to a reversal of a tax risk provision in Germany and 10 millions euros resulting from the change in the pension evaluation method linked to the adoption of the new accounting principles (Note 1.k).

NOTE 6 INCOME TAX

6.a] Analysis of income tax charge

in millions of euros	2000	1999	1998
Current income tax charge	43	38	46
Deferred income tax charge (credit), net	(3)	(7)	(51)
Income tax	40	31	(5)

6.b] Effective income tax rate

The effective income tax rate can be analyzed as follows:

in millions of euros	2000	1999	1998
Income before taxes and share in net income of equity affiliates	120	158	71
Average income tax rate *(in %)*	38.8	38.7	43.2
Expected tax	46	61	30
Impact of:			
– change in accrual on deferred income tax assets	4	(17)	(13)
– tax credits	(6)	–	(11)
– other permanent differences	(4)	(13)	(11)
Actual income tax charge	40	31	(5)
Effective tax rate *(in %)*	33.6	19.6	(6.4)

Average income tax rate is the sum of income before taxes multiplied by the local statutory rate for each subsidiary, divided by combined income before taxes.

6.c] Deferred tax balances

Deferred tax (liabilities) assets are included in the following captions of the combined balance sheet:

in millions of euros	2000	1999	1998
Other accounts receivable			
– current assets	20	24	37
– non-current assets	11	11	26
Total*	31	35	63
Other payables			
– current liabilities	(2)	(9)	(24)
– non-current liabilities	(37)	(36)	(51)
Total*	(39)	(45)	(75)
Net deferred tax (liabilities) assets	(8)	(10)	(12)

* See Notes 11 and 17.

Non-current deferred tax assets primarily relate to accrued pension and retirement obligations and other non-tax deductible reserves.

Current deferred tax assets are recognized in companies which plan to incur a tax charge in the future.

The deferred taxes which are not recognized because of their uncertain recovery amount to respectively 306, 305 and 323 million euros at December 31, 2000, 1999 and 1998.

6.d] Tax losses carried forward

Tax losses carried forward and not yet utilized represent a potential tax saving of 287 million euros at December 31, 2000 (302 million euros at December 31, 1999, 350 million euros at December 31, 1998 and 359 million euros at December 31, 1997).

Tax loss carried forward expire as follows:

in millions of euros	Amount
Year	
2001	12
2002	9
2003	4
2004	2
2005 and thereafter	260
Total	287

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

7.a] Change in property plant and equipment, gross

in millions of euros Gross value	Land	Buildings	Plant equipment and tools	Other	Total
December 31, 1997	74	609	1,741	270	2,694
Additions	1	14	61	52	128
Disposals	(9)	(66)	(81)	(28)	(184)
Other movements	(1)	(2)	(38)	(1)	(42)
December 31, 1998	65	555	1,683	293	2,596
Additions	1	21	60	62	144
Disposals	(2)	(10)	(75)	(16)	(103)
Other movements	2	25	51	(29)	49
December 31, 1999	66	591	1,719	310	2,686
Additions	–	19	101	119	239
Disposals	(14)	(14)	(78)	(17)	(123)
Other movements	(1)	17	14	(74)	(44)
December 31, 2000	51	613	1 756	338	2,758

Property plant and equipment acquired under capital leases and long-term rental arrangements account for less than 5% of the total property, plant and equipment.

7.b] Change in accumulated depreciation of property, plant and equipment

in millions of euros Accumulated depreciation	Land	Buildings	Plant equipment and tools	Other	Total
December 31, 1997	4	403	1,280	190	1,877
Depreciation charge	–	29	86	21	136
Write-backs*	–	(38)	(70)	(26)	(134)
Other movements	1	7	(31)	12	(11)
December 31, 1998	5	400	1,265	197	1,867
Depreciation charge	–	27	81	18	126
Write-backs*	–	(9)	(63)	(15)	(87)
Other movements	4	16	18	(6)	32
December 31, 1999	9	434	1,301	194	1,938
Depreciation charge	–	27	90	15	132
Write-backs*	(4)	(14)	(70)	(15)	(103)
Other movements	5	(43)	(6)	9	(35)
December 31, 2000	11	404	1,315	203	1,932

* Write-backs represent the accumulated depreciation of fixed assets disposed of.

