

Reference document





Reference document 2006



This reference document was filed with the French financial market authorities AMF (Autorité des Marchés Financiers) on April 27, 2007, in accordance with articles 211-1 to 211-42 of its General Regulations. It may be used in support of a financial transaction if it is accompanied by an offering circular signed by the AMF.

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General comments

This reference document contains information on the AREVA group's objectives, prospects and development strategies, particularly in Chapters 4 and 7. This information is not meant as a presentation of past performance data and should not be interpreted as a guarantee that events or data set forth herein are assured or that objectives will be met. Forward-looking statements made in this document also address known and unknown risks, uncertainties and other factors that could, were they to translate into fact, cause AREVA's future financial performance, operating performance and production to differ significantly from the objectives presented or suggested herein. Those factors include, in particular, changes in international, economic or market conditions, as well as risk factors presented in section 4.14.3. Neither AREVA nor the AREVA group is committing to updating forward-looking statements or information contained in the reference document.

This reference document contains information on the markets, market shares and competitive position of the AREVA group. Unless otherwise indicated, all historical data and forward-looking information are based on group estimates (from AREVA sources) and are provided as examples only. To AREVA's knowledge, no report is available on the AREVA group's markets that is sufficiently complete or objective to serve as a sole reference source. The AREVA group developed estimates based on several sources, including in-house studies and reports, statistics provided by international organizations and professional associations, data published by competitors, and information collected by AREVA subsidiaries.

The main sources, studies and reports used include (i) the International Atomic Energy Agency (IAEA), the International Energy Agency (IEA), the World Nuclear Association (WNA), the Nuclear Energy Institute (NEI), Nuclear Assurance Corporation (NAC), the European Atomic Energy Community (Euratom), and the Commissariat à l'Énergie Atomique (CEA) for the nuclear business; and (ii) the IAEA for the electricity transmission and distribution business.

AREVA believes that this information provides an adequate picture of the size of these markets and of the group's competitive position. However, the estimates and studies used by the AREVA group have not been verified by independent experts. Accordingly, AREVA does not provide any guarantee that another person would obtain comparable results using different methods to compile, analyze or compute this information.

In this document, the company is referred to as "AREVA". The "group" or the "AREVA group" refers to AREVA and its subsidiaries.

A glossary defining all technical terms can be found at the end of this reference document.

A table of concordance between appendix I of European Commission regulation No. 809/2004 dated April 29, 2004 and the contents of this reference document can be found on page 390.

Pursuant to article 28 of the above-mentioned EC regulations and article 212-11 of the general regulations issued by the French Market Authority (AMF), the following items have been included for reference:

- AREVA's consolidated financial statements for the year ended December 31, 2005 and the Statutory Auditors' report on the consolidated financial statements for the year ended December 31 2005, discussed on pages 271 to 367 and 268 to 270 respectively of the reference document filed with the French Market Authority (AMF) on April 18, 2005 under number D.06-0348; and
- AREVA's consolidated financial statements for the year ended December 31, 2004 and the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2004, discussed on pages 242 to 305 and 240 to 241 respectively of the reference document filed with the French Market Authority (AMF) on April 18, 2005 under number D. 05-0477.

Chapters of reference document number D. 05-0477 and reference document number R. 06-0348 not mentioned above are either not applicable to the investor or covered in another section of this reference document.

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PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT AND PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

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1.1. Person responsible for the 2006 reference document

1.1. Person responsible for the 2006 reference document

Mrs. Anne Lauvergeon,
Chairman of the AREVA Executive Board

1.2. Attestation by the person responsible for the reference document

"I hereby attest, having taken every reasonable measure to this effect, and to the best of my knowledge, that the information contained in this reference document fairly reflects the current situation and that no material aspects of such information have been omitted.

I have received an end-of-engagement letter from the Statutory Auditors indicating that they have verified information relating to the financial position and the financial statements provided in this reference document and have read the entire document.

The end-of-engagement letter does not contain any observations.

The historical financial information presented in this reference document has been covered in reports by the Statutory Auditors.

Without qualifying the Statutory Auditors' findings on the financial statements, their report on the consolidated financial statements for the year ended December 31, 2006, on page 236 of this reference document, contains observations on:

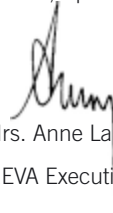
- the valuation methods for end-of-life-cycle assets and liabilities described in Notes 1.1, 1.8 and 13 to the consolidated financial statements and their sensitivity to assumptions adopted with regard to estimates, schedules of disbursements, discount rates and the outcome of current negotiations with EDF;
- the terms and conditions for fulfillment of the OL3 contract and sensitivity of income at completion from this contract to adherence to the current schedule, contract risks, and claims, as described in Notes 1.1, 1.8 and 24 to the consolidated financial statements.

Without qualifying the opinion expressed concerning the financial statements, the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2005, on pages 268, 269 and 270 of the 2005 AREVA reference document, contains an observation on valuation methods for end-of-life-cycle assets and liabilities described in Notes 1.18 and 25 to the consolidated financial statements.

Without qualifying the opinion expressed concerning the financial statements, the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2004, on pages 240 and 241 of the 2004 AREVA reference document, contains observations on:

- the changes in presentation concerning the provisions for losses on contracts, the non-consolidation of dedicated investment funds, and the consolidation of the entity carrying the perpetual subordinated bond described in Note 1.1. to the consolidated financial statements;
- the uncertainties concerning the valuation of final waste disposal costs and the share to be borne by EDF in the back end of the cycle, described in Note 22 to the consolidated financial statements."

Done at Paris, April 26, 2007



Mrs. Anne Lauvergeon
Chairman of the AREVA Executive Board

1.3. Persons responsible for auditing the financial statements for 2003, 2004, 2005 and 2006

The term of office of the Statutory Auditors is six years.

1.3.1. STATUTORY AUDITORS

Mazars & Guérard

Exaltis - 61, rue Henry Regnault - 92075 La Défense Cedex

Represented by Thierry Blanchetier

- First term granted by the Annual General Meeting of Shareholders convened June 26, 1989. Term renewed by the Annual General Meeting of Shareholders convened June 18, 2001, and to expire following the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2006. A recommendation will be made to the Annual General Meeting of Shareholders to be held May 3, 2007 to renew the term of Mazars & Guérard.

Deloitte & Associés

185, avenue Charles-de-Gaulle - 92524 Neuilly-sur-Seine Cedex

Represented by Pascal Colin and Jean-Paul Picard.

- First term granted by the Annual General Meeting of Shareholders convened May 31, 2002, and to expire following the Annual

General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2006. A recommendation will be made to the Annual General Meeting of Shareholders to be held May 3, 2007 to renew the term of Deloitte & Associés.

Salustro Reydel, membre de KPMG International

1, cours Valmy - 92923 Paris La Défense

Represented by Denis Marangé.

- First term granted by the Annual General Meeting of Shareholders convened May 31, 2002, and to expire following the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2007.

1.3.2. DEPUTY AUDITORS

Max Dusart

Espace Nation, 125, rue de Montreuil - 75011 Paris

- First term granted by the Annual General Meeting of Shareholders convened June 18, 2001, and to expire following the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2006. A recommendation will be made to the Annual General Meeting of Shareholders to be held May 3, 2007 to renew the term of Mr. Max Dusart.

BEAS

7-9, villa Houssay - 92524 Neuilly-sur-Seine Cedex

Represented by Alain Pons

- First term granted by the Annual General Meeting of Shareholders convened May 31, 2002, and to expire following the Annual

General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2006. A recommendation will be made to the Annual General Meeting of Shareholders to be held May 3, 2007 to renew the term of BEAS.

Jean-Claude Reydel

1, cours Valmy - 92923 Paris La Défense

- First term granted by the Annual General Meeting of Shareholders convened May 31, 2002, and to expire following the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2007.

1.4. Persons responsible for financial information

1.4. Persons responsible for financial information

The persons responsible for financial information are:

- Alain-Pierre Raynaud, Chief Financial Officer and member of the Executive Committee
Address: 33, rue La Fayette - 75009 Paris
E-mail: alain-pierre.raynaud@areva.com
- Frédéric Potelle, Financial Communications and Investor Relations Director
Address: 33, rue La Fayette - 75009 Paris
E-mail : frederic.potelle@areva.com

1.5. Communications policy and tentative financial communications schedule

It is the Executive Board's objective to report on the group's operations to shareholders and investment certificate owners. Accordingly, AREVA has had a financial communications program in place since it was formed. The goals of this program are to build strong relations with our shareholders and investment certificate owners and to develop the group's presence on the financial markets by providing information on our operations.

1.5.1. INFORMATION PROGRAMS

Information of a financial, commercial, organizational or strategic nature that may be of interest to the financial community is provided to the national and international media and to press agencies via press releases. All information provided to the financial markets (press releases, audio and video presentations of a financial or strategic nature) is available in the "Finance" section of the group's website at www.arevagroup.com. Individuals wishing to receive press releases by e-mail may register on the group's website, which also features a schedule of upcoming events and announcements.

AREVA publishes half-year and annual results and makes quarterly sales announcements in accordance with French legislation. It should be noted that, in the nuclear business, comparisons of quarterly data from one year to that of the preceding year may show significant variances that may not be a good indicator of the expected trend for the year as a whole.

At least twice a year, the group organizes information meetings to comment on its business and financial performance. These meetings are usually broadcast live on the Internet.

1.5. Communications policy and tentative financial communications schedule

1.5.2. TENTATIVE FINANCIAL COMMUNICATIONS SCHEDULE

A tentative schedule of upcoming events and announcements is provided below. It is regularly updated on the AREVA website.

Date	Events
April 26, 2007	First quarter 2007 sales revenue and related information
May 3, 2007	Combined Annual General Meeting of Shareholders (not open Investment Certificate holders)
June 30, 2007	Dividend payment for fiscal year 2006
July 26, 2007	First half 2007 sales revenue
August 30, 2007	First half 2007 income
August 31, 2007	Telephone conference on first half 2007 income
October 25, 2007	Third quarter 2007 sales revenue and related information
January 2008	2007 sales revenue
March 2008	2007 income

1.5.3. TECHNICAL INFORMATION ON THE GROUP'S BUSINESSES

The AREVA group organized a series of presentations and site tours to enhance the financial community's understanding of the group's operations from a technical as well as economic point of view.

Six sessions of the AREVA Technical Days program to introduce the group's businesses and technologies have been held since the program was launched in 2002, each time with 100 to 150 people attending, including analysts, investors, journalists and investment advisors. To ensure that those not attending the sessions receive

the same information as those attending, delayed broadcasts of the meetings and related question-and-answer sessions may be seen in the AREVA Technical Days program section of AREVA's website. A new AREVA Technical Days session was held on April 5 and 6, 2007 in India. This session provided an opportunity to review the Transmission & Distribution division and to present India's energy challenges.

In addition, plant tours are conducted throughout the year to introduce investors to the group's operations.

1.5.4. CONTACTS

The Investor Relations Director (see paragraph 1.4.) is assisted by:

- Manuel Lachaux, Financial Information and Analysis Manager
Address: 33, rue La Fayette - 75009 Paris – France
E-mail: manuel.lachaux@areva.com

- Pauline Briand, Marketing and Retail Shareholding Manager
Address: 33, rue La Fayette - 75009 Paris – France
E-mail: pauline.briand@areva.com

The Shareholders department can be reached at our toll-free number (calls in France only): 0810 699 756 or by e-mail to actionnaires@areva.com

2

INFORMATION PERTAINING TO THE TRANSACTION

Not applicable

In the event of a transaction involving publicly-raised funds, information covered by this chapter will be disclosed in a prospectus and filed with the Autorité des Marchés Financiers (AMF, French Financial Markets Authority) for approval.

3

GENERAL INFORMATION ON THE COMPANY AND ITS SHARE CAPITAL

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3.1. Information on AREVA

3.1. Information on AREVA

3.1.1. LEGAL NAME (ARTICLE 2 OF THE BYLAWS)

The company's legal name is "Société des Participations du Commissariat à l'Énergie Atomique". The company's trade name is AREVA.

At the next Combined Annual General Meeting of Shareholders of May 3, 2007, a change in the legal name to "AREVA" will be proposed (see section 6.5.2, Resolutions). This change must be approved by decree.

3.1.2. ESTABLISHING ORDER

The establishing order for Société des Participations du Commissariat à l'Énergie Atomique (CEA) is decree N° 83-1116 of December 21, 1983. This decree was amended, mainly by decree N° 2001-342 of April 19, 2001, then by decree N° 2003-94 of February 4, 2003, which provides the following:

- Changes to company bylaws are approved by decree; however, capital increases are subject to joint approval by the Minister of Industry and the Minister of the Economy (article 2, paragraphs 2 and 3).
- The CEA shall retain the majority of the company's capital (article 2, paragraph 1).
- The sale or exchange of any AREVA shares held by the Commissariat à l'Énergie Atomique (CEA) is subject to the same conditions as for capital increases (article 2, paragraph 2).

3.1.3. LEGAL FORM OF THE COMPANY AND APPLICABLE LEGISLATION (ARTICLE 1 OF THE BYLAWS)

AREVA is a Société anonyme à Directoire et Conseil de Surveillance (business corporation with an Executive Board and a Supervisory Board) governed by Book II of the French Commercial Code, by decree N° 67-236 of March 23, 1967 on business corporations, as amended, and by decree N° 83-1116 of December 21, 1983.

