

# NEXANS

## TRANSITION TO IFRS

<b>1. TRANSITION TO IFRS.....</b>	<b>2</b>
1.1. REASONS FOR PUBLICATION.....	2
1.2. POLICIES FOLLOWED IN PREPARING THE GROUP'S FIRST FINANCIAL STATEMENTS UNDER IFRS .....	2
1.3. FIRST-TIME APPLICATION OPTIONS .....	3
<b>2. IMPACT OF THE TRANSITION ON THE CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>4</b>
2.1. CHANGES IN THE PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS .....	4
2.2. SUMMARY OF THE AREAS OF IMPACT ON CONSOLIDATED SHAREHOLDERS' EQUITY .....	8
2.3. RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AS OF 1 JANUARY 2004 (IFRS TRANSITION DATE)	9
2.4. RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2004.....	10
2.5. RECONCILIATION OF THE INCOME STATEMENT FOR THE 2004 FINANCIAL YEAR .....	11
<b>3. DIFFERENCES BETWEEN THE STANDARDS APPLIED BY THE GROUP (FRENCH GAAP) AND INTERNATIONAL STANDARDS (IFRS) .....</b>	<b>12</b>
3.1. EMPLOYEE BENEFITS (IAS 19).....	12
3.2. SCOPE OF CONSOLIDATION (IAS 27).....	12
3.3. RESEARCH AND DEVELOPMENT COSTS (IAS 38) .....	13
3.4. GOODWILL (IFRS 3).....	14
3.5. CONSTRUCTION CONTRACTS (IAS 11) .....	14
3.6. INVENTORIES (IAS 2) .....	14
3.7. SHARE-BASED PAYMENTS (IFRS 2) .....	14
3.8. TAXES (IAS 12).....	15
3.9. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (IFRS 5).....	1
3.10. APPLICATION OF IAS 32 AND 39 ON FINANCIAL INSTRUMENTS AS OF 1 JANUARY 2005 .....	1
3.11. OTHER DIFFERENCES.....	2
<b>4. SPECIAL PURPOSE AUDIT REPORT OF THE STATUTORY AUDITORS ON THE IFRS RESTATED CONSOLIDATED ACCOUNTS .....</b>	<b>ERREUR ! SIGNET NON DEFINI.</b>

# 1. TRANSITION TO IFRS

## 1.1. Reasons for publication

Due to Nexans' listing in a European Union country and in accordance with CE Regulation No. 1606/2002 of 19 July 2002, the company and its subsidiaries' (the "Group") 2005 consolidated financial statements will be prepared in accordance with the IFRS (International Financial Reporting Standards) framework as adopted by the European Union.

The recommendation made by the CESR (Committee of European Securities Regulators) of December 30, 2003 on disclosure during the IFRS transition period recommends the publication as early as possible of any quantifiable impact of the transition to the new accounting regime, provided that it has been measured in a sufficiently exact and reliable manner.

In view of the publication of these comparative financial statements for the 2005 financial year and in accordance with the recommendation of the AMF (*Autorité des Marchés Financiers*) concerning disclosure of financial information during the transition period, the Nexans Group has prepared preliminary 2004 financial information on the transition to IAS/IFRS setting out the expected financial impact of the transition to IFRS on:

- The balance sheet as of the transition date, i.e. 1 January 2004, on which date the confirmed impact of the transition will be recorded in shareholders' equity upon publication of the 2005 consolidated financial statements.
- The financial position as of 31 December 2004 and the performance for the 2004 financial year.

This information was examined by the Accounts Committee at its meeting of 20 April 2005 and by the company auditors, the latter giving a positive opinion of the information set out in this publication in their special audit report included in Chapter 4.

## 1.2. Policies followed in preparing the Group's first financial statements under IFRS

This 2004 financial information on the expected financial impact of the transition to IFRS was prepared by applying the IFRS standards and interpretations that the Nexans Group considers it will have to apply to the 2004 data when preparing the comparative consolidated financial statements as of 31 December 2005. The basis for preparing the 2004 financial information set out in the following notes is thus:

- IFRS standards and interpretations that are of mandatory application as of 31 December 2005 as they are known at this date;
- Those options and exemptions which the Group has applied and which in all likelihood it will use in the preparation of its first IFRS consolidated financial statements in 2005.

Given these facts, it is possible that the audited opening balance sheet may not be the opening balance sheet as of 1 January 2004 on the basis of which the consolidated financial statements for the 2005 financial year will actually be prepared and that the 2004 IFRS half-yearly and annual income as well as the balance sheet as of 31 December 2004 presented below will be changed in the course of the 2005 financial year.

### **1.3. First-time application options**

IFRS 1 "First-time adoption of International Financial Reporting Standards" allows first time adopters to, in certain cases, depart from the retroactive nature of applying IFRS. The Group examined all available treatments and opted for the following:

- Employee benefits

Pursuant to IFRS 1, the Group opted to record in shareholders' equity the deferred actuarial gains and losses in its balance sheet as of 31 December 2003. Quantitative impacts of this election are presented in the reconciliation note below (Cf. § 3.1).

For actuarial gains or losses appearing after 1 January 2004, the Group will continue to apply the "corridor" method, waiting for the European Union to adopt a change to IAS 19 allowing the direct transfer to shareholders' equity of actuarial gains or losses generated during each accounting period.

- Translation differences

The Group elected to make use of the option in IFRS 1 allowing for the reclassification in reserves, of translation differences as of 31 December 2003, arising from the translation into euros of the accounts of foreign subsidiaries. The resulting 28 million euro reclassification has no impact on shareholders' equity - Group share.

- Business combinations

Pursuant to IFRS 1, the Group did not review the goodwill calculations for acquisitions completed prior to 1 January 2004 (for reference, the Group has applied the purchase method to all takeovers since its 2001 listing).