7.c] Leases and rental

Future rentals under capital leases at December 31, 2000:

in millions of euros Maturity date	Amount
2001	0.7
2002	0.3
2003	0.3
2004	0.2
2005 and thereafter	–
Capital lease obligations	1.5
Interest	–
Total future rentals	1.5

Rental expenses for operating leases over the last three years:

in millions of euros	**2000**	**1999**	**1998**
Minimum rentals	13.5	29.4	22.5
Contingent rentals	–	0.5	2.4
Sublease rentals	(1.0)	(2.0)	(1.4)
Total	12.5	27.9	23.5

NOTE 8 OTHER INVESTMENTS NET

in millions of euros	2000			1999	1998
	At cost	Provision	Net value	Net value	Net value
Investments in:					
– listed securities	–	–	–	–	–
– unlisted securities	32	(11)	21	21	26
Total	32	(11)	21	21	26
Other investments	46	(6)	40	34	46
Total	78	(17)	61	55	72

NOTE 9 INVENTORIES AND WORK IN PROGRESS

in millions of euros	2000	1999	1998
Raw materials and goods	201	182	180
Industrial work in progress	141	159	159
Work in progress on long-term contracts	11	8	25
Finished products	415	345	337
Gross value	768	694	701
Valuation allowance	(64)	(71)	(78)
Net value	704	623	623

NOTE 10 TRADE RECEIVABLES AND RELATED ACCOUNTS

in millions of euros	2000	1999	1998
Receivables on long term contracts	83	69	106
Other trade receivables	967	802	763
Gross value	1,050	871	869
Valuation allowance	(45)	(54)	(50)
Net value	1,005	817	819

NOTE 11 OTHER ACCOUNTS RECEIVABLES

in millions of euros	2000	1999	1998
Advances and progress payments	7	75	72
Prepaid taxes	45	48	51
Deferred taxes*	31	35	63
Prepaid expenses	6	4	3
Advances made to employees	7	4	3
Other accounts	65	29	51
Gross value	161	195	243
Valuation allowance	(1)	–	–
Net value	160	195	243

* See Note 6.c.

NOTE 12 COMBINED PRO FORMA NET ASSETS

So as to reflect the autonomous functioning of the group, historical recapitalizations and dividends were neutralized. A notional dividend payment amounting to 25 million euros per year was taken into account.

NOTE 13 PENSIONS AND POST-RETIREMENT BENEFITS

The Group sponsors various defined benefit pension plans. In France, all Group employees elect to benefit from the retirement indemnity scheme. In other countries, the employee groups covered and the type of retirement plan depend on local regulation practices.

For defined benefit pension plans in order to harmonize the procedure throughout the Group, liabilities and prepaid expenses are determined since January 1, 1999 in accordance with the new accounting principle described in Note 1.k.

The discrepancy on January 1, 1999 between the reserves calculated in accordance with the new accounting principle and the reserves calculated according to the local accounting rules is shown in the income statement in 1999 under the caption “Other revenue (expense)” (10 million euros; see Note 5).