3.1.4. PURPOSE OF THE COMPANY (ARTICLE 3 OF THE BYLAWS)

The corporate purpose of the company, in France and abroad, is:

- to acquire direct or indirect participating and equity interests, in whatever form, in any French or foreign company or enterprise involved in financial, commercial, industrial, real estate or securities operations;
- to purchase, sell, exchange, subscribe or manage any equity shares and investment securities;
- to provide any type of service, particularly services supporting the operations of all of the group's companies;
- to manage any industrial or commercial operation, especially in the nuclear, information technology, electronics and connectors fields, and to this end:
 - to examine projects concerning the creation, development or reorganization of any industrial enterprise;
 - to implement any such project or contribute to its implementation by all appropriate means, especially by acquiring participating or equity interests in any existing or proposed business venture;
 - to provide financial resources to industrial enterprises, especially by acquiring equity interests and through loan subscriptions.
- more generally, the company's objective is to undertake any industrial, commercial, financial, real estate or securities operation, in France or abroad, that is directly or indirectly related to the above in furtherance of its purpose or supporting that purpose's achievement and development.

At the next Combined Annual General Meeting of Shareholders of May 3, 2007, it will be proposed that the corporate purpose be updated (see section 6.5.2. Resolutions).

3.1.5. CORPORATE OFFICE (ARTICLE 4 OF THE BYLAWS)

The company's corporate office is located at 27-29 rue Le Peletier, 75009 Paris, France. Telephone: + 33 1 44 83 71 00

The corporate office will be transferred to 33 rue La Fayette – 75009 Paris – France, as from the publication in the *Journal Officiel* of the decree authorizing the bylaw amendments resulting

from the Supervisory Board's decision of March 22, 2007, which will be ratified by the Combined Annual General Meeting of Shareholders of May 3, 2007 (see section 6.5.2. Resolutions).

3.1.6. STATUTORY TERM (ARTICLE 5 OF THE BYLAWS)

AREVA was registered to do business in France on November 12, 1971. Its business registration expires on November 12, 2070, unless this term is extended or the company is dissolved beforehand.

The statutory term of the company is ninety-nine years from its date of registration, unless earlier extended or the company is dissolved beforehand.

3.1.7. BUSINESS REGISTRY, BUSINESS CODE, REGISTRATION NUMBER

AREVA is registered at the Business Registry of Paris under number 712 054 923

Business code (APE): 741J (Company management)

Business registration number (Siret): 712 054 923 00032

3.1.8. AVAILABILITY OF INCORPORATING DOCUMENTS

The incorporating documents, or copies thereof, may be reviewed at 33 rue La Fayette, 75009 Paris, France:

- The establishing decree No. 83-1116 of December 21, 1983 and the bylaws of AREVA.
- Any report, correspondence and other documents, historical financial data, assessments and statements given by an expert at AREVA's request, some of which are included or referred to in this document.
- Historical financial data of AREVA and its consolidated subsidiaries for the fiscal years ending December 31, 2004, December 31, 2005 and December 31, 2006.
- Any other document which is made available to the shareholders.

3.1. Information on AREVA

3.1.9. ANNUAL FINANCIAL STATEMENTS**3.1.9.1. Accounting year
(article 43 of the bylaws)**

The accounting year is the 12-month period beginning January 1 and ending December 31 of each year.

**3.1.9.2. Corporate financial statements
(article 44 of the bylaws)**

After year-end closing, the company's Executive Board presents a balance sheet, an income statements with notes and a management report. The Supervisory Board submits its remarks on the Executive Board's report and on the financial statements to the Annual General Meeting of Shareholders.

Any shareowner, investment certificate owner or voting right certificate holder has the right to review these documents, as well as any other document that must be provided by law, subject to the conditions stipulated in current regulations. He or she may also request that these documents be provided to him or her by AREVA, as provided by the regulations.

**3.1.9.3. Information on subsidiaries
and equity interests
(article 45 of the bylaws)**

Information on subsidiaries and equity interests required by law is included in the report presented to the Annual General Meeting of Shareholders by the Executive Board and, as applicable, by the registered auditors.

The Executive Board reports on the operations of all subsidiaries, defined as companies in which the group's participation is greater than 50% of capital. The report is segmented by business line and discloses actual financial performance.

The Executive Board attaches a table to the balance sheet presenting the position of said subsidiaries and equity interests in the format required by law.

**3.1.9.4. Consolidated balance sheet
and financial statements
(article 46 of the bylaws)**

The Executive Board prepares the consolidated balance sheet, income statements, notes to the financial statements and management report.

The method used to prepare the consolidated balance sheet and income statements must be disclosed in a note attached to those documents.

**3.1.9.5. Appropriation and distribution
of profits
(article 48 of the bylaws)**

1. The net profit or loss for the period consists of the difference between income and expenses, net of depreciation, depletion, amortization and provisions.
2. No less than 5% of the profits for the year, adjusted for any prior year losses, are allocated to a reserve fund called "legal reserve". This allocation is no longer required once the legal reserve reaches 10% of the company's capital stock.
3. The profit available for distribution is equal to the profit for the year less prior year losses, and less reserve allocations required by law and the company bylaws, plus retained earnings.
4. Except in cases of capital reduction, there shall be no profit distribution to the combined shareowners and equity investors if shareholders' equity is less than an amount equal to capital stock plus legal reserves, in accordance with the law and the company's bylaws, or if the distribution would cause it to fall below that amount.

3.1.10. INFORMATION ON GENERAL MEETINGS OF SHAREHOLDERS AND VOTING RIGHT CERTIFICATE HOLDERS

3.1.10.1. Provisions common to all meetings

Forms and deadlines for Notices of Meeting (article 30 of the bylaws)

Meetings are convened as provided by law.

Admission to Meetings – Deposit of securities (article 32 of the bylaws)

1. Any shareholder or holder of a voting right certificate may participate in person or by proxy in General Meetings of Shareholders, as provided by law, by offering proof of his or her identity and of his or her ownership of the shares or voting right certificates, either by registering the shares or certificates with the company at least three days before the General Meeting of Shareholders or, in the case of bearer shares (when such shall exist), by delivering a certificate of ownership through an authorized account representative confirming the registration of the shares in the bearer share accounts (see bylaw amendments proposed to the Combined Annual General Meeting of Shareholders of May 3, 2007).
2. In the event of the subdivision of share or certificate ownership, only the voting right holder may participate in or be represented at the General Meeting.
3. Joint owners of undivided shares and/or voting right certificates are represented at the General Meeting by one of the joint owners or by a single proxy who shall be designated, in the event of disagreement, by order of the president of the Commercial Court in an urgent ruling at the request of any of the joint owners.
4. Any shareholder or voting right certificate holder who owns securities of a given class may participate in any Special Meeting of the Shareholders for that particular class of securities, subject to the conditions outlined above.
5. The Company Works Council shall designate two of its members to attend General Meetings of Shareholders, one from among the company's managers, technicians and supervisors, and the other from among its administrative/clerical personnel and craft/manual workers. Alternatively, the persons mentioned in Article L. 432-6 of the French Labor Code may participate in the meetings.

Voting procedures (article 35 of the bylaws)

1. The voting rights attached to shares of capital stock or jouissance shares and to voting right certificates are proportionate to the fraction of capital represented by such shares. Each full share shall be entitled to at least one vote.
2. The voting right attached to a share or a voting right certificate belongs to the usufructuary in Annual General Meetings of the Shareholders and to the bare owner in Extraordinary General Meetings or meetings dealing with statutory matters.

Voting rights attached to shares given as collateral remain with the owner of the shares.

3.1.10.2. Rules governing Annual General Meetings of Shareholders

Quorum and majority (article 39 of the bylaws)

The Annual General Meeting of Shareholders may deliberate validly after the first notice of meeting only if the shareholders and/or voting right certificate holders present in person, represented by proxy or voting by mail, or attending via videoconference or a telecommunications medium allowing them to be identified, possess at least 25% of the shares and certificates entitled to a vote. No quorum is required for a meeting held after a second notice of meeting has been given.

The law of July 26, 2005 for Confidence in and Modernization of the Economy amended the provisions of the French Commercial Code concerning the quorum required to hold Annual General Meetings, which is henceforth 20% of the shares and certificates entitled to vote on the first notice of meeting; no quorum being required after a second notice of meeting has been given. AREVA proposes to amend the bylaws accordingly at the upcoming Combined Annual General Meeting of Shareholders (see bylaw amendments proposed to the Combined Annual General Meeting of Shareholders of May 3, 2007).

The Annual General Meeting of Shareholders adopts resolutions by a majority vote of the shareholders and/or voting right certificate holders present in person, represented by proxy or voting by mail, or attending the Annual General Meeting via videoconference or a telecommunications medium allowing them to be identified (see bylaw amendments proposed to the Combined Annual General Meeting of Shareholders of May 3, 2007).

3.1. Information on AREVA

3.1.10.3. Rules governing Extraordinary General Meetings of Shareholders

Purpose and conduct of Extraordinary General Meetings of Shareholders (article 40 of the bylaws)

1. The Extraordinary General Meeting of Shareholders has sole authority to amend any of the provisions of the company bylaws, or to increase or decrease the company's capital stock. However, the Extraordinary General Meeting of Shareholders may not increase the obligations of any shareholder or investment certificate holder, except in the case of properly executed share combinations or in the case of fractional shares resulting from a capital increase or decrease.
2. As an exception to the exclusive jurisdiction of the Extraordinary General Meeting of Shareholders in matters of bylaws amendment, the Executive Board may amend bylaw provisions relating to the company's capital stock or the number of shares, investment certificates or voting right certificates representing such capital, insofar as such amendments automatically result from a duly authorized capital increase, decrease or amortization.

Quorum and majority (article 41 of the bylaws)

Unless otherwise provided by law, the Extraordinary General Meeting of Shareholders may deliberate validly after the first notice of meeting only if one third of the shareholders and voting right certificate holders are present in person, represented by proxy or voting by mail, or attending the Meeting via videoconference or a telecommunications medium allowing them to be identified, in accordance with applicable laws and regulations. The quorum required after the second notice of meeting is 25% of all shares and voting right certificates entitled to vote.

If no quorum has been reached for the second notice of meeting, the second Meeting may be postponed for two months after the date for which it had been called.

The law of July 26, 2005 for Confidence in and Modernization of the Economy amended the provisions of the French Commercial Code concerning the quorum required to hold Extraordinary General Meetings of Shareholders, which is henceforth 25% of the voting right certificates on the first notice of meeting and 20% of the voting right certificates on the second notice of meeting. AREVA proposes to amend the bylaws accordingly at the upcoming Combined Annual General Meeting of Shareholders (see bylaw amendments proposed to the Combined Annual General Meeting of Shareholders of May 3, 2007).

Unless otherwise provided by law, resolutions of the Extraordinary General Meeting are adopted by a two-thirds majority of the voting rights of the shareholders and/or voting right certificate holders present in person, represented by proxy, voting by mail, or participating via videoconference or a telecommunications medium allowing them to be identified, in accordance with applicable laws and regulations.

3.1.10.4. Rules governing Special Meetings of Investment Certificate Holders (article 42 of the bylaws)

All investment certificate holders may participate in the Special Meeting.

The Special Meeting has the authority, in instances provided by law, to waive the preemptive subscription right held by investment certificate holders. The Special Meeting is called at the same time and in the same form as General Meetings of Shareholders called to decide on a proposed capital increase, convertible bond issue, or bond issue with stock purchase warrants.

Investment certificate holders may attend the meeting in accordance with the same procedures as those applicable to the shareholders, described in article 32 of the bylaws.

The law of July 26, 2005 for Confidence in and Modernization of the Economy amended the provisions of the French Commercial Code concerning the quorum required to hold Special Meetings, which is henceforth one-third of the voting right certificates on the first notice of meeting and 20% of the voting right certificates on the second notice of meeting. AREVA proposes to amend the bylaws accordingly at the Combined Annual General Meeting of Shareholders to be held on May 3, 2007 (see section 6.5).

3.2. Information on share capital and voting rights

3.2.1. CAPITAL STOCK (ARTICLE 6 OF THE BYLAWS)

3.2.1.1. Capital stock issued

The company's capital stock is fully paid up and stands at one billion three hundred forty-six million eight hundred twenty-two thousand six hundred thirty-eight euros (1,346,822,638 euros), divided into thirty-four million thirteen thousand five hundred ninety-three shares (34,013,593) with a par value of thirty-eight euros (38.00 euros) per share, and one million four hundred twenty-nine thousand one hundred eight (1,429,108) investment certificates with a par value of thirty-eight euros (38.00 euros) per certificate, and one million four hundred twenty-nine thousand one hundred eight (1,429,108) voting right certificates.

There is only one class of shares.

3.2.1.2. Authorized share capital

No distinction is made between authorized share capital and outstanding capital stock. There are no securities outstanding that could ultimately result in the creation of new shares. Accordingly, the concept of potential capital does not apply to AREVA.

As of the date of registration of this reference document, the Annual General Meeting of Shareholders had not passed any resolution authorizing the issuance of securities giving access to AREVA share capital.

3.2.1.3. Changes in share capital – Paying up of shares

Subject to the regulatory rules applicable to AREVA concerning increases in its share capital, the company's capital can be increased or decreased on one or several occasions under the terms of the laws and regulations applicable to French sociétés anonymes (corporations).

In the event of a capital increase for cash, provided there are still investment certificates outstanding, and unless the holders of investment certificates have waived their preferential investment rights as provided by law, the holders of the investment certificates have a preferential right – in proportion to the number of certificates they hold – to subscribe to shares that carry the same rights as the investment certificates.