- Financial instruments

IAS 32 "Financial instruments: disclosure and presentation" and IAS 39 "Financial instruments: recognition and measurement" will be applied from 1 January 2005, without restating the 2004 financial statements, as permitted in view of the belated publication of these standards. Nevertheless, Nexans has already opted for the policies presented below (cf. § 3.10).

The Group did not elect to make use of other possible exemptions in IFRS 1. In particular, the Group did not elect to measure certain items of property, plant and equipment and intangible assets at fair value in the opening balance sheet.

## 2. Impact of the transition on the consolidated financial statements

The areas of impact of the transition to IFRS are presented as follows:

- Reconciliation between the balance sheets for the 2003 and 2004 financial years published under French GAAP and the balances under French GAAP presented in the IFRS format (cf. § 2.1);
- Summary of the areas of impact of IFRS on shareholders' equity (Group share) as of 1 January and 31 December 2004 (cf. § 2.2);
- Reconciliation, in the IFRS format of the financial statements, between the consolidated financial statements under French GAAP and the consolidated financial statements under IFRS:
  - The balance sheet as of the date of transition to IFRS, i.e. 1 January 2004 (cf. §2.3);
  - The balance sheet as of 31 December 2004 (cf. §2.4); and
  - The income statement for the 2004 financial year (cf. §2.5).

Narrative disclosures present the differences resulting from these reconciliations (cf. § 3 Differences between the standards applied by the Group (French GAAP) and international standards (IAS/IFRS)).

### 2.1. Changes in the presentation of the consolidated financial statements

IAS 1 "Presentation of the financial statements" and IAS 7 "Cash flow statement" make changes to the presentation of the consolidated financial statements.

- Presentation of the consolidated balance sheet

The mandatory distinction as per IAS 1 between current and non-current items in the balance sheet under IFRS is different from the current presentation on the basis of the nature and/or liquidity of assets and liabilities. The balance sheet presentation was thus altered as a result. Assets and liabilities associated with the operating cycle and those maturing within 12 months from the date of closing are classed as current, other assets and liabilities being classed as non-current. The application of IAS 1 also results in the inclusion of minority interests in shareholders' equity, the breakdown between Group share and minority interests nevertheless remaining.

Reclassifications done between the balance sheets for the 2003 and 2004 financial years published under French GAAP and the balances under French GAAP presented in IFRS format are set out in the following two statements; the references therein being explained below:

- A) Deferred tax assets previously included in the "Other accounts receivable" line item are placed on a separate line in non-current assets in the IFRS balance sheet;
- B) The portion of reserves maturing within 12 months from the date of closing is included in current liabilities;
- C) The short-term portion of financial debt is included in current liabilities. The convertible bonds issued in July 2004 are placed on a separate line in the IFRS balance sheet as of 31 December 2004;
- D) Deferred tax liabilities previously included in the "Other liabilities" line item are placed on a separate line in non-current liabilities in the IFRS balance sheet.

Furthermore, the reconciliation between the balance sheet published as of 31 December 2003 and the balance sheet as of 1 January 2004 in IFRS format includes an 8 million euro impact resulting from changes in method applied under French GAAP from 1 January 2004 pursuant to the provisions of CNC opinion 04-05 of the "Conseil National de la Comptabilité", requiring that provision be made for long-service bonuses (bonuses given to employees on the basis of their length of service). Since this restatement complies with IAS 19 it was retained in the IFRS financial statements.

- Presentation of the consolidated income statement

Profit from operating activities within the meaning of IAS 1 includes extraordinary and non-recurring items such as gains or losses on asset disposals (income of 9 million euros in 2004), restructuring costs (36 million in 2004).

The Group's operating performance will now be measured using a new aggregate known as the "Operating Margin" which includes the same items as the old "Income from operations" as it existed under French GAAP.

The areas of impact of IAS 1 on the presentation of the income statement are set out, in the form of footnotes, in the French GAAP – IFRS income statement reconciliation statement (cf. § 2.5).

- Presentation of the consolidated cash flow statement

The model set out in IAS 7 "Cash flow statement" is based on an analysis of the change in the net cash position, whereas the Group previously analyzed the change in net debt, felt to be more representative of the Group's financial position. The change in net debt will thus continue to be presented in parallel.

Most of the IFRS restatements do not have any impact on the Group's cash flows (adjustments to record non-cash changes in fair values of assets and liabilities).

I. Reconciliation between the balance sheet as of 31 December 2003 reported under French GAAP and the IFRS format

<i>In millions of euros</i>	<b>31/12/2003 published</b>	Reclassifications	Long- service bonuses	<b>1/01/2004 (French GAAP) in IFRS format</b>
<b>ASSETS</b>				<b>ASSETS</b>
Goodwill on consolidated subsidiaries, net	23			23 Goodwill, net
Other intangible assets, net	4			4 Intangible assets, net
<b>Intangible assets, net</b>	<b>27</b>			
Property, plant and equipment	2 843			784 Property, plant and equipment, net
Amortization and depreciation	(2 059)			
<b>Property, plant and equipment, net</b>	<b>784</b>			
Share in net assets of equity affiliates	3			3 Share in net assets of equity affiliates
Other investments and miscellaneous, net	65			65 Other investments and miscellaneous, net
<b>assets</b>	<b>68</b>			0 Prepaid pension costs
		<b>A</b>	103	103 Deferred tax assets, net
				0 Other non-current assets
<b>TOTAL NON-CURRENT ASSETS, NET</b>	<b>879</b>	<b>103</b>		<b>982 NON-CURRENT ASSETS</b>
<b>Inventories and work in progress, net</b>	<b>556</b>			556 Inventories and work in progress, net
				0 Amounts due from customers for work on construction contracts
Trade receivables and related accounts	744			744 Trade receivables and related accounts
Other accounts receivable, net	170	<b>A</b>	(103)	67 Other accounts receivable, net
<b>Accounts receivable, net</b>	<b>914</b>	<b>(103)</b>		
<b>Cash and cash equivalents</b>	<b>104</b>			104 Cash and cash equivalents
<b>TOTAL CURRENT ASSETS</b>	<b>1 574</b>	<b>(103)</b>		<b>1 471 CURRENT ASSETS</b>
				0 Assets held for sale
<b>TOTAL ASSETS</b>	<b>2 453</b>	<b>0</b>	<b>0</b>	<b>2 453 TOTAL ASSETS</b>