For defined benefit plans, entailing an actuarial valuation, general assumptions have been determined by actuaries on a country by country basis and, for specific assumptions (turnover, salary increases), company by company. The assumptions for 2000, 1999, and 1998 are as follows:

	2000	**1999**	**1998**
Discount rate	5-7%	4-7%	5-8%
Future salary increases	1-8%	1-8%	2-7%
Expected long-term return rate on assets	5-8%	5-8%	5-9%
Average residual active life	15-27 years	15-27 years	15-27 years
Amortization period of transition obligation	15 years	15 years	15 years

Pension benefits

in millions of euros	**2000**	**1999**
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	703	659
Service cost	17	15
Interest cost	37	39
Plan participants' contributions	3	3
Amendments	20	7
Acquisitions	1	–
Disposals	–	–
Curtailments	(2)	–
Settlements	(1)	(7)
Special termination benefits	–	2
Actuarial loss/gain	(37)	16
Benefits paid	(41)	(52)
Reclassifications	5	–
Other (foreign currency translation)	16	21
Benefit obligation at end of year	721	703
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	412	370
Actual return on plan assets	41	41
Employers' contribution	13	15
Plan participants' contributions	3	3
Acquisitions	–	–
Disposals	–	–
Curtailments	–	–
Settlements	1	(4)
Special termination benefits	–	–
Benefits paid	(20)	(33)
Other (foreign currency translation)	19	20
Fair value of plan assets at end of year	469	412
Funded status	(252)	(291)
Unrecognized actuarial loss/gain	(38)	14
Unrecognized transition obligation	4	5
Unrecognized prior service cost	27	9
Net amount recognized	(259)	(263)

Components of net periodic cost:

in millions of euros	2000	1999
Service cost	17	15
Interest cost	37	39
Expected return on plan assets	(28)	(28)
Amortization of transition obligation	1	1
Amortization of prior service cost	2	1
Amortization of recognized actuarial gain/loss	–	6
Effect of curtailments	–	2
Effect of settlements	–	–
Special termination benefit	–	2
Amortization of unrecognized items	–	–
Net periodic benefit cost	29	38

The pension funds are mostly invested in public and private bonds (about 50%), equity interests (about 30%), and short-term investment securities.

NOTE 14 ACCRUED CONTRACT COSTS AND OTHER RESERVES

14.a] Analysis by type

in millions of euros	2000	1999	1998
Accrued contract costs	72	82	108
Reserves for restructuring	57	115	162
Other reserves	52	60	95
Total	181	257	365

Accrued contract costs relate primarily to warranties granted to customers, cost of completed billed contracts, contract losses and penalties relating to commercial contracts.

14.b] Analysis of reserves for restructuring

in millions of euros	2000	1999	1998
Opening balance	115	162	156
Expensed during year	(92)	(112)	(101)
New plans and adjustments to previous estimates	30	60	104
Effect of acquisition (disposal) of combined subsidiaries	4	3	4
Currency translation adjustments and others	–	2	(1)
Closing balance	57	115	162

A plan aimed at adapting the level of workforce and rationalizing manufacturing facilities and distribution activities of the Telecom and Cables sectors was set up in 1995 for the three year period 1996/1998 and mainly concerns the subsidiaries in France, Germany, Spain, Italy and Belgium. This plan was completed in 1999.

The main activities concerned by the new 1998 plans are as follows: the closing of the Hochelaga site in Canada, Stadthagen and Berlin in Germany, the resizing of high voltage site in Halden, Norway as well as the Cossonay site in Switzerland.

For 1999, restructuring costs mainly relate to the closing of Salles and Reims sites in France, and of the Hamburg and Stadthagen sites in Germany.

In 2000, besides the continuation of the closing of the Hamburg and Stadthagen sites in Germany, the restructuring costs mainly relate to some rationalization in the Energy Division of the Calais and Lens site in France, Charleroi in Belgium, Latina in Italy and Cortaillod in Switzerland.

The main activities concerned by accrued for restructuring costs in 2000 are the high voltage activity in Switzerland and the energy activity in Italy.

NOTE 15 FINANCIAL DEBT

For pro forma combined financial statements purpose, the theoretical debt as of January 1, 1998 was reconstructed retroactively, taking into account the cash flows generated by the operational activities and a notional dividend payment amounting to 25 million euros.