3.2. Information on share capital and voting rights

3.2.2. CHANGES IN SHARE CAPITAL SINCE 1989 (ARTICLE 7 OF THE BYLAWS)

Changes in share capital since 1989

Transaction date	Transaction	Number of capital securities issued/canceled			Nominal amount* of increase/decrease in capital*	Total premium stock issue/asset contribution*	Cumulative amount*	Number of capital securities after transaction			Nominal amount		
		Shares	ICs	Total				Shares	ICs	Total	Shares	ICs	Total*
May 29, 1989	Capital increase (conversion of 3,112 participating shares)	0	12,448	12,448	3,112,000	311,200	3,423,200	27,985,200	12,448	27,997,648	250	250	6,999,412,000
May 31, 1990	Capital increase (conversion of 17,088 participating shares)	0	68,352	68,352	17,088,000	1,708,800	18,796,800	27,985,200	80,800	28,066,000	250	250	7,016,500,000
March 23, 1992	Capital increase (conversion of 337,077 participating shares)	0	1,348,308	1,348,308	337,077,000	33,707,700	370,784,700	27,985,200	1,429,108	29,414,308	250	250	7,353,577,000
June 23, 2000	Capital reduction (for conversion into euros)	0	0	0	(3,301,883)	n.a.	n.a.	27,985,200	1,429,108	29,414,308	38	38	1,117,743,704
September 3, 2001	Capital increase (for acquisition merger of Biorisys and Framatorne SA)*	5,279,748	0	5,279,748	200,630,424	1,540,164,350	1,740,794,774	33,264,948	1,429,108	34,694,056	38	38	1,318,374,128
September 3, 2001	Capital increase (for payment of transfer of Cogema shares)*	748,645	0	748,645	28,448,510	143,931,861	172,380,371	34,013,593	1,429,108	35,442,701	38	38	1,346,822,638

* In French francs until June 23, 2000, in euros thereafter.

The share capital has not been modified since September 2001.

3.2. Information on share capital and voting rights

3.2.3. SHAREHOLDERS AND VOTING RIGHTS

The company's share capital as of December 31, 2006 is as follows:

- 34,013,593 shares;
- 1,429,108 investment certificates (IC);
- 1,429,108 voting right certificates.

In addition to ordinary shares, AREVA has investment certificates and voting right certificates. An original share is reestablished with full rights and privileges when a voting right certificate and an investment certificate are reunited.

The CEA owns all of the voting right certificates. The investment certificates are quoted on Compartment B of the Eurolist by Euronext™ market and are held by the public.

With the exception of investment certificates, which by definition are devoid of voting rights, all AREVA securities carry a single voting right.

Each member of the AREVA Supervisory Board, including representatives of salaried personnel, but excluding members representing the French State, holds one share of stock.

Members of the Executive Board do not own stock in the company.

To AREVA's knowledge, no agreement exists whose implementation could result a change in its control at a later date.

The table below shows the percentages of share capital and voting rights owned by shareholders, holders of investment certificates, and holders of voting right certificates as of December 31, 2006:

		CEA	French State	Caisse des Dépôts et Consignations	ERAP	EDF	Framépargne (employees)	Calyon	Group Total	IC holders (public)	Supervisory Board members	Total
12/31/2001	% capital	78.96	5.19	3.59	3.21	2.42	1.58	-	1.02	4.03	n.s.***	100
	% voting rights	82.99*	5.19	3.59	3.21	2.42	1.58	-	1.02	-	n.s.	100
12/31/2002	% capital	78.96	5.19	3.59	3.21	2.42	1.18**	0.40**	1.02	4.03	n.s.	100
	% voting rights	82.99*	5.19	3.59	3.21	2.42	1.18**	0.40**	1.02	-	n.s.	100
12/31/2003	% capital	78.96	5.19	3.59	3.21	2.42	1.06**	0.52**	1.02	4.03	n.s.	100
	% voting rights	82.99*	5.19	3.59	3.21	2.42	1.06**	0.52**	1.02	-	n.s.	100
12/31/2004	% capital	78.96	5.19	3.59	3.21	2.42	0.86**	0.72**	1.02	4.03	n.s.	100
	% voting rights	82.99*	5.19	3.59	3.21	2.42	0.86**	0.72**	1.02	-	n.s.	100
12/31/2005	% capital	78.96	5.19	3.59	3.21	2.42	0.79**	0.79**	1.02	4.03	n.s.	100
	% voting rights	82.99*	5.19	3.59	3.21	2.42	0.79**	0.79**	1.02	-	n.s.	100
12/31/2006	% capital	78.96	5.19	3.59	3.21	2.42	0.73**	0.85**	1.02	4.03	n.s.	100
	% voting rights	82.99*	5.19	3.59	3.21	2.42	0.73**	0.85**	1.02	-	n.s.	100

* The reason for the difference in the percentage of share capital and percentage of voting rights held by the CEA in AREVA is that the CEA owns all of the voting right certificates.

** Calyon, formerly Crédit Agricole Indosuez, entered into a liquidity guarantee with Framépargne under which it agreed to acquire, in the event of insufficient liquidity, AREVA shares held by Framépargne that the latter would have to sell to meet share repurchase requirements. Pursuant to this guarantee, Calyon purchased some AREVA shares beginning in July 2002.

*** not significant

3.2. Information on share capital and voting rights

3.2.4. TREASURY SHARES

AREVA does not own any treasury shares, whether directly, in its own name, or through its subsidiaries.

3.2.5. FORM OF SHARES, INVESTMENT CERTIFICATES AND VOTING RIGHT CERTIFICATES (ARTICLE 11 OF THE BYLAWS)

Subject to the condition precedent that the shares and/or investment certificates issued by AREVA are listed for trading on a regulated market, the holders may, at their discretion, record their ownership on the company's registers or hold their securities as bearer shares. All securities are registered in an account in accordance with applicable laws and regulations.

Provided that securities that confer an immediate or future right to vote in meetings of AREVA shareholders are listed for trading on a regulated stock market, the company may request the name

(or the legal name in the case of a legal entity), nationality, year of birth (or year of establishment in the case of a legal entity) and address of each holder of such securities from the clearing organization at any time for the purpose of identifying the holders of the securities as well as the number of securities held by each and any restrictions on same, in accordance with the law in these matters.

Ownership of voting right certificates must always be recorded on the company's registers.

3.2.6. TRANSFER OF SHARES, INVESTMENT CERTIFICATES AND VOTING RIGHT CERTIFICATES (ARTICLE 12 OF THE BYLAWS)

1. Shares and investment certificates are transferred from account to account upon sale. If the shares or investment certificates transferred are not fully paid up, the transferee must also sign the transfer order. Any transfer expenses are borne by the buyer.

2. The sale to a third party of company shares not listed for trading on a regulated market, for whatever reason, even when the sale is limited to bare ownership or usufruct of such shares, is subject to the prior approval of the Supervisory Board in the manner and under the conditions set forth below.

a) The request for approval of transfer shall be delivered to the company by registered mail with return receipt requested and shall include the last name, first name, middle name and address of the transferee, the number of shares to be transferred, and the price offered.

b) If the sale is approved, the company shall notify the transferor by registered mail with return receipt requested. However, the request shall be deemed to have been granted if no answer is provided within three months of the date of the request.

c) If the Supervisory Board rejects the transfer and the transferor maintains its intention to sell the shares, the company shall, within a legal time period, cause a third party to acquire the shares, or shall acquire the shares itself for the purpose of reducing the company's capital. The original transfer request shall be deemed approved if the company-sponsored acquisition has not been completed within the time frame mentioned above. However, the deadline may be extended by a court ruling at the company's request.

d) In the absence of an agreement between the parties, and in all instances of acquisition under the provisions of the preceding paragraph, the share price shall be set by an appraiser as provided under Article 1843-4 of the French Civil Code.

3. Investment certificates may be sold freely.

A voting right certificate may be sold only in combination with an investment certificate, unless the buyer already owns an investment certificate, in which case the transaction shall result in the permanent re-creation of a share.

3.2.7. RIGHTS AND OBLIGATIONS ATTACHED TO SHARES, INVESTMENT CERTIFICATES AND VOTING RIGHT CERTIFICATES (ARTICLE 14 OF THE BYLAWS)

Possession of a share, an investment certificate or a voting right certificate automatically signifies acceptance of the company's bylaws and of the resolutions duly adopted in any General Meeting of Shareholders.

The rights and obligations attached to any share, investment certificate or voting right certificate remain attached to the securities regardless of owner.

The French Atomic Energy Commission (CEA), as AREVA's principal shareholder, does not hold specific rights attached to the shares or voting right certificates it holds.

3.2.8. LIENS

There are no liens on AREVA shares or investment certificates.

There are no liens on any significant AREVA asset.

The shares of group subsidiaries held by AREVA are similarly unencumbered by pledges.

3.2.9. BREACHING SHAREHOLDING THRESHOLDS

On the date this Reference document was filed, there were no statutory thresholds which, if breached, would give rise to any reporting obligation, other than those prescribed by law.

3.3. Investment certificate trading

3.3. Investment certificate trading

3.3.1. TRADING EXCHANGE

The investment certificates are quoted on Compartment B of the Eurolist by Euronext™ market, under the reference code Euroclear 004540972 and the reference code ISIN FR 0004275832.

3.3.2. CUSTODIAN SERVICES

Custodian and transfer services are provided by:

CACEIS CT
Investor Relations Department
14, rue Rouget de l'Isle
92130 Issy les Moulineaux - Cedex 09 - France
Tel.: +33 1 57 78 34 44 – Fax: +33 1 57 78 34 00

E-mail: actionnariat.ge@caceis.com

3.3.3. HISTORICAL DATA

Summary of investment certificate prices and trading volumes since January 2004.

2004

<i>(in euros)</i>	Price High*	Price Low*	Volume traded	Traded value
January	224.0	200.1	98,264	20,905,200
February	223.5	213.5	185,570	40,450,200
March	223.0	206.0	147,326	31,649,800
April	239.5	211.5	213,363	48,462,200
May	225.9	197.2	214,308	45,101,900
June	234.0	217.0	89,527	20,280,400
July	245.0	226.8	179,425	42,381,700
August	260.0	231.0	102,902	25,295,400
September	302.6	251.0	275,848	76,340,800
October	297.3	271.0	181,019	51,292,100
November	295.0	273.0	173,545	49,385,800
December	335.0	293.0	132,491	41,301,900

3.3. Investment certificate trading

2005

<i>(in euros)</i>	Price High*	Price Low*	Volume traded	Traded value
January	339.5	305.0	123,980	39,990,600
February	379.0	299.0	399,299	130,365,600
March	395.0	315.0	288,326	101,341,300
April	350.0	301.0	152,017	49,526,656
May	336.0	302.5	121,854	39,187,668
June	369.0	325.6	104,834	36,619,044
July	395.7	353.0	121,648	46,224,508
August	400.0	334.1	66,793	25,121,602
September	472.0	372.0	131,664	56,717,980
October	443.5	365.0	137,112	55,404,036
November	409.0	373.3	71,269	27,927,086
December	412.0	372.2	118,269	46,755,504

2006

<i>(in euros)</i>	Price High*	Price Low*	Volume traded	Traded value
January	474.0	403.0	108,905	48,526,342
February	562.0	466.0	126,476	63,346,962
March	598.0	500.0	139,666	75,517,521
April	650.0	528.5	106,845	64,114,190
May	628.0	494.0	174,662	96,875,610
June	549.5	460.0	115,878	57,276,050,
July	570.0	445.2	123,037	59,294,350
August	505.0	452.1	68,503	33,060,610
September	531.0	462.1	97,767	48,250,700
October	510.0	457.0	83,607	40,184,040
November	579.0	500.0	97,228	52,361,180
December	587.5	535.5	81,597	45,598,410

2007

<i>(in euros)</i>	Price High*	Price Low*	Volume traded	Traded value
January	642.0	552.5	121,100	72,468,830
February	764.5	621.0	229,541	156,207,700
March	743.0	648.4	129,391	89,144,010

Source: Reuters.

*Intraday prices.

From AREVA's establishment on September 3, 2001 through March 30, 2007, the price of the investment certificate has risen by 410%, outperforming the CAC 40, which gained 21.7% over the same period, and the EuroStoxx 50, which gained 13.3%. In 2006, the price of the investment certificate rose by 38.8%, as compared with increases of 17.5% for the CAC 40 and of 15.1% for the EuroStoxx 50 index.

The average daily trading volume was 5,255 shares in 2006, compared with 7,127 in 2005 and 7,697 in 2004.

In value, average trading climbed to 2,715,897 euros in 2006, compared with 2,542,000 euros in 2005 and 1,902,000 euros in 2004.

3.4. Dividends

3.4. Dividends

3.4.1. DIVIDEND PAYMENT (ARTICLE 49 OF THE BYLAWS)

Dividends are paid annually on the date and place set by the Annual General Meeting of Shareholders or, in the absence of such a decision, within nine months of the fiscal year-end on the date and place set by the Executive Board.

Dividends properly received are not subject to recovery. Dividends that have not been collected within five years from the set date of distribution are forfeited to the French State.

3.4.2. SIX-YEAR DIVIDEND DATA

<i>(In euros)</i>	Dividend	Tax credit	Gross dividend
2000	22.85	11.42	34.27
2001	6.20	3.10	9.30
2001 (exceptional dividend)	12.28	6.14	18.48
2002	6.20	3.10	9.30
2003	6.20	3.10	9.30
2004	9.59	-	9.59
2005	9.87	-	9.87
2006*	8.46	-	8.46

* Dividend proposed to the Combined Annual General Meeting of Shareholders of May 3, 2007.

3.4.3. DIVIDEND POLICY

No dividend distribution policy has yet been established.