<i>In millions of euros</i>	<b>31/12/2003 published</b>	Reclassifications	Long- service bonuses	<b>1/01/2004 (French GAAP) in IFRS format</b>
<b>LIABILITIES AND EQUITY</b>				<b>LIABILITIES AND EQUITY</b>
Capital stock	23			23 Capital stock
Additional paid-in capital	1 014			1 014 Additional paid-in capital
Retained earnings	(40)		(8)	0 Deferred share-based payments (48) Other retained earnings
Cumulative translation adjustments	(28)			(28) Cumulative translation adjustments
Net income	1			1 Net income, Group share
Treasury stock	(28)			(28) Treasury stock
<b>SHAREHOLDERS' EQUITY</b>	<b>942</b>		(8)	934 Shareholders' equity - Group share
<b>MINORITY INTERESTS</b>	<b>103</b>			103 Minority interests
			<b>(8)</b>	<b>1 037 SHAREHOLDERS' EQUITY</b>
Accrued pension and retirement obligations	260	<b>B</b>	(28)	232 Accrued pension and retirement obligations
Accrued contract costs and other reserves	120	<b>B</b>	(115)	8 13 Accrued contract costs and other reserves
<b>TOTAL RESERVES FOR LIABILITIES AND CHARGES</b>	<b>380</b>			
				0 Convertible bonds
<b>FINANCIAL DEBT</b>	<b>126</b>	<b>C</b>	(117)	9 Other long-term financial debt
		<b>D</b>	91	91 Deferred tax liabilities
				0 Other non-current payables
		<b>(169)</b>	<b>8</b>	<b>345 NON-CURRENT LIABILITIES</b>
		<b>B</b>	28	28 Accrued pension and retirement obligations, ST portion
		<b>B</b>	115	115 Other reserves for liabilities and charges, ST portion
		<b>C</b>	117	117 Financial debt, ST portion
Customers' deposits and advances	51			51 Customers' deposits and advances
				0 Amounts due to customers for work on construction contracts
Trade payables and related accounts	463			463 Trade payables and related accounts
Other payables	387	<b>D</b>	(91)	296 Other current payables
<b>OTHER PAYABLES</b>	<b>901</b>	<b>169</b>		<b>1 071 CURRENT LIABILITIES</b>
				0 Debts of asset groups held for sale
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 453</b>	<b>0</b>	<b>0</b>	<b>2 453 TOTAL LIABILITIES AND EQUITY</b>

## II. Reconciliation between the balance sheet as of 31 December 2004 reported under French GAAP and the IFRS format

<i>In millions of euros</i>	31/12/2004 published	Reclassifications	31/12/2004 (French GAAP) in IFRS format
<b>ASSETS</b>			<b>ASSETS</b>
Goodwill on consolidated subsidiaries, net	74		74 Goodwill, net
Other intangible assets, net	8		8 Intangible assets, net
<b>Intangible assets, net</b>	<b>82</b>		
Property, plant and equipment	2 843		796 Property, plant and equipment, net
Amortization and depreciation	(2 047)		1 Share in net assets of equity affiliates
<b>Property, plant and equipment, net</b>	<b>796</b>		59 Other investments and miscellaneous, net
Share in net assets of equity affiliates	1		0 Prepaid pension costs
Other investments and miscellaneous, net	59		114 Deferred tax assets, net
<b>assets</b>	<b>60</b>		0 Other non-current assets
		<b>A</b> 114	
<b>TOTAL NON-CURRENT ASSETS, NET</b>	<b>938</b>	<b>114</b>	<b>1 052 NON-CURRENT ASSETS</b>
<b>Inventories and work in progress, net</b>	<b>678</b>		678 Inventories and work in progress, net
			Amounts due from customers for work on construction
			0 contracts
Trade receivables and related accounts	791		791 Trade receivables and related accounts
Other accounts receivable, net	219	<b>A</b> (114)	105 Other accounts receivable, net
<b>Accounts receivable, net</b>	<b>1 010</b>	(114)	
<b>Cash and cash equivalents</b>	<b>121</b>		121 Cash and cash equivalents
<b>TOTAL CURRENT ASSETS</b>	<b>1 810</b>	<b>(114)</b>	<b>1 696 CURRENT ASSETS</b>
			0 Assets held for sale
<b>TOTAL ASSETS</b>	<b>2 748</b>	<b>0</b>	<b>2 748 TOTAL ASSETS</b>