15.a] Analysis by type

in millions of euros	**2000**
Short-term borrowings and bank overdrafts	203
Capital lease obligations	–
Accrued interest	2
Total	205

15.b] Analysis by maturity date

in millions of euros	**2000**
Short-term financial debt	193
2002	3
2003	2
2004	2
2005	2
2006 and thereafter	3
Long-term financial debt*	12
Total	205

* See note 1.p.

15.c] Long term debt

Analysis by currency and interest rate:

	2000	
	Weight average rate	In millions of euros
Euro	4.50%	7
French franc	4.15%	2
Deutschmark	6.50%	2
US dollar	–	–
Pound sterling	–	–
Other	–	–
Total	4.81%	12

15.d] Short term debt

Analysis by currency and interest rate:

	2000	
	Weight average rate	In millions of euros
Euro	5.54%	90
French franc	4.32%	5
Deutschmark	6.50%	2
US dollar	5.20%	56
Pound sterling	6.57%	3
Other	12.29%	37
Total	6.75%	193

NOTE 16 CUSTOMERS' DEPOSIT AND ADVANCES

in millions of euros	**2000**	**1999**	**1998**
Advance payments received on long term contracts	21	20	11
Other deposit advances received from customers	11	13	18
Total customers' deposits and advances	32	33	29

NOTE 17 OTHER PAYABLES

Analysis is as follows, after appropriation:

in millions of euros	**2000**	**1999**	**1998**
Accrued payable and other	168	148	175
Social payables	140	150	122
Accrued taxes	67	83	106
Deferred taxes*	39	45	75
Dividends to be paid	–	–	–
Government grants	6	8	11
Total	420	434	489

* See Note 6.c.

NOTE 18 COMMITMENTS AND CONTINGENCIES

in millions of euros	**2000**	**1999**	**1998**
Guarantees given on contracts and others	279	284	342
Discounted notes receivables	3	8	15
Secured borrowings	33	33	–
Commitments to buy or sell forward raw materials or goods	53	42	53
Commitments to purchase fixed assets	33	43	27
Total	401	410	437

Guarantees given on long-term contracts consist of performance bonds issued to customers and bank guarantees given to secure advance payments received from customers. In the event that, due to occurrences, such as delay in delivery or litigation related to failure in performance on the underlying contracts, it becomes likely that Nexans will become liable for such guarantees, the estimated risk is reserved for on the combined balance sheet under the line item "Accrued contract costs and other reserves", see Note 14.

NOTE 19 MARKET-RELATED EXPOSURES

In 1996, Alcatel's group decided to centralize treasury management in order to minimize the Group's exposure to market risks: foreign exchange risk, interest rate risk and credit risk. These risk management policies are conducted as part of Alcatel global policy and it is not possible to identify precisely risk management transaction corresponding to the operating combined perimeter of the Group.

Metal price risk

The Group enters into futures contracts on the London Metal Exchange in order to reduce its exposure to market fluctuations on its copper and aluminum firm position.

At December 31, 2000, 1999 and 1998, the copper and aluminum net position on futures contracts were as follows:

	2000		**1999**		**1998**	
	Tons	Millions of euros	Tons	Millions of euros	Tons	Millions of euros
Open position (long) at purchase cost	17,150	36	43,400	70	80,150	112
At market value	17,150	32	43,400	79	80,150	98
Profit / (loss)		(4)		9		(14)

These unrealized profit (loss) are substantially offset by unrealized loss (profit) on the firm position, resulting in an net profit of 8 million euros at December 31, 2000 (net unrealized profit of 1 million euros at December 31, 1999; net unrealized profit of 1 million euros at December 31, 1998).