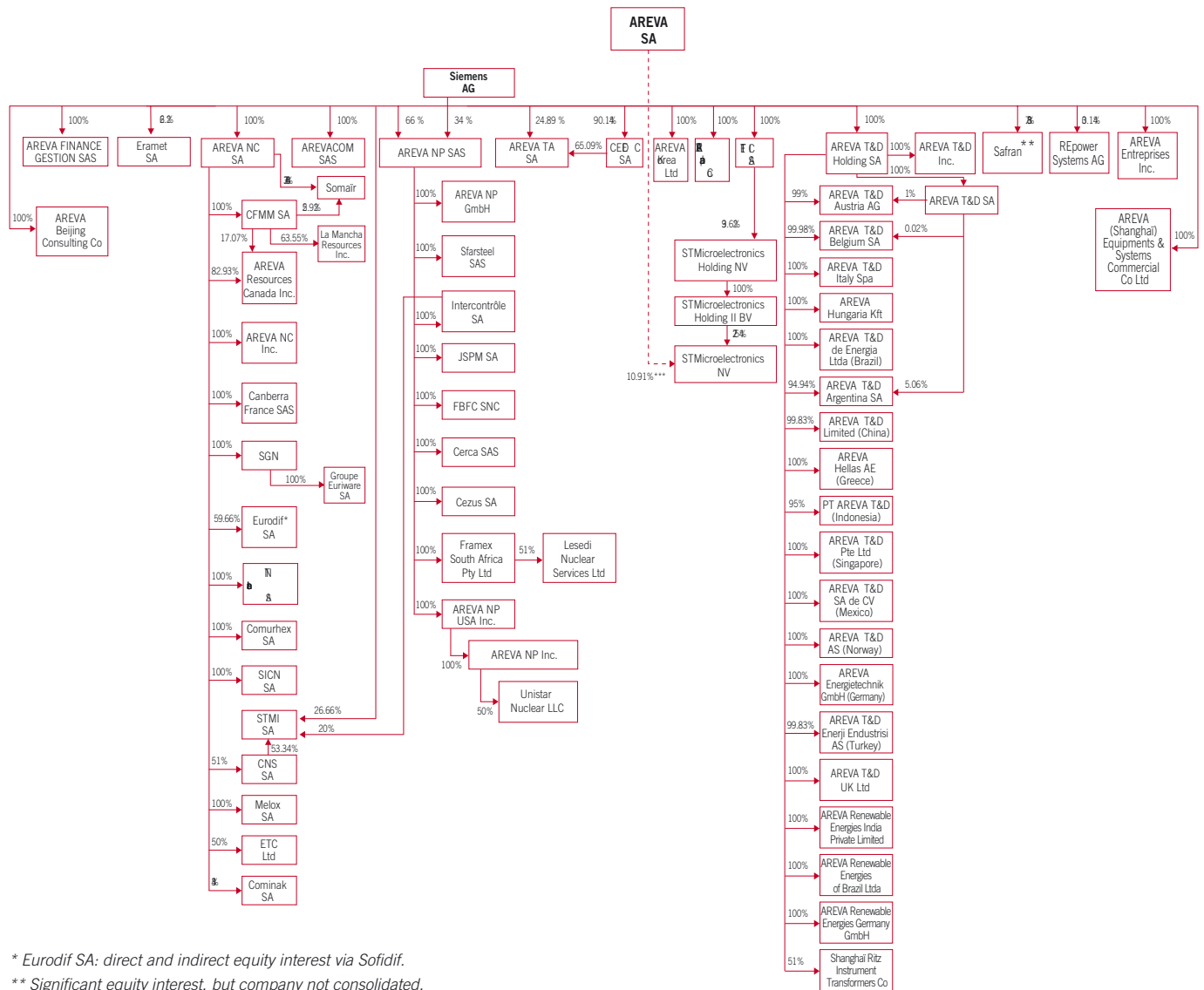
The annual dividend amount is set with representatives of the French government and the CEA, which together hold a majority of the group's capital. The Supervisory Board will submit a proposal to the Combined Annual General Meeting of Shareholders of May 3, 2007 to distribute a dividend of 8.46 euros per share or investment certificate for 2006, compared with 9.87 euros for the previous year.

The dividend of 8.46 euros corresponds to a distribution rate of 46% of consolidated net income and will be paid on June 30, 2007. The distribution rates for 2003, 2004 and 2005 were, respectively, 57%, 80% and 33.3% of consolidated net income for those years. These distribution rates are not an indication of the company's future dividend policy.

3.5. Organization chart of AREVA group companies

Since March 1, 2006, all first-tier subsidiaries of the AREVA group have new names. COGEMA's trade name is now AREVA NC, Framatome ANP is now AREVA NP, and Technicatome is AREVA TA. This initiative also applies to second-tier subsidiaries and sites in France or abroad where "COGEMA" or "Framatome ANP" is part of the name. AREVA T&D's name does not change.

Simplified organization chart of the AREVA group as of March 30, 2007:



* Eurodif SA: direct and indirect equity interest via Sofidif.

** Significant equity interest, but company not consolidated.

*** Percentage of indirect interest.

3.6. Equity interests

3.6. Equity interests

The AREVA group has significant equity interests as described hereunder:

STMicroelectronics NV

- Percentage owned indirectly via holding companies: 10.91%.
- Business: STMicroelectronics is one of the largest semi-conductor companies in the world. In 2006, it had sales revenue of \$9.854 billion.
- History of the AREVA group's involvement: since its establishment, CEA's Laboratory, Leti, has collaborated with STMicroelectronics to develop integrated circuit technology. In 1993, STMicroelectronics was equally controlled by the Italian company Stet and public shareholders in Italy on the one hand, and by the French company Thomson-CSF on the other. STMicroelectronics, which at the time was in financial difficulty, received fresh capital from a French vehicle, FT1CI, jointly set up by CEA-Industrie (subsequently AREVA) and France Télécom (which has not been a shareholder of FT1CI since August 2005). FT1CI owns its interest in STMicroelectronics through holding companies jointly held with Italian partners, STMicroelectronics Holding NV and STMicroelectronics Holding II BV. STMicroelectronics Holding II BV was the majority shareholder in the past and remains the leading shareholder in STMicroelectronics today, with 27.54% of its share capital.
- Consolidation: equity method (the group carries its total interest in FT1CI, i.e. 10.91%, under the equity method).
- Stock exchanges: Compartment A of the Eurolist by Euronext™ market, the New York Stock Exchange, and Milan.
- Market capitalization at December 31, 2006: \$16.907 billion (€12.806 billion).

Eramet

- Percentage owned: 26.2% of the share capital and 30.73% of the voting rights.
- Business: Eramet is a mining and metallurgy group that produces nonferrous metals, high-performance specialty steels and alloys. Eramet's sales revenue as of December 31, 2006, totaled €3.056 billion.

- History of the AREVA group's involvement: A reorganization of the French State's equity interest in Eramet was decided when the State reorganized its equity interests in mining. This reorganization was implemented, in particular, by exchanging the Eramet shares held by Erap, representing 22.5% of Eramet's capital, for AREVA NC shares. In addition, AREVA NC bought back the Eramet shares held by BRGM, representing 1.5% of Eramet's capital. AREVA NC contributed its equity interests to an entity set up for that purpose, Biorisys, whose share capital was taken over by merger with AREVA, effective September 4, 2001.
- Consolidation: equity method.
- Trading exchange: compartment A of Eurolist by Euronext™.
- Market capitalization at December 31, 2006: €3.131 billion.

Safran

- Percentage owned: 7.38% of the share capital and 12.5% of the voting rights held by AREVA NC, a subsidiary of which 0.06% of the share capital and 0.04% of the voting rights are held by COGERAP, an investment management company and AREVA subsidiary.
- Business: Safran is a high-tech group with two operating branches, telecommunications and defense. It is ranked second in France in telecommunications and third in Europe in defense and security electronics. Safran had 2006 revenues of €11.329 billion.
- History of the AREVA group's involvement: AREVA NC formerly owned a 5.1% equity interest in Sagem. The AREVA group's equity position in Safran increased automatically to 17.4% in December 2003 as a result of Safran's takeover-merger of Coficem, in which the group had purchased a 20% interest in 2002. The AREVA group's equity interest was then diluted during the takeover-merger of Snecma by Sagem, which gave birth to Safran in May 2005.
- Consolidation: this equity share is not subject to consolidation and appeared at market value on the balance sheet at December 31, 2006 as "Available-for-sale securities" under "Other non-current financial assets".
- Trading exchange: Compartment A of Eurolist by Euronext™.
- Market capitalization at December 31, 2006: €7.331 billion.

Suez

- Percentage owned: 2.18% of the share capital and 1.98% of the voting rights at December 31, 2006.
- Business: Suez, an international manufacturing and services group, designs sustainable and innovative solutions for public services management as a partner to municipalities, companies and individuals in electricity, gas, energy services, water and clean-up.
- History of the AREVA group's involvement: the group has held a stake in Suez since 1997-1998 as part of its portfolio of securities earmarked for end-of-life-cycle operations. The market value of this line rose to more than €1.083 billion in 2006 before the Suez capital increase. To balance its dedicated portfolio, the group decided to remove the Suez line from the portfolio and replace it with cash, reinvested in other products.
- Consolidation: The equity share is not subject to consolidation and appeared at market value on the balance sheet at December 31, 2006 as "Available-for-sale securities" under "Other noncurrent financial assets".
- Stock exchanges: EuronextTM Paris (CAC 40 index), EuronextTM Brussels (BEL 20 index), New York Stock Exchange, SWX (Zurich) and the Luxembourg Stock Exchange.
- Market capitalization at December 31, 2006: €50.114 billion.

REpower

- Percent owned: As of this writing, AREVA holds 30.14% of the share capital and voting rights.
- Business: REpower, a Hamburg-based manufacturing group, is one of the leading players in the global wind power sector and specializes in high-output turbine technology particularly suited to offshore sites. The company employs 740 people and posted sales of €461.5 million in 2006.

- AREVA has had an equity interest in REpower since October 2005. In April 2006, AREVA increased its equity stake in REpower to 29.99% by subscribing to a capital increase launched by REpower and acquiring shares on the market. On February 5, 2007, AREVA announced a friendly takeover bid for REpower shares that it did not already hold. On February 28, 2007, the Indian company Suzlon made a counter-offer, backed by the Portuguese company Martifer, also a shareholder of REpower, at 25.4%. Both bids were set to expire on April 20, 2007. On March 15, AREVA raised its bid price to €140 per share, having first acquired additional shares that raised its equity interest to slightly more than 30%. On April 10, Suzlon raised its bid to €150 per share. On April 17, AREVA lifted the minimum acceptance condition (of 50% plus one REpower share) applicable to its bid, thereby extending the bid period to May 4, 2007.

The acquisition would strengthen AREVA's strategic position in carbon-free power generation and electricity transmission and distribution. Nuclear and wind power complement each other in a balanced energy mix, with one supplying competitive baseload energy and the other supplying backup energy as climate conditions allow. Neither emits greenhouse gases. REpower offers manufacturing and marketing/sales synergies with AREVA's Transmission & Distribution division.

- Consolidation: equity-accounted.
- Trading exchange: Xetra (Frankfurt)
- Market capitalization at December 31, 2006: €634 million.

3.7. Shareholders' agreements

The shareholders' agreements involving AREVA are described in section 3.7.1. hereunder. The main shareholders' agreements concerning companies in which the group has significant equity interests are described in section 3.7.2. hereunder.

3.7.1. SHAREHOLDER'S AGREEMENTS CONCERNING AREVA SHARES

Except for agreements described in sections 3.7.1.1. and 3.7.1.2. hereunder, there is, to AREVA's knowledge, no agreement containing rights of first refusal concerning the investment certificates or at least 0.5% of AREVA's share capital or voting rights.

3.7.1.1. Shareholders' agreement between the Caisse des Dépôts et Consignations (CDC) and the à l'Énergie Atomique (CEA)

Under the terms of an agreement between the CDC and the CEA dated December 28, 2001, the parties agreed in particular that, in the event that AREVA shares are admitted for public trading on a regulated market through the sale of AREVA shares owned by the CEA, the CEA agrees that CDC may, if it chooses, sell as many AREVA shares in the public offering as those offered for sale by the CEA. The CEA further agreed to undertake its best efforts to allow CDC to sell its shares in the event that the latter wishes to relinquish all of its AREVA shares under certain specific circumstances, and particularly in the event that (i) AREVA shares are not admitted for public trading by December 31, 2004, (ii) the shares of a major AREVA subsidiary (other than FCI) in which AREVA holds more than half of the share capital and voting rights were to be admitted for public trading in France, (iii) the CEA should no longer hold a majority interest in the share capital or voting rights of AREVA. CDC did not choose to dispose of its equity interest in AREVA, and continues to hold 3.59% of the company's share capital.

3.7.1.2. Memorandums of understanding among Total Chimie, Total Nucléaire, AREVA and AREVA NC

Under the terms of separate memorandums of understanding dated June 27, 2001, Total Chimie and Total Nucléaire agreed to sell five-sixths of their equity interest in AREVA NC to the CEA and to contribute the remaining shares to AREVA (formerly called CEA-Industrie) prior to the split-up and merger decided by the Combined Annual and Extraordinary General Meeting of Shareholders, which was completed in September 2001.

This memorandum of understanding also provides that Total Chimie and Total Nucléaire agree to retain their AREVA shares received in exchange for their contributions until such time as AREVA shares are publicly traded on a regulated market. If admission to a regulated market does not take place by September 30, 2004, at the latest, and assuming that Total Chimie or Total Nucléaire wish to sell all of their AREVA shares, Total Chimie, Total Nucléaire and AREVA have agreed to make their best efforts to ensure that the sale of the equity interest of Total Chimie or Total Nucléaire is carried out promptly and under mutually acceptable terms and conditions for all parties. To date, neither Total Chimie nor Total Nucléaire has chosen to dispose of their AREVA shares.

3.7.2. MAIN SHAREHOLDERS' AGREEMENTS CONCERNING AREVA'S EQUITY INTERESTS

The main shareholder agreements concerning AREVA's equity interests are set forth below.

AREVA NP

In July 2000, Framatome SA (subsequently taken over by AREVA) and Siemens AG reached an agreement to combine their nuclear operations in AREVA NP. Siemens AG's asset contribution to AREVA NP was implemented in two phases: the German operations were contributed on January 30, 2001, and the US operations were contributed on March 19, 2001.

These contributions were supplemented with a cash contribution by Siemens AG to AREVA NP, giving Siemens AG 34% of the share capital of AREVA NP. Siemens' nuclear operations were divided equally between AREVA NP's Front End division and Reactors and Services division in 2001.