<i>In millions of euros</i>	31/12/2004 published	Reclassifications	31/12/2004 (French GAAP) in IFRS format
<b>LIABILITIES AND EQUITY</b>			<b>LIABILITIES AND EQUITY</b>
Capital stock	23		23 Capital stock
Additional paid-in capital	1 014		1 014 Additional paid-in capital
			0 Deferred share-based payments
Retained earnings	(52)		(52) Other retained earnings
Cumulative translation adjustments	(32)		(32) Cumulative translation adjustments
Net income	57		57 Net income, Group share
Treasury stock	(28)		(28) Treasury stock
<b>SHAREHOLDERS' EQUITY</b>	<b>982</b>		<b>982 Shareholders' equity - Group share</b>
<b>MINORITY INTERESTS</b>	<b>71</b>		71 Minority interests
			<b>1 053 SHAREHOLDERS' EQUITY</b>
Accrued pension and retirement obligations	253	<b>B</b> (38)	215 Accrued pension and retirement obligations
Accrued contract costs and other reserves	120	<b>B</b> (99)	21 Accrued contract costs and other reserves
<b>TOTAL RESERVES FOR LIABILITIES AND CHARGES</b>	<b>373</b>	(137)	
		<b>C</b> 135	135 Convertible bonds
<b>FINANCIAL DEBT</b>	<b>310</b>	<b>C</b> (299)	11 Other long-term financial debt
		<b>D</b> 108	108 Deferred tax liabilities
			0 Other non-current payables
		<b>(193)</b>	<b>490 NON-CURRENT LIABILITIES</b>
		<b>B</b> 38	38 Accrued pension and retirement obligations, ST portion
		<b>B</b> 99	99 Other reserves for liabilities and charges, ST portion
		<b>C</b> 164	164 Financial debt, ST portion
Customers' deposits and advances	46		46 Customers' deposits and advances
			Amounts due to customers for work on construction
			0 contracts
Trade payables and related accounts	549		549 Trade payables and related accounts
Other payables	417	<b>D</b> (108)	309 Other current payables
<b>OTHER PAYABLES</b>	<b>1 012</b>	<b>193</b>	<b>1 204 CURRENT LIABILITIES</b>
			0 Debts of asset groups held for sale
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 748</b>	<b>0</b>	<b>2 748 TOTAL LIABILITIES AND EQUITY</b>

## 2.2. Summary of the areas of impact on consolidated shareholders' equity

A reconciliation of shareholders' equity - Group share and net income - Group share as published under French GAAP and shareholders' equity - Group share and net income - Group share adjusted for the impact of the application of IFRS from 1 January 2004 is presented below:

*In millions of euros*

	Notes	Share- holders' equity as of 1/01/2004	Net income	Other (Dividends,...)	Translation adjustments	Share- holders' equity as of 31/12/2004
<b>Shareholders' equity - Group share published under French GAAP</b>		<b>934</b>	<b>57</b>	<b>(5)</b>	<b>(4)</b>	<b>982</b>
Pension and other employee benefits (IAS 19)	§ 3.1	(115)	(0)		(1)	(116)
Scope of consolidation (IAS 27)	§ 3.2	3	0		1	4
Amortization of goodwill (IFRS 3)	§ 3.4	0	3			3
Inventories (IAS 2)	§ 3.6	1	(2)			(1)
Share-based payments (IFRS 2)	§ 3.7	0	(1)			(1)
Other restatements		0	0			0
<i>Total restatements before tax and minorities</i>		<b>(111)</b>	<b>(0)</b>	<b>0</b>	<b>(0)</b>	<b>(111)</b>
Tax impact of above IFRS restatements		27	1			28
Minority interests		0	0			0
<b>IFRS shareholders' equity - Group share</b>		<b>850</b>	<b>58</b>	<b>(5)</b>	<b>(4)</b>	<b>899</b>

## 2.3. Reconciliation of the consolidated balance sheet as of 1 January 2004 (IFRS transition date)

<i>In millions of euros</i>	<b>1/01/2004 (French GAAP) in IFRS format</b>	IAS 19 Employee benefits	IAS 27 Scope of consolidation	IFRS 3 Business combinations	IAS 11 Construction contracts	IAS 2 Inventories	IFRS 2 Share-based payments	IAS 12 Income taxes	Other	<b>01/01/2004 (IFRS)</b>
Notes	§ 3.1	§ 3.2	§ 3.4	§ 3.5	§ 3.6	§ 3.7	§ 3.8			
Goodwill, net	23								0	23
Intangible assets, net	4		0						(0)	4
Property, plant and equipment, net	784		21			151			0	956
Share in net assets of equity affiliates	3								0	3
Other investments and miscellaneous, net	65		(23)						0	42
Prepaid pension costs	0	0							0	0
Deferred tax assets, net	103	11					(0)		(53)	61
Other non-current assets	0								0	0
<b>NON-CURRENT ASSETS</b>	<b>982</b>	<b>11</b>	<b>(2)</b>	<b>0</b>	<b>0</b>	<b>151</b>	<b>0</b>	<b>(53)</b>	<b>0</b>	<b>1 089</b>
Inventories and work in progress, net	556		0		(8)	(143)			(0)	405
Amounts due from customers for work on construction contracts	0				20				0	20
Trade receivables and related accounts	744		0		(16)				0	728
Other accounts receivable, net	67		1		(0)				0	68
Cash and cash equivalents	104		(0)	0				0	0	104
<b>CURRENT ASSETS</b>	<b>1 471</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>(4)</b>	<b>(143)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1 325</b>
Assets held for sale	0								0	0
<b>TOTAL ASSETS</b>	<b>2 453</b>	<b>11</b>	<b>(1)</b>	<b>0</b>	<b>(4)</b>	<b>8</b>	<b>0</b>	<b>(53)</b>	<b>0</b>	<b>2 414</b>
Capital stock	23								0	23
Additional paid-in capital	1 014								0	1 014
Treasury stock	(28)								0	(28)
Deferred share-based payments	0						0		0	0
Other retained earnings	(48)	(88)	3			1	(0)		(28)	(160)
Cumulative translation adjustments	(28)		0						28	(0)
Net income, Group share	1								0	1
<b>Shareholders' equity - Group share</b>	<b>934</b>	<b>(88)</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>850</b>
Minority interests	103								(0)	103
<b>SHAREHOLDERS' EQUITY</b>	<b>1 037</b>	<b>(88)</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>953</b>
Accrued pension and retirement obligations	232	115							0	347
Accrued contract costs and other reserves	13								(0)	13
Convertible bonds	0								0	0
Other long-term financial debt	9			0				0	0	9
Deferred tax liabilities	91	(16)	0	0		(0)		(53)	(0)	22
Other non-current payables	0								0	0
<b>NON-CURRENT LIABILITIES</b>	<b>345</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>0</b>	<b>(53)</b>	<b>(0)</b>	<b>391</b>
Accrued pension and retirement obligations, ST portion	28								0	28
Accrued contract costs and other reserves, ST portion	115		(0)			(1)			(0)	114
Financial debt, ST portion	117								(0)	117
Customers' deposits and advances	51					(26)			(0)	25
Amounts due to customers for work on construction contracts	0					34			0	34
Trade payables and related accounts	463		(6)			(12)	0		0	445
Other current payables	296		2			1	7		1	307
<b>CURRENT LIABILITIES</b>	<b>1 071</b>	<b>0</b>	<b>(4)</b>	<b>0</b>	<b>(4)</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1 070</b>
Debts of asset groups held for sale	0		0						0	0
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 453</b>	<b>11</b>	<b>(1)</b>	<b>0</b>	<b>(4)</b>	<b>8</b>	<b>0</b>	<b>(53)</b>	<b>0</b>	<b>2 414</b>