NOTE 20 PAYROLL AND STAFF

in millions of euros	**2000**	**1999**	**1998**
Wages and salaries (including social security / pension costs)	831	899	933
of which remuneration of executive officers of the Group	*2.3*	*1.9*	*1,5*
Employee profit sharing	4.0	9.0	7,0
Staff of combined companies at year end *(number of staff)*	18,186	18,373	19,545

NOTE 21 CONTINGENCIES

As part of its normal activities, Nexans is liable of various requests principally related to environmental matters and contract disputes. Nexans is also involved in product liability claims, including a claim in its early stages by a manufacturing facility in Canada naming Nexans and other cable manufacturers in Canada with respect to property damage in connection with a fire. Considering Nexans reserve policy, insurance, evaluation of the likelihood of recovery and the effect of such claims, Nexans does not consider that these current or anticipated litigations will have a material adverse effect on its financial condition and results of operations.

NOTE 22 MAIN COMBINED COMPANIES *

Company	Country	% of control	% of interest	Combination method
Nexans SA **	France	100.00	100.00	Global
Nexans France	France			
Nexans Benelux	Belgium	99.60	99.60	
Nexans Suisse	Switzerland			
Nexans Canada, Inc.	Canada			
Nexans Italia SpA	Italy			
Nexans Wires	France			
Nexans Deutschland Industries AG & Co	Germany	99.72	99.42	
Nexans USA, Inc.	United States			
Nexans Holding Norway A/S	Norway			
Nexans Maroc **	Morocco	56.52	56.52	
Lacroix & Kress GmbH	Germany	100.00	99.42	
Société de Coulée Continue de Cuivre	France			

* Percentage of control and interest equal 100% except if specified.
** Company publicly traded.

NOTE 23 PRINCIPLES OF DRAWING-UP THE PRO FORMA ACCOUNTS

The pro forma Combined Financial Statements do not necessarily reflect Nexans financial position, results of operations and cash flows as they would have been if Nexans had been formed on January 1, 1998 and operated autonomously before December 31, 2000. Moreover, these financial statements may not reflect what will be the Group's financial position, results and net cash position in the future.

The pro forma combined financial statements were established on the basis of Alcatel's accounting principles and consistent with the assumptions considered as necessary by Nexans management. These financial statements are mainly based on the relevant historical financial information extracted from Alcatel's consolidated financial statements for the concerned fiscal years, and include all the significant restatements considered necessary. The main assumptions used for the established pro forma combined financial statements are described below.

No notes to the historical combined financial statements have been prepared, as it has been considered more appropriate to prepare notes to the pro forma combined financial statements which better reflect the future structure of Nexans business.

23.a] The new operating scope

The operating scope of the Group differs from the legal and historical scope. Indeed, the operational carve out of the activities resulted in some cases in legal separation through partial business transfers, in other cases in the signing of an operator/Alcatel user/Nexans contract. It mainly concerns the following activities:

– optical fiber and optical fiber cable activities in France, Spain and Germany;

– Radio Frequency System activity in Germany;

– taking into account the effects of the signing of an operator/user contract in Switzerland and in Brazil in order to reflect respectively the manufacture of fibers by means of perform molding for Alcatel and the manufacture of copper telecommunications cables by Alcatel for Nexans;

– Alcatel STK's real estate assets and pension fund assets, held by the Alcatel group;

– restatement of the remaining restructuring reserves at December 31, 2000 related to Nexans sites but which will be paid by Alcatel.

23.b] The new financial structure of the Group

For pro forma combined financial statements purpose, the theoretical debt as of January 1, 1998 was reconstructed retroactively, taking into account:

– cash flows generated by the operating activities;

– notional dividend of 25 million euros.

The financial costs were consequently adjusted on the basis of historical costs of Alcatel debt plus 50 basis points.

23.c] Effect of the legal reorganization in order to constitute the Group

The transfer of securities in order to constitute the new Group was carried out on the basis of the utility value estimated by Alcatel at 1,200 million euros excluding debts. The purpose of this adjustment is to conform to such value.

On the reverse side, interests in subsidiaries historically held by the Group business as of June 30, 2000 are considered as sold as of January 1, 1997 on the basis of 45 million euros which represents their historical value as of June 30, 2000.