AREVA NP is a French société par action simplifiée (simplified corporation) managed by a President chosen by a six-person Board of Directors designated for a five-year term by the shareholders on a simple majority vote.

Under AREVA NP's bylaws, the company's shares cannot be transferred to a third party for a ten-year period starting January 30, 2001, unless all shareholders approve the transfer. After this period of non-transferability, any sale of shares by one of the shareholders to a third party will be subject to a preemptive subscription right and prior approval by the company's other shareholders.

The shareholders' agreement concluded on January 30, 2001 between Siemens AG and Framatome SA, now taken over by AREVA, includes a put and call clause establishing sell and buy options. Under this clause, Siemens AG may exercise a sell option, thus obliging AREVA to buy all of the AREVA NP shares held by Siemens AG. Similarly, AREVA may exercise a buy option, thus obliging Siemens AG to sell all of its shares in AREVA NP to AREVA. These options may be exercised by the parties under the following circumstances:

- in the event of a confirmed and final disagreement between the parties over decisions vested in the Board of Directors, in particular, approving new company shareholders or designating the company President;
- in the event of a confirmed and final disagreement regarding a change in AREVA NP's bylaws or the shareholders' agreement;
- in the event that Siemens AG does not approve the company's business plan or its company financial statements for two consecutive years and there is no agreement with AREVA.

These options can also be exercised if one of the parties is taken over by a competitor, or if there is a significant drop in AREVA NP's market value after a change in control with respect to any of the parties.

Lastly, any party may terminate the shareholders' agreement and exercise its option on the eleventh anniversary of the agreement at the earliest, i.e. on January 30, 2012, or on each subsequent anniversary date of the agreement. From each of these dates, three-year prior notice shall be required for Siemens AG to exercise its put option or AREVA to exercise its call option.

Under the terms of the shareholders' agreement, and unless an agreement has been reached by the parties, the share price to exercise the buy or sell options described above will be set by an expert opinion, according to the terms set out in the agreement.

3.7. Shareholders' agreements

Eurodif**Agreement governing the establishment of Eurodif**

Under the terms of an agreement dated October 9, 1973 among CEA, Comitato Nazionale per l'Energia Nucleare of Italy, AGIP Nucleare, ENUSA (Empresa Nacional del Uranio) (Spain), AB Atomenergi (Sweden), Synatom and the Centre d'Étude de l'Énergie Nucléaire (Belgium), it was decided to establish a jointly owned company in the form of a French société anonyme (corporation) with Executive and Supervisory Boards, called Eurodif, to conduct studies and research in the field of gaseous diffusion enrichment, to build and operate plants, and to market enriched uranium.

The CEA owned the majority of Eurodif's capital, with the other shareholders being minority shareholders. The CEA's equity interest was transferred to AREVA NC when AREVA NC was established in 1976. AREVA NC holds, directly and indirectly through Sofidif, 60% of Eurodif's capital at present.

The current shareholders of Eurodif are:

- AREVA NC: (44.65%)
- Sofidif: (25%)
- Synatom: (11.11%)
- Enusa: (11.11%)
- Enea: (8.13%)

Agreements relating to the establishment of Sofidif

As part of a bilateral agreement for cooperation in the field of enrichment, France and Iran signed an agreement in 1974.

This agreement led to the establishment of Sofidif.

Under the agreements in force, the Iranian shareholder, the Atomic Energy Organization of Iran (AEOI), holds 40.4% of Sofidif's capital. AREVA NC holds the remaining 59.6% of the company's capital.

Sofidif's sole asset is a 25% equity interest in Eurodif's capital. Sofidif's role is limited to taking part in meetings of Eurodif's Supervisory Board, collecting its share of Eurodif's dividends and redistributing those dividends to its own shareholders.

AREVA TA**Agreement of December 28, 1993, relating to Cedec**

On December 28, 1993, CEA-Industrie, which later became AREVA, entered into an agreement with DCN International (hereafter referred to as DCN-I) to create a joint company called Cedec for the purpose of holding a 65.1% equity interest in AREVA TA.

AREVA currently controls 90.14% of Cedec's share capital, while DCN-I holds a 9.86% share.

The agreement of December 28, 1993 contemplates, in particular, that each party shall have a preemptive subscription right to acquire the other party's shares if these shares are sold. If this preemptive right is not exercised, any sale of shares to a third party shall be subject to prior approval by the Board of Directors, voting with a two-thirds majority. The agreement also stipulates that Cedec's Board of Directors shall consist of seven members, of which four will be recommended by AREVA and three by DCN-I.

Agreement of March 12, 1993, relating to AREVA TA

AREVA holds a 24.89% interest in AREVA TA, while Cedec holds a 65.01% interest and the EDF group holds the remaining shares, i.e. 10%.

An agreement on changes in the share ownership of AREVA TA was reached between CEA-Industrie (AREVA), Framatome (subsequently an AREVA subsidiary) and DCN-I on March 12, 1993. This agreement was amended by letter in March 1993 and by an amendment signed by Cedec (assuming the rights and obligations of DCN-I) and AREVA NP on October 5, 2000.

The agreement stipulates, in particular, that AREVA TA's Board of Directors shall consist of fifteen directors, of whom five are elected by the employees in accordance with the law of July 26, 1983 on the democratization of the public sector, with the remaining directors designated by Cedec (six directors), AREVA (three directors), and EDF (one director). The Chairman of the Board is appointed by the Board of Directors after consultation with the various parties and on the recommendation of Cedec, subject to AREVA's approval. Some board decisions require a two-thirds majority vote, most notably approval of the annual financial statements, capital increases or reductions, amendments to the bylaws, acquisition or disposal of equity interests, approval of new shareholders, authorization of certain agreements between related parties as specified by law, capital investments exceeding €1.5 million, etc. In addition, the explicit agreement of the directors nominated by Cedec and AREVA must be obtained beforehand.

In the event that EDF wishes to sell all or part of its equity interest in AREVA TA, AREVA will have priority over the other parties (Cedec) to buy the shares on mutually acceptable terms.

If either Cedec or AREVA contemplates the sale of all or part of its shares or rights in AREVA TA, Cedec and AREVA have a reciprocal and irrevocable agreement under which each would first offer the shares for sale to the other party (unless AREVA were to sell the shares to the CEA).

It is also stipulated that if the CEA were to own less than 51% of AREVA, the CEA would have to buy the Cedec or AREVA TA shares owned by AREVA, representing 90.14% of Cedec's share capital and 83.56% of AREVA TA's share capital.

ETC

With a view to cooperation in the field of uranium centrifuge enrichment, AREVA signed an agreement on November 24, 2003 with Urenco and its shareholders under which AREVA will buy 50% of the share capital of Enrichment Technology Company Ltd (ETC), which combines Urenco's activities in the design and construction of equipment and facilities for uranium centrifuge enrichment, as well related research and development.

The acquisition was submitted to the European anti-trust authorities, which gave their official approval on October 6, 2004. The quadripartite treaty among Germany, the Netherlands, the United Kingdom and France was ratified and signed on July 3, 2006, allowing this agreement to be implemented.

On the same day, AREVA NC replaced AREVA in the share capital of ETC. As a joint company, ETC will be the exclusive vehicle for uranium centrifuge enrichment technology for Urenco and AREVA NC.

A shareholders' agreement defining the relations between AREVA and Urenco as shareholders in ETC, covering in particular the composition of the Board of Directors, decisions requiring a unanimous vote by the directors present, and restrictions on selling ETC shares.

Eramet

(A publicly traded company - see section 3.6.)

AREVA's equity interest in Eramet is subject to an agreement dated June 17, 1999 among Sorame, Ceir, Erap and the shareholders in Sorame. Erap's equity interest in Eramet was transferred to AREVA NC on December 1, 1999 and then to AREVA on September 4, 2001. AREVA has therefore replaced Erap in its initial rights and obligations. Under the terms of this agreement, AREVA, acting in concert with Sorame and Ceir, controls Eramet. The initial term of this agreement was set to expire on June 30, 2006. Thereafter, it will automatically renew for one-year periods unless previously terminated with one month notice before the end of the current period. The shareholders' agreement specifies in particular: (i) with respect to the fifteen seats on Eramet's Board of Directors, AREVA may request the nomination of three people as directors as well as an additional two people nominated in consideration of their expertise and independence from AREVA and Eramet; (ii) a reciprocal right of first refusal on any sale of Eramet shares by one of the parties consisting of a block of at least 25,000 shares, or on any planned sale of shares by the parties, on one or several occasions, over a period of twelve months for a total price of €7.5 million.

This agreement has been the subject of several decisions by the CMF: decisions No. 199C1045 of August 3, 1999, No. 199C2064 of December 29, 1999, No. 201C0921 of July 25, 2001, and No. 201C1140 of September 12, 2001.

As part of its statements of intent dated September 12, 2001, AREVA indicated that it will not increase its equity interest in Eramet by more than 2% in any given fiscal year, either in terms of share capital or in terms of voting rights, and that it will not exceed 33.32% of Eramet's share capital at any time, unless AREVA exercises its right of first refusal or its share purchase option under the shareholders' agreement.

FT1CI

AREVA is now the sole shareholder of FT1CI, following France Télécom's disposal of its shares in STMicroelectronics in August 2005 and in FT1CI in September 2005. FT1CI holds a 39.6% equity interest in STMicroelectronics Holding N.V. (STH), with the remaining 60.4% held by Finmeccanica and Cassa Depositi e Prestiti. STH holds 100% of STMicroelectronics Holding II B.V. (STH II), which holds 27.54% of STMicroelectronics.

3.7. Shareholders' agreements

STMicronics

(A publicly traded company - see section 3.6.)

STMicronics (STM) is subject to a shareholders' agreement among AREVA, France Telecom, FT1CI and Finmeccanica, which are indirect shareholders via STMicronics Holding N.V. and STMicronics Holding II B.V. (hereinafter known collectively as "STH")⁽¹⁾. The agreement, renewed on March 17, 2004, establishes rules governing the four parties' interests and is intended to improve the liquidity of their indirect holdings in the company and maintain a stable and balanced shareholding structure to support the company's growth and autonomy. The agreement provides for the preservation of equal Franco-Italian control, independent of economic interests in STH resulting from sales of shares.

In December 2004, Finmeccanica sold part of its indirect interest in STM to Cassa Depositi e Prestiti, which signed the above-mentioned shareholders' agreement on December 23, 2004. France Télécom has not been a party to this agreement since August 2005.

The shareholders' agreement also contains provisions for defensive measures against a takeover bid, allowing the issuance of preferred shares to STH.

Its main provisions are:

- continued Franco-Italian governance with equal representation of both parties on the Supervisory Board, subject to retention of minimum equity interests with STM voting rights;
- simplification of disposals of the parties' indirect shareholdings in STM;
- the right to acquire additional STM shares under certain circumstances.

1. Current shareholding structure

As of December 31, 2006, AREVA, Finmeccanica and Cassa Depositi e Prestiti held indirect interests in STM of 10.9%, 6.6% and 10.1% respectively, through STH. AREVA's indirect interest is held by FT1CI. STH is equally owned by FT1CI (the "French party") on the one hand and by Finmeccanica and Cassa Depositi e Prestiti (the "Italian party") on the other.

Within these equity interests, Finmeccanica loaned 23,000,000 shares to banks in connection with hedging operations.

(1) STMicronics Holding NV holds 100% of the share capital of STMicronics Holding II BV, which holds 27.54% of the share capital of STMicronics.

2. Governance

Corporate decisions in respect of STM will remain equally shared between the French party and the Italian party for a four-year period starting from the execution of the new shareholders' agreement, i.e. March 17, 2004, subject to each of the parties indirectly holding at any time at least 9.5% (i.e. at least 19% for both parties) of the voting rights of STM (taking into account underlying shares of STM for exchangeable instruments issued by each of the parties, as long as the voting rights pertaining to such shares remain held by STH).

During that period, the two parties will recommend to the general meeting of shareholders the same number of representatives for nomination to the Board of STM, and any important decision concerning STM will require the unanimous approval of both parties.

In the event the shareholding of one of the two parties falls below the 9.5% threshold for STM voting rights due to a capital increase of STM or to an exchange of exchangeable instruments, such party will have the right to cause STH to purchase STM shares in order to increase its shareholding up to 9.5%.

If each of the parties has maintained its indirect shareholding above the 9.5% threshold for STM voting rights until the end of the four-year period, governance will remain equally shared, under the same terms and conditions, as from the end of this period, provided, however, that both parties' indirect shareholding in voting rights in STM held by STH remain at least 47.5%.

In the event that the shareholding of both parties is less than the 47.5% threshold prior to the expiration of this four-year period, such party will have the right to cause STH to purchase STM shares in order to rebalance the shareholdings of the parties.

If the indirect shareholding of one of the two parties falls below the 9.5% threshold during the initial four-year period, or below the 47.5% threshold of voting rights held by STH in STM as of the end of such four-year period, corporate decision-making powers will cease to be shared equally. However, the minority party will have a veto right on certain decisions, subject to its indirect shareholding exceeding certain thresholds.

3. Disposal of STM Shares

Each of the parties to the shareholders' agreement has the right to cause STH to sell its indirect shareholding in STM shares, subject to a right of first refusal and a tag-along right of the other party. However, the right of first refusal only applies (among other conditions) to transfers of shares that result in the selling party holding less than 7% of the share capital of STM.

Such sales of STM shares can be triggered by the issue of financial instruments exchangeable into STM shares through equity swaps or through structured finance deals. In case of an issuance of exchangeable securities, the tag-along right and, if applicable, the right of first refusal apply on the date of such issue. In the event that all or part of the financial instruments remain un-exchanged upon the date on which they are no longer exchangeable into STM shares, the relevant party is entitled to

cause STH to proceed with disposals of those STM shares without application of the right of first refusal or of the tag-along right. These restrictions apply in particular to the underlying STM shares for the exchangeable bonds issued by Finmeccanica and France Telecom, if they remain un-exchanged.