## 2.4. Reconciliation of the consolidated balance sheet as of 31 December 2004

	31/12/2004 (French GAAP) in IFRS format	IAS 19 Employee benefits	IAS 27 Scope of consolidation	IFRS 3 Business combinations	IAS 11 Construction contracts	IAS 2 Inventories	IFRS 2 Share-based payments	IAS 12 Income taxes	IFRS 5 Discontinued operations	Other	31/12/2004 (IFRS)
		§ 3.1	§ 3.2	§ 3.4	§ 3.5	§ 3.6	§ 3.7	§ 3.8	§ 3.9		
Goodwill, net	74			3					0	(0)	77
Intangible assets, net	8		0						(0)	(0)	8
Property, plant and equipment, net	796	0	23	0	0	149	0	0	(40)	0	928
Share in net assets of equity affiliates	1									0	1
Other investments and miscellaneous, net	59		(23)						(0)	0	36
Prepaid pension costs	0	0								0	0
Deferred tax assets, net	114	11				1		(59)		(1)	66
Other non-current assets	0									0	0
<b>NON-CURRENT ASSETS</b>	<b>1 052</b>	<b>11</b>	<b>(0)</b>	<b>3</b>	<b>0</b>	<b>150</b>	<b>0</b>	<b>(59)</b>	<b>(40)</b>	<b>(1)</b>	<b>1 116</b>
Inventories and work in progress, net	678		(0)		(10)	(121)		0	(35)	(0)	512
Amounts due from customers for work on construction contracts	0				28					0	28
Trade receivables and related accounts	791		0		(23)				(56)	0	713
Other accounts receivable, net	105		1		(2)				(2)	(2)	99
Cash and cash equivalents	121		0	0						(0)	121
<b>CURRENT ASSETS</b>	<b>1 696</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>(8)</b>	<b>(121)</b>	<b>0</b>	<b>0</b>	<b>(93)</b>	<b>(3)</b>	<b>1 473</b>
Assets held for sale	0		0						133	0	133
<b>TOTAL ASSETS</b>	<b>2 748</b>	<b>11</b>	<b>1</b>	<b>3</b>	<b>(8)</b>	<b>29</b>	<b>0</b>	<b>(59)</b>	<b>0</b>	<b>(3)</b>	<b>2 722</b>
Capital stock	23									0	23
Additional paid-in capital	1 014									0	1 014
Treasury stock	(28)									0	(28)
Deferred share-based payments	0						1			0	1
Other retained earnings	(52)	(88)	3			1	(0)			(29)	(165)
Cumulative translation adjustments	(32)	(1)	1							28	(4)
Net income, Group share	57	(0)	0	3		(1)	(1)			0	58
<b>Shareholders' equity - Group share</b>	<b>982</b>	<b>(89)</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>899</b>
Minority interests	71									0	71
<b>SHAREHOLDERS' EQUITY</b>	<b>1 053</b>	<b>(89)</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>970</b>
Accrued pension and retirement obligations	215	117	0						(7)	(0)	325
Accrued contract costs and other reserves	21									0	21
Convertible bonds	135									0	135
Other long-term financial debt	11			0						(0)	11
Deferred tax liabilities	108	(17)	0	0				(59)		(0)	32
Other non-current payables	0		0							0	0
<b>NON-CURRENT LIABILITIES</b>	<b>490</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(59)</b>	<b>(7)</b>	<b>(0)</b>	<b>525</b>
Accrued pension and retirement obligations, ST portion	38	0								(0)	38
Accrued contract costs and other reserves, ST portion	99		(0)		(1)					(4)	94
Financial debt, ST portion	164								(11)	(1)	152
Customers' deposits and advances	46				(30)					0	16
Amounts due to customers for work on construction contracts	0				32					0	32
Trade payables and related accounts	549		(6)		(10)				(22)	(1)	510
Other current payables	309		3		1	29			(18)	(1)	324
<b>CURRENT LIABILITIES</b>	<b>1 204</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(8)</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>(55)</b>	<b>(2)</b>	<b>1 165</b>
Debts of asset groups held for sale	0		0						62	0	62
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2 748</b>	<b>11</b>	<b>1</b>	<b>3</b>	<b>(8)</b>	<b>29</b>	<b>0</b>	<b>(59)</b>	<b>0</b>	<b>(3)</b>	<b>2 722</b>