The effects of these adjustments are detailed in the following tables:

in millions of euros **2000**	Combined	Operating carving out (a)	Financial structure (b)	Reorganization (c)	Pro forma
CONDENSED INCOME STATEMENTS					
Net sales	5,348	(565)	–	–	4,783
Gross profit	756	(109)	–	–	647
Income from operations	230	(61)	–	–	169
Financial income (loss)	(20)	–	–	–	(20)
Restructuring costs	(30)	–	–	–	(30)
Other revenue (expense)	103	–	(102)	–	1
Net income before income tax and amortization of goodwill	283	(61)	(102)	–	120
Income tax	(32)	–	(8)	–	(40)
Amortization of goodwill	(14)	–	–	14	–
Minority interests	5	–	–	–	5
Net income, Group share	232	(61)	(110)	14	75
CONDENSED BALANCE SHEET					
Intangible assets, net	165	–	–	(160)	5
Property, plant and equipment, net	826	–	–	–	826
Investments and other non-current assets net	63	–	–	–	63
Total non-current assets, net value	1,054	–	–	(160)	894
Inventories and work in progress, net value	704	–	–	–	704
Receivables, net value	1,165	–	–	–	1,165
Cash and cash equivalents	129	–	–	–	129
Total current assets	1,998	–	–	–	1,998
Total assets	3,052	–	–	(160)	2,892
Combined net assets	1,271	–	–	(160)	1,111
Minority interests	49	–	–	–	49
Reserve for liabilities and charges	440	–	–	–	440
Financial debt	205	–	–	–	205
Other liabilities	1,087	–	–	–	1,087
Total liabilities	3,052	–	–	(160)	2,892
CONDENSED STATEMENT OF CASH FLOWS					
Working capital provided by operations	133	–	13	–	146
Net cash provided (used) by operations activities	22	–	9	–	31
Net cash provided (used) by investing activities	(1,908)	–	(198)	1,856	(250)
Cash flow from financing activities	1,836	69	(27)	(1,901)	(23)
Net effect of exchange rate changes	(5)	–	–	–	(5)
Net increase (decrease) in cash and cash equivalents	(55)	69	(216)	(45)	(247)
(Debt net) / cash net, at beginning of year	(21)	(69)	216	45	171
(Debt net) / cash net, at end of year	(76)	–	–	–	(76)

in millions of euros **1999**	Combined	Operating carving out (a)	Financial structure (b)	Reorganization (c)	Pro forma
CONDENSED INCOME STATEMENTS					
Net sales	4,505	(323)	–	–	4,182
Gross profit	730	(101)	–	–	629
Income from operations	181	(43)	–	–	138
Financial income (loss)	(31)	–	31	–	–
Restructuring costs	(60)	–	–	–	(60)
Other revenue (expense)	80	–	–	–	80
Net income before income tax and amortization of goodwill	170	(43)	31	–	158
Income tax	(25)	–	(6)	–	(31)
Amortization of goodwill	(22)	–	–	22	–
Minority interests	6	–	–	–	6
Net income, Group share	117	(43)	25	22	121
CONDENSED BALANCE SHEET					
Intangible assets, net	148	–	–	(144)	4
Property, plant and equipment, net	895	(147)	–	–	748
Investments and other non-current assets net	102	–	–	(45)	57
Total non-current assets, net value	1,145	(147)	–	(189)	809
Inventories and work in progress, net value	683	(60)	–	–	623
Receivables, net value	1,098	(86)	–	–	1,012
Cash and cash equivalents	498	–	–	–	498
Total current assets	2,279	(146)	–	–	2,133
Total assets	3,424	(293)	–	(189)	2,942
Combined net assets	1,222	(278)	213	(144)	1,013
Minority interests	84	–	–	–	84
Reserve for liabilities and charges	536	(16)	–	–	520
Financial debt	518	67	(213)	(45)	327
Other liabilities	1,064	(66)	–	–	998
Total liabilities	3,424	(293)	–	(189)	2,942
CONDENSED STATEMENT OF CASH FLOWS					
Working capital provided by operations	169	(69)	25	–	125
Net cash provided (used) by operations activities	247	(70)	25	–	202
Net cash provided (used) by investing activities	(113)	31	–	(6)	(88)
Cash flow from financing activities	35	22	(82)	–	(25)
Net effect of exchange rate changes	(10)	–	–	(1)	(11)
Net increase (decrease) in cash and cash equivalents	159	(17)	(57)	(7)	78
(Debt net) / cash net, at beginning of year	(180)	(52)	260	65	93
(Debt net) / cash net, at end of year	(21)	(69)	202	59	171