4. Acquisition of STM Shares

In the event of a hostile takeover or similar bid on STM shares, the provisions of the option agreement previously signed by STM and STH no longer apply. In November, the company proceeded to modify its system for protecting share capital in the event of a hostile takeover, made necessary by the new European directive to be established in early 2007 in the Netherlands, where the company is registered. The system relies on the possibility of issuing preferred shares by a Dutch foundation consisting of directors with no links to the company or its shareholders, rather than by STH II BV, representing the leading Franco-Italian shareholder.

Provided that a third party holds, acting alone or in concert, a shareholding exceeding 2% of the share capital of STM or announces its intention to take control of STM, any party will have the right to increase its indirect shareholding in STM through the acquisition of shares in STM by STH. Such acquisition will be subject to the veto right of the other party, as long as corporate decision-making in respect of STM remains equally shared (and except for the case of a hostile takeover bid on STM). Nevertheless, if such acquisition has been vetoed, both parties will have the right to acquire the same number of shares in STM directly, without going through STM.

In the event that such direct acquisition occurs, the relevant party undertakes to vote on such shares in accordance with the vote exercised by STH in STM.

5. Foundation

The decision to establish a foundation was made on November 22, 2006. The contract documents were signed in early 2007. The foundation has the right to ask STM to issue up to 540,000,000 preferred shares at a price per share corresponding to one-fourth of the share's nominal value.

Safran

(A publicly traded company - see section 3.6.)

On December 12, 2003, BNP Paribas, Club Sagem, and AREVA NC signed a shareholders' agreement that came into force on December 18, 2003 following Sagem's takeover-merger of Coficem, a holding company for the purchase of Sagem by its employees. The objective of the parties was to provide support to Sagem during the transition period following the takeover-merger.

This shareholders' agreement provides, in particular, for:

- BNP Paribas and AREVA NC agree not to contribute their shares in connection with a public offering on the shares of Safran without the consent of Safran's Board of Directors.
- The parties jointly agreed to a preemptive subscription first (with the possibility of replacement by another party) in the event of the transfer of shares, representing at least 0.1% of the company's voting rights after the merger, to one or more third parties. However, this right of first refusal will not apply in the event of a takeover bid or exchange offer for the company's shares.

The shareholders' agreement shall remain in force through December 18, 2008.

4

INFORMATION ON COMPANY OPERATIONS, NEW DEVELOPMENTS AND FUTURE PROSPECTS

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4.1. Overview and strategy of the AREVA group

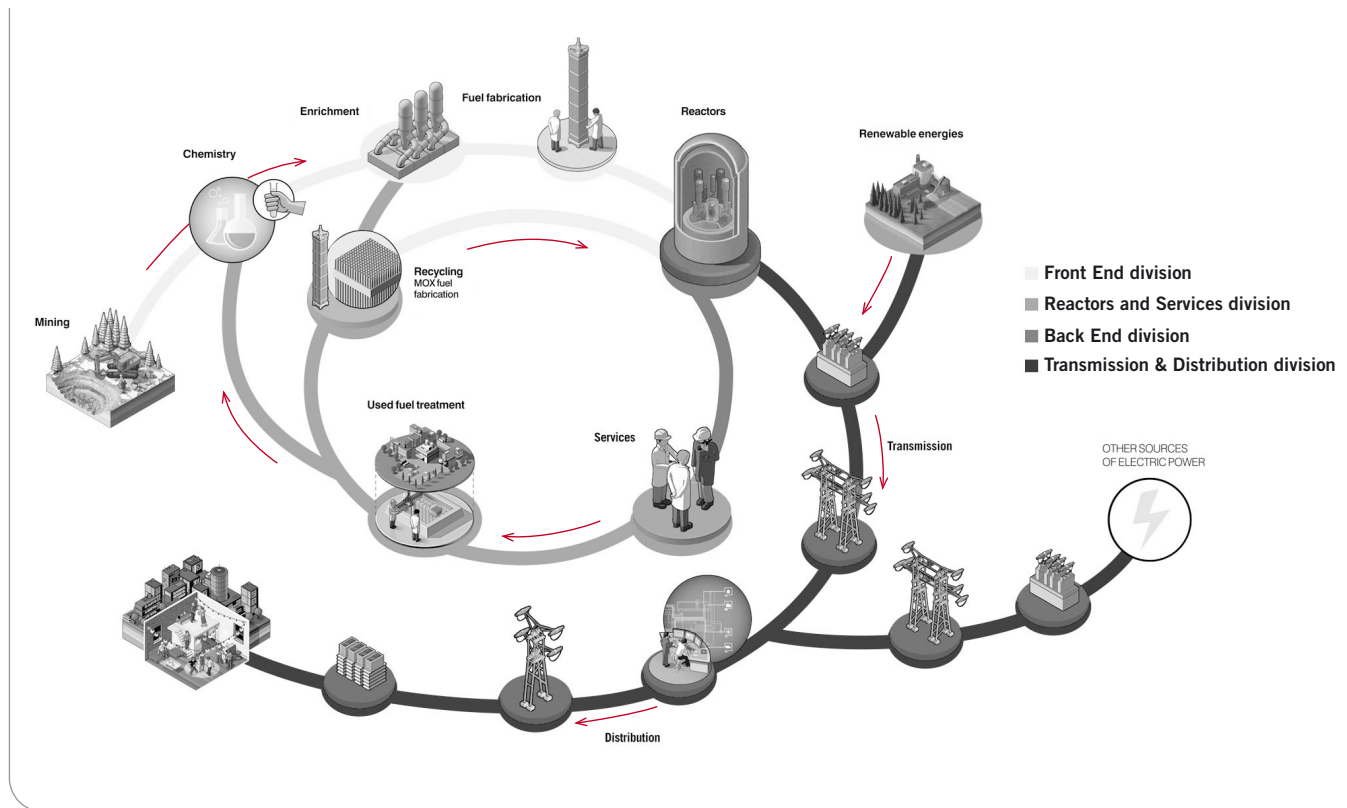
4.1. Overview and strategy of the AREVA group

4.1.1. OVERVIEW

The AREVA group is a worldwide provider of solutions for CO₂-free power generation and electricity transmission and distribution. In 2006, AREVA's consolidated sales revenue rose to €10,863

million, with consolidated net income of €649 million. With manufacturing facilities in 41 countries, AREVA employs more than 61,000 people.

AREVA businesses



Energy is AREVA's leading business. The group is the global leader in nuclear power and number three worldwide for electricity transmission and distribution. It is the only group to be active in every stage of the nuclear cycle. The group's customers include some of the world's largest utilities, with which AREVA does a large share of its business under medium and long term contracts. The group's businesses are summarized in the figure above.

AREVA's energy operations consist of four divisions, including three nuclear divisions:

- **The Front End division contributed 27% to AREVA's consolidated sales revenue in 2006**, i.e. €2.919 billion. It is in charge of uranium ore exploration, mining, conversion, enrichment, and nuclear fuel design and fabrication. AREVA is the world leader in the front end of the nuclear cycle. The group controls a diversified portfolio of mining properties in countries such as Canada, Kazakhstan and Niger. In addition, AREVA owns and operates world class industrial facilities, most of which are located in Europe, including France, Germany, and Belgium, and in the United States.

4.1. Overview and strategy of the AREVA group

- **The Reactors and Services division contributed 21% to AREVA's consolidated sales revenue in 2006**, i.e. €2.312 billion. It is responsible for nuclear reactor design and construction. It also offers products and services to maintain, operate, upgrade and optimize nuclear power plants. AREVA is the world's leading supplier of nuclear reactors in terms of installed capacity, and the market leader for heavy component replacement at nuclear power plants. Recurring business represents 85% of the division's total operations. From a strong engineering and industrial base in France and Germany, the division successfully expanded into the United States, where AREVA is the leading supplier of services and heavy components. In addition, a new business unit to consolidate the group's operations in renewable energies was created in 2006.
- **The Back End division contributed 18% to AREVA's consolidated sales revenue in 2006**, i.e. €1.908 billion. It is in charge of operations for the treatment and recycling of fuel following its use in nuclear reactors. The division also provides logistics, engineering and cleanup services. AREVA is the world leader in the back end of the nuclear cycle. The group offers a complete range of used fuel management solutions, including dry storage for the "open" or "once-through" nuclear fuel cycle, and treatment and recycling for the "closed" fuel cycle. AREVA's customer base in the back end of the fuel cycle is chiefly comprised of European utilities. The group has also signed agreements to transfer technology to Japan and the United States in preparation for facility decommissioning.
- **The Transmission & Distribution division contributed 34% to AREVA's consolidated sales revenue in 2006**, i.e. €3.724 billion. The Transmission & Distribution division manufactures, installs and maintains equipment and systems to transmit and distribute medium and high voltage electricity. The Transmission & Distribution division, one of a very few global suppliers on the electricity transmission and distribution market, is ranked third in this sector worldwide. With a global presence consisting of 71 manufacturing sites in 40 countries and a sales force in almost 100 countries, AREVA T&D is recognized for the strength of its technology, particularly in high voltage systems.

AREVA's ability to meet customer requirements at every stage of the nuclear cycle is an important asset. As a supplier of nuclear materials, nuclear fuel, equipment, services, and solutions to store and recycle used fuel, AREVA is the only supplier able to meet customer requirements at every stage of the value chain. The group also satisfies their expectations for global solutions that meet stringent safety criteria.

AREVA is recognized for its technological expertise at every stage of the nuclear cycle. AREVA's expertise is backed by 30 years of research and operating experience, and by a corps of more than 1,500 scientists. Technology constitutes a significant barrier to market entry, and the group's technology gives it a considerable competitive advantage, particularly in the fields of new reactors and the back end of the fuel cycle.

AREVA does business primarily in Europe, North America and Asia. The group is guided by sustainable development principles in achieving profitable growth in a socially responsible manner. For example, AREVA's nuclear business is limited to countries that have signed the complete Treaty on the Non-Proliferation of Nuclear Weapons (NPT), thereby agreeing to ongoing safeguards by the International Atomic Energy Agency (IAEA).

AREVA's baseload business provides excellent visibility. In the Nuclear divisions, which contribute two-thirds of AREVA's sales revenue, medium- and long-term contracts and recurring services represent a significant percentage of the group's business. Visibility is also excellent in the Transmission & Distribution division, thanks to a diversified backlog of orders from a wide range of customers seeking to maintain established relationships.

AREVA's business is the growing energy market. Electricity demand is in a continuous growth cycle fueled by strong economic development in several emerging countries, particularly China and India. In this environment, AREVA believes that nuclear power will be a necessary component of the energy mix in the coming years. In fact, nuclear power contributed 15% of the world's electricity production in 2006 (source: *Nucleonics Week*, supplemented by AREVA estimates), and has proven competitive in terms of power generation costs, which are relatively immune to commodity price increases and free of harmful CO₂ effects.

Nuclear power plants will have to be replaced in due time. Their number is, in fact, likely to grow over the medium to long term. At the very least, existing reactors will be upgraded or their generating capacity increased, as is already the case in the United States, for example.

Finland and France have already contracted to build EPR reactors, and many countries have made the decision to renew or expand their existing nuclear power programs. In addition to the reactor construction and upgrading activities, which will benefit the Reactors and Services division directly, the renewal and expansion of nuclear power programs will benefit all of AREVA's nuclear operations, including the Front End and Back End divisions. Similarly, electricity transmission and distribution networks must be modernized or upgraded. There will also be a move towards grid interconnection because of market deregulation and expansion to accommodate new electric generating capacity.

Building on its presence in regions where power generation will undoubtedly grow, AREVA has the necessary experience and assets to respond to the key challenges of its utility customers: to generate power at a competitive cost without generating greenhouse gases (CO₂), and to transmit and distribute electricity.

As part of its development in CO₂-free energies, the AREVA group made a friendly takeover bid for German company REpower, which specializes in the design and manufacturing of high powered wind turbines.

4.1. Overview and strategy of the AREVA group

4.1.2. STRATEGY

“Enable everyone to have access to ever cleaner, safer and more economical energy”: that is the mission we have set for ourselves at AREVA. The AREVA group offers solutions and technologies for CO₂-free power generation and electricity transmission and distribution. As a leader on these two markets, AREVA is a strategic partner for its customer energy companies. Both businesses are expected to grow steadily as demand for energy – and particularly electricity – increases worldwide. The group is convinced that nuclear power – in combination with other sustainable sources – is indispensable to meeting the planet’s energy and environmental challenges.

AREVA’s business development strategy is therefore to expand and/or strengthen our group’s leading positions along several lines:

- **In the nuclear sector, we are aiming to increase our leadership position, capture one-third of the world market by 2011, and achieve double-digit operating margin.**
 - We will leverage our fuel cycle integration model and our leadership position on all market segments to offer global solutions to energy companies. These solutions aim to optimize energy infrastructure in terms of service life and cost while meeting stringent nuclear safety requirements.
 - We will consolidate our position as world leader in the front end of the fuel cycle by replacing our production facilities and accelerating our exploration programs to increase our mineral resources.
 - We will increase our share of the reactor construction market significantly by developing and promoting our EPR reactor, the only Generation III reactor currently under construction worldwide. To achieve this goal, we will develop partnerships and strengthen our local engineering resources, particularly in North America and in Asia.
 - We will actively anticipate changes in national used fuel management policies, especially in the United States and Japan, where the group is already a solutions supplier.
 - We will maintain our leadership position by hiring new talent and developing the technologies of the future, especially in next-generation reactors and fuel cycles.
 - We will capitalize on a solid record of nuclear safety, occupational safety and risk prevention.
- **For the Transmission & Distribution division, we will fulfill the objectives of our 2004-2007 optimization plan.** This industrial redeployment and profitability improvement plan revolves around four key drivers: greater control and centralization of procurement, improvement of business processes, industrial redeployment, and optimization of our portfolio of businesses. The goal is to restore the Transmission & Distribution division’s financial performance to levels commensurate with those of the sector’s leading players by 2007.
- **Exploring growth opportunities on renewable energy markets complementary to AREVA’s other businesses.** Along with nuclear power, renewable energies are an answer to the challenges of greenhouse gas reduction and energy independence. They also require strong interaction with deployment of electricity transmission and distribution infrastructure. Three market segments have been identified:
 - Wind power: the group acquired 29.9% of German company REpower over the 2005-2006 period and hopes to acquire the majority of its share capital to support its growth further.
 - Biomass: AREVA intends to expand its existing Engineering, Procurement and Construction business by developing its own technologies.
 - Fuel cells: AREVA is focusing on medium power cells for self-contained or decentralized environments, in particular in the transportation and manufacturing sectors.