## 2.5. Reconciliation of the income statement for the 2004 financial year

	2004 (French GAAP) in IFRS format	IAS 19 Employee benefits	IAS 27 Scope of consolidation	IFRS 3 Business combinations	IAS 11 Construction contracts	IAS 2 Inventories	IFRS 2 Share-based payments	IAS 12 Income taxes	2004 (IFRS)	
		§ 3.1	§ 3.2	§ 3.4	§ 3.5	§ 3.6	§ 3.7	§ 3.8		
Notes										
<b>Net sales</b>	<b>4 900</b>		<b>1</b>		<b>0</b>				<b>4 901</b>	
Metal price effect	(740)		0						(740)	
<b>Net sales at constant metal prices</b>	<b>4 159</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4 161</b>	
Cost of sales	(3 584)	2	4		(0)	(2)			(3 580)	
<b>Gross profit</b>	<b>576</b>	<b>2</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>(2)</b>	<b>0</b>	<b>0</b>	<b>581</b>	
Administrative and selling expenses	(394)	3	(2)				(1)		(394)	
R&D costs	(47)	0	(2)						(49)	
Other operating income and expenses									0	
<b>Operating margin</b>	<b>A'</b>	<b>135</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>(2)</b>	<b>(1)</b>	<b>0</b>	<b>138</b>
Income from metal trading	<b>E'</b>	0		0						0
Gains or losses on asset disposals	<b>B'</b>	9		0						9
Restructuring costs		(36)		0						(36)
Asset impairment losses net of reversals for negative goodwill	<b>C'</b>	4			3					7
Financial income	<b>D'</b>	9		(1)						8
Financial expense	<b>D'</b>	(39)	(5)	0						(44)
<b>Income before taxes</b>	<b>F'</b>	<b>82</b>	<b>(0)</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>(2)</b>	<b>(1)</b>	<b>0</b>	<b>82</b>
Taxes		(20)	0	(0)			1			(19)
Share in net income of equity affiliates		(0)		0						(0)
<b>Net income from operations</b>	<b>G'</b>	<b>62</b>	<b>(0)</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>(1)</b>	<b>(1)</b>	<b>0</b>	<b>63</b>
Net income from discontinued operations	<b>G'</b>	0		0						0
<b>Consolidated net income</b>		<b>62</b>	<b>(0)</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>(1)</b>	<b>(1)</b>	<b>0</b>	<b>63</b>
Of which Group share		57	(0)	0	3	0	(1)	(1)	0	58
Of which minority interests		5		0						5

### Reclassifications done between the income statement published under French GAAP and the IFRS format:

A' ) "Income from operations" is relabelled "Operating margin"

B' ) This line item was previously labelled "Other revenue (expense)"

C' ) This line item includes asset impairment losses (IAS 36), including impairment of goodwill (previously included under income after tax) net of reversal in income of negative goodwill.

D' ) "Financial expense" and "Financial income" are shown separately whereas they were previously shown together in the "Financial income" line item.

E' ) Addition of a line "Income from metal trading", which will be used from 2005 for the purposes of IAS 32 and 39 to record the marked-to-market of non-ferrous metal hedging instruments.

F' ) This sum now includes the income impact of goodwill.

G' ) "Net income from operations" corresponds to consolidated net income before inclusion of expenses and income relating to discontinued operations, which are presented in a separate line pursuant to IFRS 5.

### 3. Differences between the standards applied by the Group (French GAAP) and international standards (IFRS)

The figures presented in the narrative disclosures below are before tax and minority interests, unless specified.

#### **3.1. Employee benefits (IAS 19)**

The application of IFRS had the following impact with regard to employee benefits:

- The allocation to shareholders' equity as of 1 January 2004, as part of the options provided by IFRS 1, of any difference as of that date between the liabilities and pre-funding assets associated with the various Group employee benefit plans, with the exception of past service cost not vesting for the beneficiaries;
- The harmonization within the Group of the methods for calculating employee benefit obligations;
- The taking account of post-employment benefits not previously provided for (in particular plans to refund medical costs given to retirees in North America)
- Lastly, the Group felt it was prudent not to recognize the prepaid assets in the pension plans in Switzerland, given the absence of any formal provision allowing the employer to benefit from these surplus contributions, in the form of refunds or reductions in future contributions.

Actuarial gains or losses resulting from adjustments relating to the occurrence and impact of changes in actuarial assumptions, appearing since 1 January 2004 are not immediately recognized in income, in accordance with the "corridor" method: the portion exceeding 10% of the amount of the liabilities or of the market value of the investments is amortized over the average remaining working lives of the employees participating in the plan.

The total impact for the Group of the application of IAS 19 is a decrease in shareholders' equity (after tax) of 88 million euros as of 1 January 2004 and no change in net income (after tax) for the 2004 financial year (increase of 5 million euros in the 2004 operating margin being offset by a 5 million euro increase in interest expenses). These restatements resulted in an increase of 27 million euros in the balance of net deferred tax assets as of 1 January 2004 (an 11 million euro addition to assets and a 16 million euro reduction in deferred tax liabilities).

#### **3.2. Scope of consolidation (IAS 27)**

Some controlled companies, working as subcontractors for consolidated companies, were not consolidated under French GAAP. They were included in the Group's scope of consolidation as of 1 January 2004, in accordance with IAS 27 "Consolidated financial statements and accounting for investments in subsidiaries". This change did not have a material impact on sales or income and only had a limited impact on the consolidated balance sheet, but led to an increase in Nexans Group headcount from 17,600 to around 20,000 employees.

### **3.3. Research and development costs (IAS 38)**

Under French GAAP, research and development expenditure incurred by the Group was recorded as an expense for the period except for the following two categories:

- Recoverable amounts incurred under contracts with customers, recorded as work in progress on long-term contracts.
- Some software development costs, recorded as intangible assets in certain circumstances.

Under IAS 38 "Intangible assets", research costs are recognized as an expense and development costs are automatically capitalized if they meet certain criteria, in particular where the enterprise can demonstrate:

- Its intention and financial and technical ability to complete the development project;
- That it is probable the future economic benefits that are attributable to the development expenditure will flow to the enterprise;
- That the cost of the asset can be reliably measured.