in millions of euros **1998**	Combined	Operating carving out (a)	Financial structure (b)	Reorganization (c)	Pro forma
CONDENSED INCOME STATEMENTS					
Net sales	4,643	(313)	–	–	4,330
Gross profit	767	(99)	–	–	668
Income from operations	214	(39)	–	–	175
Financial income (loss)	(34)	–	32	–	(2)
Restructuring costs	(104)	–	–	–	(104)
Other revenue (expense)	2	–	–	–	2
Net income before income tax and amortization of goodwill	78	(39)	32	–	71
Income tax	11	–	(6)	–	5
Amortization of goodwill	(24)	–	–	24	–
Minority interests	4	–	–	–	4
Net income, Group share	61	(39)	26	24	72
CONDENSED BALANCE SHEET					
Intangible assets, net	161	–	–	(159)	2
Property, plant and equipment, net	862	(133)	–	–	729
Investments and other non-current assets net	122	–	–	(45)	77
Total non-current assets, net value	1,145	(133)	–	(204)	808
Inventories and work in progress, net value	677	(54)	–	–	623
Receivables, net value	1,138	(76)	–	–	1,062
Cash and cash equivalents	373	–	–	–	373
Total current assets	2,188	(130)	–	–	2,058
Total assets	3,333	(263)	–	(204)	2,866
Combined net assets	1,029	(257)	276	(159)	889
Minority interests	76	–	–	–	76
Reserve for liabilities and charges	650	(8)	–	–	642
Financial debt	552	49	(276)	(45)	280
Other liabilities	1,026	(47)	–	–	979
Total liabilities	3,333	(263)	–	(204)	2,866
CONDENSED STATEMENT OF CASH FLOWS					
Working capital provided by operations	195	(56)	26	–	165
Net cash provided (used) by operations activities	342	(82)	26	–	286
Net cash provided (used) by investing activities	(88)	13	–	(19)	(94)
Cash flow from financing activities	68	–	(93)	–	(25)
Net effect of exchange rate changes	1	–	–	–	1
Net increase (decrease) in cash and cash equivalents	323	(69)	(67)	(19)	168
(Debt net) / cash net, at beginning of year	(503)	18	327	82	(76)
(Debt net) / cash net, at end of year	(180)	(51)	260	64	93

in millions of euros	Combined net assets	Pro forma adjustment	Combined pro forma net assets
COMBINED STATEMENTS OF CHANGE IN NET ASSETS			
December 31, 1997	957	(40)	917
Appropriation of net income and dividend	(107)	82	(25)
Translation adjustments	(75)	–	(75)
Net income	61	11	72
Other	193	(193)	–
December 31, 1998	1,029	(140)	889
Appropriation of net income and dividend	(67)	42	(25)
Translation adjustments	28	–	28
Net income	117	4	121
Other	115	(115)	–
December 31, 1999	1,222	(209)	1,013
Appropriation of net income and dividend	(54)	29	(25)
Translation adjustments	52	(5)	47
Net income	232	(157)	75
Other	(181)	181	–
December 31, 2000	1,271	(160)	1,111