4.1. Overview and strategy of the AREVA group

- **Strengthening our international operations in a balanced manner, building from the three pillars of Europe, North America and Asia.** First, the group is focusing on internal growth, especially through continuing investment and innovation, which will benefit our customers. The group also plans to build strength through targeted acquisitions and partnerships with regional players, enabling us to accelerate penetration of key markets. The integration of the transmission and distribution and renewable energies businesses supplements our offering and strengthens our strategic local presence near all of the world's utilities. It broadens our core competencies as a group and enables us to expand our portfolio of customers along with our international presence.
- **Promoting sustainable development as a key to operating excellence and a core AREVA value.** The group will continue to implement the AREVA Way initiative, which incorporates sustainable development into management methods in all of our businesses. The underlying methodology of the program consists of self-assessments of each unit's economic, social and environmental performance in relation to AREVA's sustainable development commitments. Each unit establishes its own continuous improvement objectives to achieve the group's overall strategic goals. These objectives are reviewed periodically by AREVA's executive management.
- **Maintaining a strong balance sheet and solid cash flows.**
 - It is the group's policy to maintain a strong balance sheet. This is a guarantee of security for our customers and enables us to enter into major contracts, especially in connection with new reactor sales, but also for the development of renewable energy projects. It is also essential to the success of our businesses and for financing future investments.
 - AREVA has set up provisions for its decommissioning liabilities and created a dedicated financial portfolio to cover all of its estimated decommissioning expenses when they come due. A special committee of the Supervisory Board monitors the dedicated asset portfolio and our coverage of future end-of-lifecycle expenses.
 - Maintaining strong and recurring operating cash flow allows us to fund our capital expenditures and create value for our shareholders. Towards that end, the group will continue to improve productivity while maintaining visibility in our operations.

4.1. Overview and strategy of the AREVA group

4.1.3. BACKGROUND OF THE AREVA GROUP

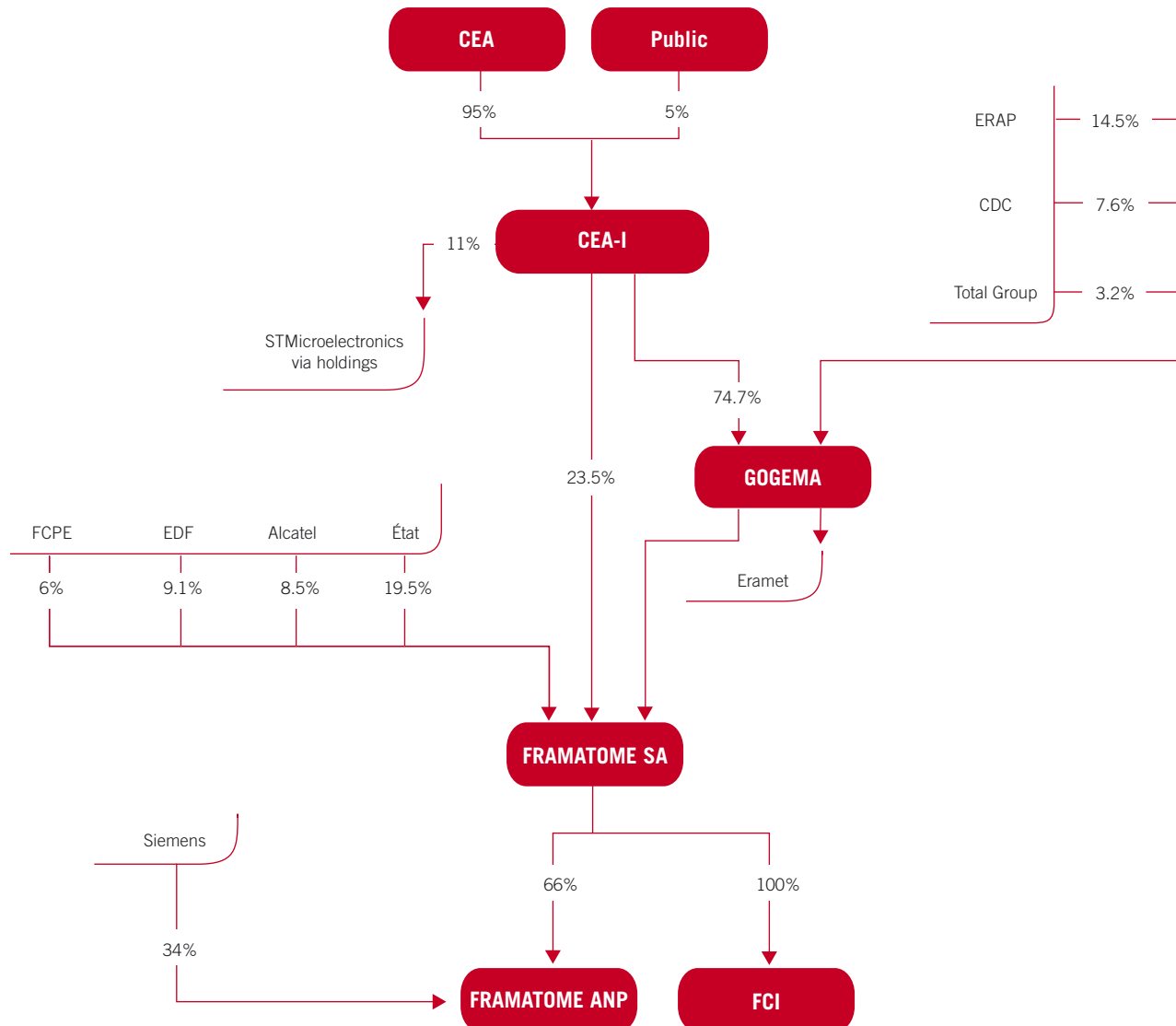
Two major nuclear industry companies held directly and indirectly by CEA-Industrie – AREVA's former name – were combined to form the AREVA group on September 3, 2001:

- Cogema (Compagnie Générale des Matières Nucléaires), established in 1979 to acquire the majority of the CEA's production department operations: uranium mining, uranium enrichment and used fuel treatment.

- Framatome, established in 1958, one of the world's leading companies in the design and construction of nuclear reactors, in nuclear fuel and in the supply of services relating to those activities. In 2001, Framatome established Framatome ANP as a joint company held by Framatome (66%) and Siemens (34%), thus merging the nuclear operations of those two groups.

Before this merger, the CEA-Industrie group was organized as shown below.

Structure of the CEA-Industrie group in early 2001



4.1. Overview and strategy of the AREVA group

The purpose of AREVA's establishment was to create an industrial group with a world leadership position in its businesses and to streamline its organization, giving the group:

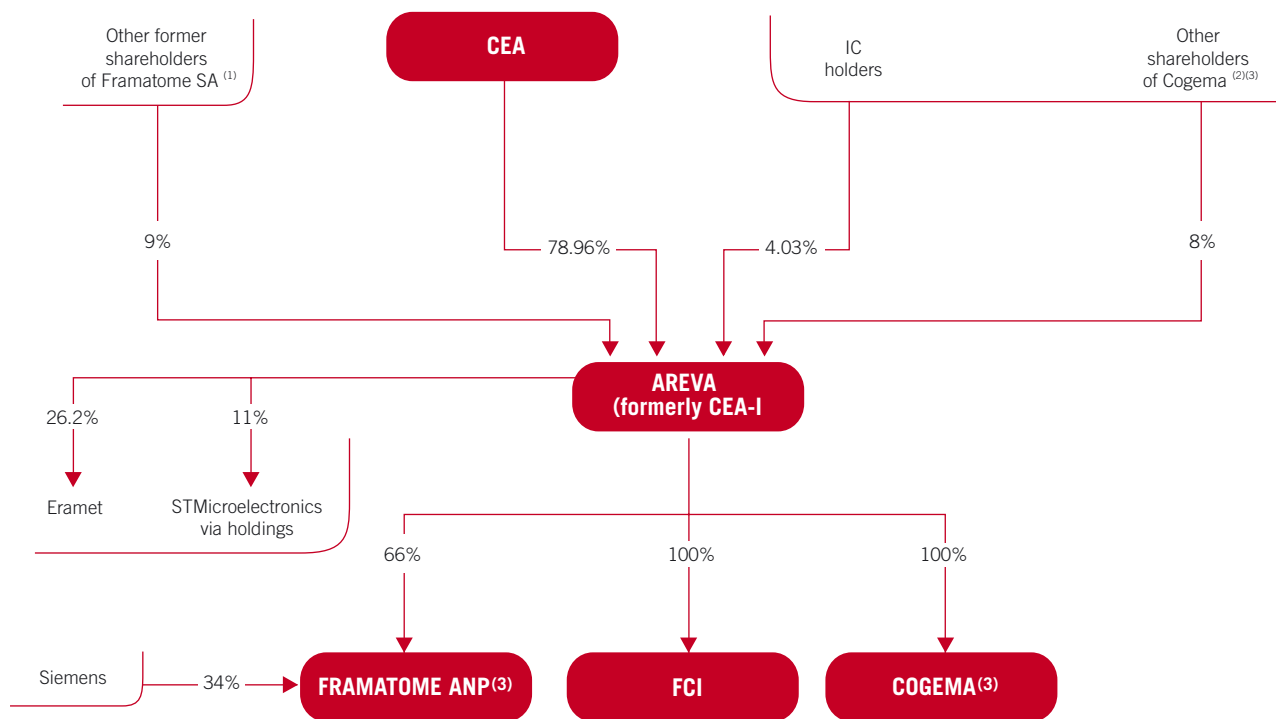
- complete coverage of every aspect of the nuclear business and a unified strategy with respect to major customers;
- an expanded customer base for all of the group's nuclear products and services;

- better cost control by pooling the procurement function and certain overhead costs, and

- optimized financial resource management.

This restructuring entailed a series of asset contributions and mergers resulting in the establishment of the AREVA group. The organization of the group following that restructuring is shown below.

Structure of the AREVA group immediately after the merger in 2001



* Consolidated under the equity method – the percentages correspond to equity interests.

(1) French State, EDF, Framépargne employee savings plan.

(2) Total, CDC, Erap.

(3) Cogema's trade name was changed to AREVA NC and Framatome ANP's trade name was changed to AREVA NP, both in March 2006.

AREVA was thus formed from the legal structure of CEA Industries. It kept the Euronext Paris listing of 4% of its share capital in the form of investment certificates.

4.1. Overview and strategy of the AREVA group

Milestones since AREVA's establishment in 2001:

2002

- Acquisition of Duke Engineering & Services, a US nuclear engineering and services company.
- The US government chooses AREVA's technology to recycle surplus defense plutonium as mixed uranium-plutonium fuel (MOX - see Glossary).

2003

- AREVA signs an agreement with Urenco that subsequently gave AREVA access to the world's most efficient uranium enrichment technology: gas centrifuge enrichment technology.
- Finnish utility TVO chooses AREVA's EPR as its next reactor.
- To streamline its operations, the Connectors division sells its Military/Aerospace/Industrial business to Axa Private Equity.

2004

- Acquisition of the Transmission & Distribution division on January 9, 2004. The AREVA group seals an agreement with the Alstom group finalizing the acquisition of the transmission and distribution business (T&D). The European Commission and other relevant antitrust organizations approved the transaction.
- EDF selects AREVA to build a Generation III EPR reactor in Flamanville. This first EPR unit in France announces the renewal of EDF's reactor fleet over the longer term.
- AREVA acquires control of Katco, a mining company in Kazakhstan, giving AREVA access to 30,000 metric tons of uranium.

2005

- Frédéric Lemoine replaces Philippe Pontet as Chairman of the AREVA Supervisory Board.
- AREVA and Constellation Energy form UniStar Nuclear, a joint company that will market the new-generation reactor.
- Finnish utility Teollisuuden Voima Oy (TVO) officially lays the cornerstone for its Generation III EPR at the Olkiluoto site in Finland.
- AREVA finalizes the sale of its connectors subsidiary, FCI, to Bain Capital. The gain from the FCI divestment contributes €853 million to the group's cash and has a positive impact of €528 million on consolidated net income for 2005.
- Acquisition of a 21.1% equity interest in REpower, a German wind turbine manufacturer that employs 558 people and posted sales of €301 million in 2004. The acquisition strengthens AREVA's strategic position in carbon-free power generation and electricity transmission and distribution.