Apart from the two above-mentioned categories, Nexans Group research and development costs fall into three different types:

- "Pure research" (around 50%) in particular focused on understanding phenomena, on modeling them or in developing materials or processes that are not yet allocated to specific products or markets, even if this research is ultimately intended to lead to new products. Being research costs, they are obviously recognized as an expense for the period.
- Expenditure known as "Assistance Engineering" (around 25%), incurred as part of ongoing improvement programs, designed to improve productivity and product quality or to provide technical support to sales teams. Given the large number of such projects and the relatively small amounts involved, their recurring nature and the almost simultaneity of the expense and the resulting benefit, these expenses are matched to costs in the period in which they are incurred.
- Research designed to define a new product for a customer or market (around 25%). It is necessary to assess with great care the circumstances in which this expenditure may be capitalized, given the characteristics of such products and their markets:
  - If the technical feasibility is generally demonstrated upstream, the industrial feasibility study is only carried out immediately prior to putting into production (there is in general no pilot line and the industrial installations are not available for this feasibility prior to the start of production). The actual value of the product is only known following this industrial feasibility, which makes it possible to measure the production costs, productivity and loss rate, and thus the actual cost of the product.
  - Uncertainty as to the possible future economic benefits, which depend on the existence of a market but also the size and price levels of this market, due to several factors:
    - A large number of competitors, making it difficult to predict their reaction to a new product being launched in the market (imitation, price war,...);
    - A heavily regulated market, which places the product in a straightjacket in terms of specifications (making innovation incremental) and often requiring expensive approval procedures, which unveil the product prior to its full marketing.
    - Technologies, where the basic principles are generally rather old, providing a wealth of prior art, thereby limiting patent applications or their scope;
    - A very short innovation shelf life, to the extent that all innovation is quickly copied or by-passed. Competitive advantage thus generally lies in the innovation process rather than in the new product itself.

On this basis, Nexans did not identify any significant development project that it feels needs to be capitalized. The application of IAS 38 has therefore no impact on the Group's consolidated financial statements either as of 1 January 2004 or as of 31 December 2004.

### **3.4. Goodwill (IFRS 3)**

Under French GAAP, positive goodwill was amortized using the straight-line depreciation method. Amortization periods are determined independently for each transaction and never exceed 20 years.

In accordance with IFRS 3 "Business combinations", positive goodwill is no longer depreciated and is tested for impairment whenever there are indications of impairment and at least once a year. Negative goodwill is immediately recognized in income, the same treatment as the one applied in 2004 under French GAAP.

The 3 million euro positive goodwill depreciation expense recognized under French GAAP in 2004 was eliminated when preparing the income statement under IFRS.

### **3.5. Construction contracts (IAS 11)**

The principles of IAS 11 on construction contracts are very close to those used by the Group to account for construction contracts (or long-term contracts). In particular, the percentage of completion method of accounting applied by the Group complies with IAS 11. The way of accounting for penalty reserves (changes are recorded in contract revenues under IFRS but in cost of sales in the financial statements previously published by the Group) and the inclusion in net sales of the financial impact of deferred payments where they are material, have had a limited impact on the presentation of the income statement and none on the Group's gross margin and opening IFRS shareholders' equity. Thus, the reclassification of penalty provisions between sales and cost of sales represented less than one million euros in 2004 with no impact either in the gross margin or in IFRS opening shareholders' equity.

For each construction contract, the sum of the costs incurred plus the gains recognized is compared to the sum of the losses recognized plus progress billings. If the result is positive, it is included in the amount due from customers for construction contracts (asset) and if the result is negative in the amount due to customers (liability). These reclassifications had no material impact on the total of the Group's consolidated balance sheet.

### **3.6. Inventories (IAS 2)**

Pursuant to IAS 2 "Inventories" the LIFO method is abandoned for the measurement of inventories of copper and other non-ferrous metals which are henceforth valued using the Weighted Average Cost (WAC). This change increases the value of inventories, largely offset by an increase of 7 and 29 million euros as of 1 January and 31 December 2004, respectively, in the "Other current payables" line item, a line item in which gains and losses on commitments are recorded. These gains or losses are defined as the net balance of commitments physically given and received and those given and received via hedging contracts on the London Metal Exchange (LME).

Similarly, the portion of non-ferrous metal inventories, referred to as "core exposure", corresponding to the quantities of metal owned by Nexans, i.e. not hedged by forward sales contracts to the extent that they are necessary for the proper functioning of the plants, was reclassified as property, plant and equipment, for an amount of 151 million euros as of 1 January 2004 and 149 million euros as of 31 December 2004.

These two cumulative effects result in the recording of a fall in the value of inventories of 143 million as of 1 January 2004 and 121 million euros as of 31 December 2004.

### **3.7. Share-based payments (IFRS 2)**

Stock options are granted to management and certain Group employees. Pursuant to IFRS 2 "Share-based payment", options are measured as of the date of grant. The Group uses the Black & Scholes mathematical model to value them. Changes in value subsequent to the date of grant have no impact on this initial valuation.

The value of an option in particular depends on its expected life, which the Group considers to be the same as the tax restriction period. This value is recorded in personnel costs on a straight-line basis from the date of grant to the end of the vesting period and in shareholders' equity.

Pursuant to IFRS 2, only plans granted after November 7, 2002 and that have not vested by 1 January 2005 are measured and recognized in personnel costs. Plans prior to November 7, 2002 are not measured and are not recognized.

As a result, a 0.8 million euro expense was recognized in the IFRS income statement for the 2004 financial year.

### **3.8. Taxes (IAS 12)**

- Tax impact on IFRS restatements

The Group recorded deferred taxes on all IFRS restatements creating a temporary difference between the accounting basis and taxable value of assets and liabilities. The main areas of impact are explained in the corresponding notes.

- Offsetting deferred tax assets and liabilities

IAS 12 allows for the offsetting of deferred tax assets and liabilities where the entity is legally entitled to offset current tax assets and liabilities and where the deferred tax assets and liabilities relate to taxes imposed by the same taxation authority, without having regard to their expected maturity.

On this basis, the Group offset deferred tax assets and liabilities for 53 million euros as of 1 January 2004 and 59 million euros as of 31 December 2004.

Moreover, IAS 1 "Presentation of financial statements" requires deferred tax assets and liabilities to be placed on separate lines in the balance sheet (in non-current items) whereas they were previously included in other accounts receivable and other payables (cf. § 2.1).

### **3.9. Non-current assets held for sale and discontinued operations (IFRS 5)**

The net assets of a group that are scheduled for disposal or items of property, plant and equipment that are held for sale, as defined in IFRS 5, are recognized as assets held for sale and as liabilities of discontinued operations without it being possible to offset the related assets and liabilities. Items of property, plant and equipment classed as such are no longer depreciated.

Pursuant to the policy instigated in the United States prior to the summer of 2004, and in line with the Company's intention to get out of the winding wires business as indicated in early 2004, Nexans signed a non-binding Memorandum of Understanding on 2 February 2005 with the Superior Essex Group with regard to the setting up of a joint-venture merging the bulk of Nexans' European winding wires and varnishing businesses and the winding wires business of Superior Essex in the United Kingdom. The resulting entity will be controlled by Superior Essex, which will hold the majority with Nexans retaining a significant minority stake. Moreover, this non-binding Memorandum of Understanding provides for negotiations between the two parties with regard to the acquisition by Superior Essex of Nexans' 80% stake in Nexans Tianjin Magnet Wires & Cables Co Ltd, a winding wire joint venture in China. The deal is subject to consultation with the relevant staff representative bodies, customary checks and audits, third party agreement and final approval.

As of 31 December 2004, the plan to dispose of these operations met the criteria laid down by IFRS 5. The reclassification done in this regard in the balance sheet as of 31 December 2004 amounted to 133 million euros in assets and 62 million euros in liabilities. As of the time of writing of this document, it was not possible in practice to determine with sufficient accuracy the reclassifications that were done in the 2004 income statement. This information will be provided with the publication of the 2005 interim financial statements.

### **3.10. Application of IAS 32 and 39 on financial instruments as of 1 January 2005**

Nexans elected to make use of the option to only apply IAS 32 "Financial instruments: disclosure and presentation" and IAS 39 "Financial instruments: recognition and measurement" from 1 January 2005, without restating the financial statements for the 2004 financial year.

The main consequences of the application of these two standards, on the basis of the policies that the Group has already opted for, are as follows:

- Non-ferrous metal hedging (mainly copper and aluminum): the system of systematically hedging risks associated with the fluctuation of non-ferrous metal prices is considered to be macro hedging in accordance with IAS 39 (hedging net positions, part of which includes estimated flows). Consequently, changes in the fair value of derivatives (forward purchases and sales of metal on the LME) should be recorded in 2005, independently of the underlying commercial contracts, in order to calculate the income before taxes. This restatement will be included in the "Income from metal trading" line item, created specifically in the consolidated income statement.
- Hedging transactions undertaken to limit the Group's exposure to fluctuations in currency rates will be recorded in 2005 using the Cash Flow Hedge method;
- The 135 million euro convertible bond loan (OCEANE) issued in July 2004 will be allocated as of 1 January 2005 to its financial liability and shareholders' equity components (corresponding to the value of the option); the interest cost recorded will be calculated on the basis of a market interest rate excluding the option;
- Sales of receivables without recourse carried out as of 1 January 2005 will be once again included in the balance sheet, which will result in an increase of 130 million euros in the Group's financial debt and trade receivables.

### **3.11. Other differences**

The other IAS/IFRS have no significant impact on the Group's consolidated financial statements.

#### **4. Special purpose audit report of the Statutory Auditors on the IFRS restated consolidated accounts for the accounting period 2004**

*This is a free translation into English of the original special purpose Auditors' report on the restated consolidated accounts signed and issued in the French language and is provided solely for the convenience of English speaking readers*

At your request and in our capacity as Statutory Auditors of Nexans, we have audited the accompanying consolidated accounts for the year ended December 31, 2004, which were restated ("restated consolidated accounts") in accordance with International Financial Reporting Standards ("IFRS"), as adopted in the European Union.

These restated consolidated accounts were prepared by the management of the company and examined by the Audit committee of Nexans. They have been prepared as part of the company's conversion to IFRS, as adopted in the European Union in respect of the preparation of the 2005 consolidated financial statements. These restated consolidated accounts are based on the consolidated accounts ("the consolidated accounts") for the year ended December 31, 2004 prepared in accordance with the accounting rules and principles applicable in France which we have audited in accordance with French professional standards. Based on our audit, we issued an unqualified opinion on such consolidated accounts. Our responsibility is to express an opinion on these restated consolidated accounts based on our audit.

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the restated consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the restated consolidated accounts. An audit also includes assessing the accounting principles used and significant estimates made by management for the preparation of the restated consolidated accounts, as well as evaluating the overall presentation of the restated consolidated accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the restated consolidated accounts have been prepared, in all material respects, in accordance with the basis set out in the notes, which describe how IFRS 1 and the other International Financial and Reporting Standards as adopted in the European Union, have been applied, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted for the preparation of the 2005 consolidated financial statements in accordance with IFRS as adopted in the European Union.

Without qualifying our opinion, we draw your attention to the fact that Note 1.2 explains why there is a possibility that the accompanying restated consolidated accounts may differ from the comparative information in the consolidated financial statements for the year ended 31 December 2005.

Moreover, because the restated consolidated accounts have been prepared as part of the company's conversion to IFRS as adopted in the European Union in respect of the preparation of the 2005 consolidated financial statements, they do not include comparative information relating to 2003, nor all the explanatory notes required by IFRS as adopted in the European Union, which would be necessary to provide, in accordance with these standards, a fair view of the assets, liabilities, financial position and results of the consolidated group of companies.

Paris and Neuilly-sur-Seine, April 21, 2005

### The Statutory Audit

RSM SALUSTRO REYDEL

BARBIER FRINAULT & AUTRES  
ERNST & YOUNG

Benoît Lebrun

Alain Gouverneyre