2006

- All of the group's first-tier companies adopt the AREVA name as part of their trade names. Cogema's trade name is now AREVA NC, Framatome ANP is now AREVA NP, and Technicatome is AREVA TA. AREVA T&D does not change its name. AREVA is now the sole brand for all communication activities.
- AREVA T&D acquired the high voltage business of German group Ritz on June 30, 2006. Ritz is a world leader in instrument transformers with close to 500 employees and sales of around €50 million.
- The Annual General Meeting of Shareholders renewed the composition of the Supervisory Board. Frédéric Lemoine's duties as Chairman of the Supervisory Board were renewed for five years. Guylaine Saucier (a corporate director), Oscar Fanjul (Vice Chairman and CEO of Omega Capital), Philippe Faure (Secretary General of the French Ministry of Foreign Affairs) and Philippe Pradel (Director of Nuclear Energy at the CEA) were newly appointed as members of the Supervisory Board.
- The Supervisory Board renewed the term of Mrs. Anne Lauvergeon as Chairman of the Executive Board and the terms of Messrs. Gérald Arbola, Didier Benedetti and Vincent Maurel as members of the Executive Board.
- AREVA NP and France Essor signed an agreement to finalize AREVA's acquisition of Sfarsteel, one of the world's largest producers of very large forgings located in the Creusot area in Burgundy, France.
- AREVA acquired a 50% interest in the Enrichment Technology Company (ETC). The remaining 50% are held by Urenco. ETC develops, designs and manufactures uranium enrichment equipment.
- The group created a new business unit for Renewable Energies.

2007

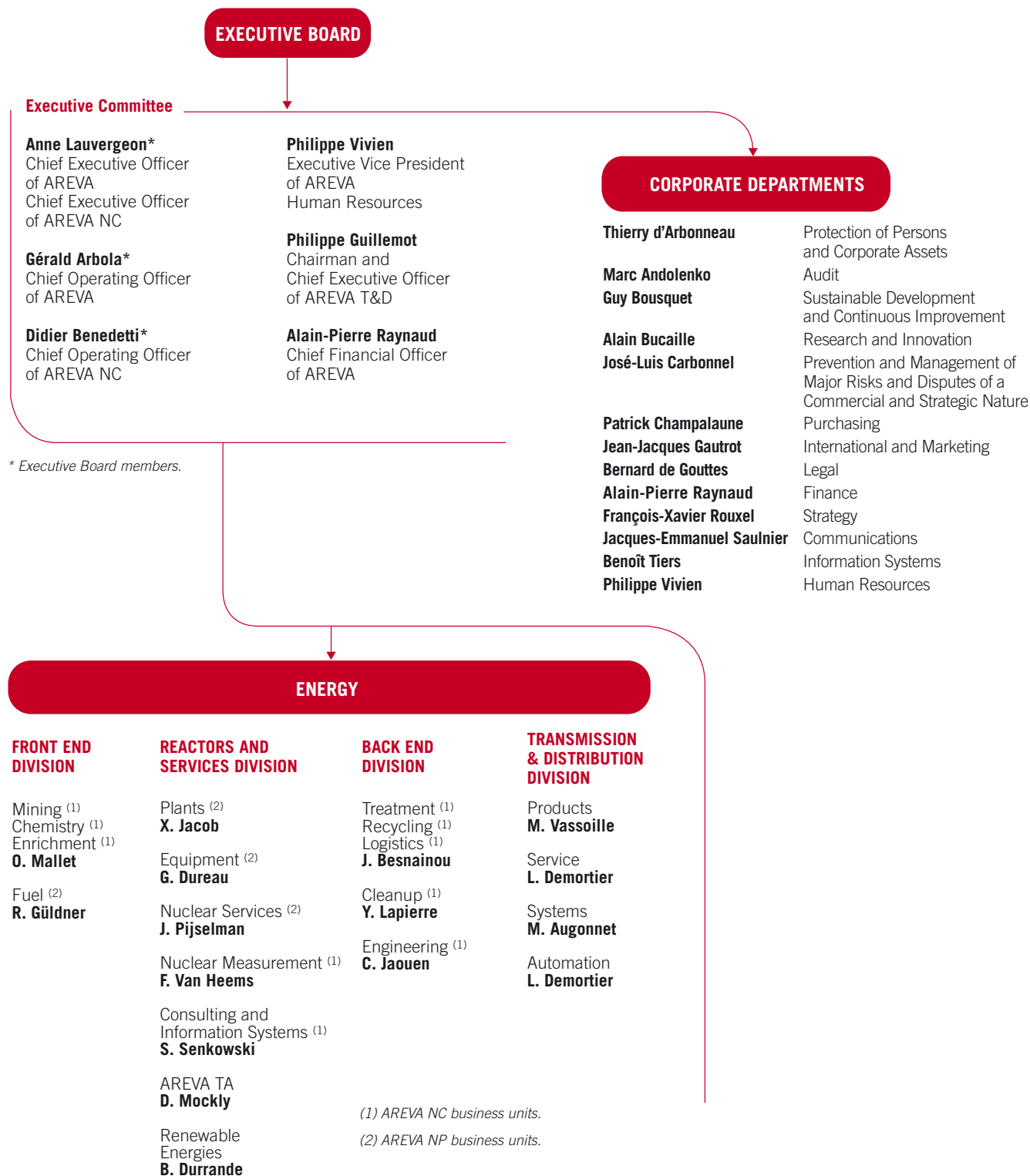
- On February 5, 2007, the AREVA group made a public offer in cash for REpower Systems AG shares that it did not already own. The Indian company Suzlon made a counter-offer, backed by the Portuguese company Martifer, also a shareholder of REpower, with 25.4%. On March 15, AREVA raised its bid to €140 per share, having first acquired additional shares that raised its equity interest to slightly more than 30%. On April 10, Suzlon raised its bid to €150 per share. On April 17, AREVA lifted the minimum acceptance condition (of 50% plus one REpower share) applicable to its bid. As a consequence, the bid period is extended to midnight CET, May 4, 2007.
- T&D signed an agreement setting forth the legal and financial terms for acquisition of Passoni & Villa, a world leader in the manufacture of high voltage bushings. With this acquisition, AREVA T&D will become number three worldwide in this market segment.

4.1. Overview and strategy of the AREVA group

4.1.4. OPERATING ORGANIZATION

The AREVA group is organized into four divisions – the Front End, Reactors and Services, Back End, and Transmission & Distribution divisions – which together comprise 20 business units.

The AREVA group’s management organization is aligned with the markets on which it provides products and services, as shown below (as of March 30, 2007). The group’s legal organization is described in section 3.5 of this annual report.



4.2. The Nuclear Power and Transmission & Distribution markets

4.2.1. THE GLOBAL ENERGY SITUATION

Under the combined pressures of world population growth, economic growth, and more widespread access to energy, world power consumption is set to increase over the long term.

The International Energy Agency (IEA)'s *World Energy Outlook* published in November 2006 expects global primary energy use to grow from 11.2 Gtoe in 2004 to 17.1 Gtoe in 2030, giving average annual growth of 1.6%. According to this report, developing countries will account for more than 70% of new demand, with the majority of supply continuing to come from fossil fuels (oil, gas and coal). Energy policies under discussion could influence this trend, however. Governments have started to implement energy conservation plans and to promote renewable energies as they place high priority on reaching goals set for greenhouse gas emissions reduction and security of fossil fuel supply. Some countries are reconsidering the use of nuclear power, or increasing its contribution.

In lockstep with development, electricity consumption is climbing faster than global energy consumption, with 2.9% annual growth over the 1990-2004 period for the former and 1.8% for the latter. World electric power generation is estimated at about 18,800 TWh in 2006, a hike of 3.5% compared with 2005. This was higher than the average annual growth of 2.9% recorded over the 1990-2004 period. Growth was particularly strong in Asia-Pacific (5.5%), Africa (4.3%) and the Middle East (4.7%); more moderate in Europe (3%) and South America (3.5%); and sluggish in North America (1.6%). The IEA predicts world electricity generation to continue to grow at a steady annual rate of about 2.6% over the 2004-2030 period.

Again according to the IEA, these growth rates call for estimated capital spending in the electricity sector of \$11.28 trillion over the same period, including \$5.19 trillion for power generation facilities (5,087 GWe of additional capacity for power plant replacement and to meet growing demand) and \$6.09 trillion for electricity transmission and distribution, with networks expected to expand from 3.5 million kilometers to 7.2 million kilometers.

These new capital spending requirements are consistent with deregulation in the electricity market, which has redefined the rules of the game. Regulated companies are assured of recovering all their costs for investments approved by the regulatory authorities, but this is no longer necessarily the case in a competitive market, where new capital expenditure carries greater risk. Moreover, increasing regionalization of these

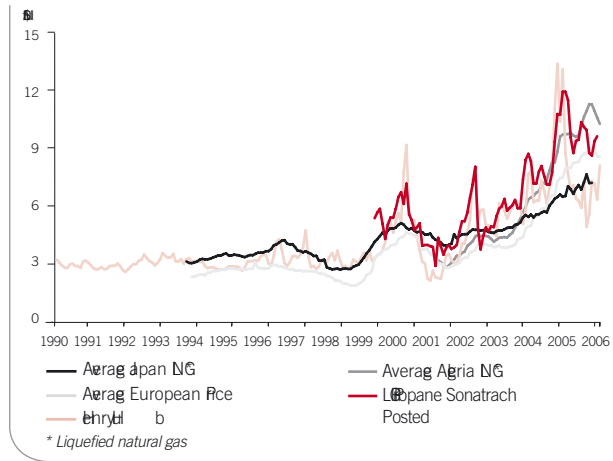
competitive electricity markets is creating the need for additional interconnections between power grids. This is the case in Europe, where competition is not only inter-European, but also with other regions of the world.

Without a doubt, the most striking development in the global energy situation is the sharp increase in fossil fuel prices over the past four years. From 2002 to 2006, the strong growth of the world economy, especially in China and the United States, combined with geopolitical tensions in the oil-producing countries helped boost the prices of these resources considerably. Prices were up 110% for coal, 170% for oil and 130% for natural gas in Europe, while in the United States natural gas rose by 250%. These increases pushed up electricity prices. In the European Union, for example, annual forward prices for baseload electricity doubled from €25/MWh in early 2003 to more than €50/MWh by the end of 2006.

The IEA's 2006 edition of *World Energy Outlook* takes note of the new state of affairs concerning energy prices. Until fairly recently, natural gas had been the favored means of generating electricity, before pressures in that market started sparking renewed interest in other primary energy sources. Coal is becoming cheaper than natural gas as a means of generating electricity. A number of countries are now reconsidering the nuclear option. For the first time, at the request of the G8 countries, IEA's *World Energy Outlook* has mapped out a new energy future. Another first: the report contains a chapter on nuclear-generated electricity, "a proven technology for baseload electricity generation" that can contribute to "reducing dependence on imported gas and curbing CO₂ emissions."

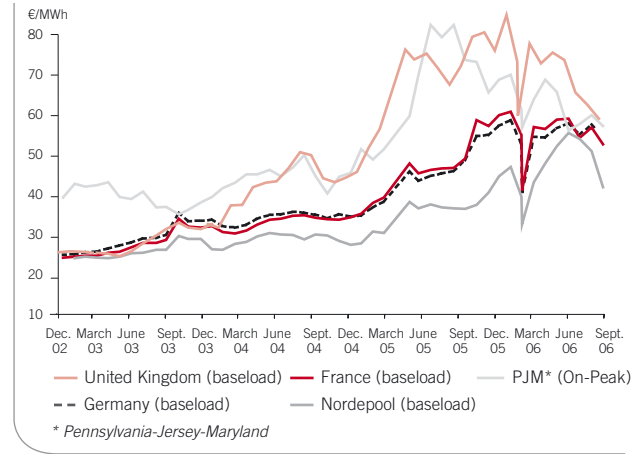
4.2. The Nuclear Power and Transmission & Distribution markets

1990-2006 natural gas prices



Source: World Gas Intelligence.

2003-2006 forward electricity prices in Europe and the United States



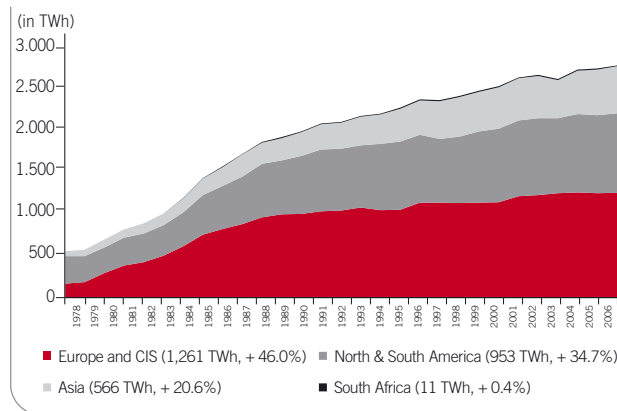
Source: Platts for European forward prices, PJM for US prices.

4.2.2. NUCLEAR POWER'S CONTRIBUTION TO ELECTRICITY GENERATION

4.2.2.1. A brief history of nuclear power's contribution to electricity generation

The first nuclear power programs were launched in the mid-1960s in the United States and in the early 70s in Europe. In the 1970s, with fears of fossil fuel shortages rising, several countries decided to reduce their dependency on imported energy by launching nuclear power programs. The 1970s and 1980s saw a sharp rise in nuclear power programs, as shown below.

Nuclear power generation from 1978 to 2006 (in TWh)



Sources: IEA/OECD (1990), Nucleonics Week (1995-2006), AREVA.

Strong initial growth slowed when public opinion became concerned after the nuclear accidents at Three Mile Island in 1979 and Chernobyl in 1986.

Whereas 399 reactors were built during the 1970-1990 period, installed capacity rose by only 1.1% per year during the 1989-2006 period. Large nuclear programs in North America and Western Europe were eclipsed by new programs in Eastern Europe and Asia. Nonetheless, improved productivity of existing reactors boosted nuclear power generation by 2.1% annually over the 1990-2006 period. In particular, the average load factor of worldwide nuclear reactors rose from 67% of nominal capacity in 1990 to more than 82% by the end of 2006.

Nuclear power generation in 2006 is estimated at 2,791 TWh, up by 1.3% over 2005. This percentage is well below the 3.5% growth rate for electric power generation worldwide. Nuclear power's share of world electricity generation was 15% in 2006. The chart below shows the various sources of electric power generation as of December 31, 2006.

World electricity generation in 2006 by source



Source: EIA - Energy Information Agency (2006).

4.2. The Nuclear Power and Transmission & Distribution markets

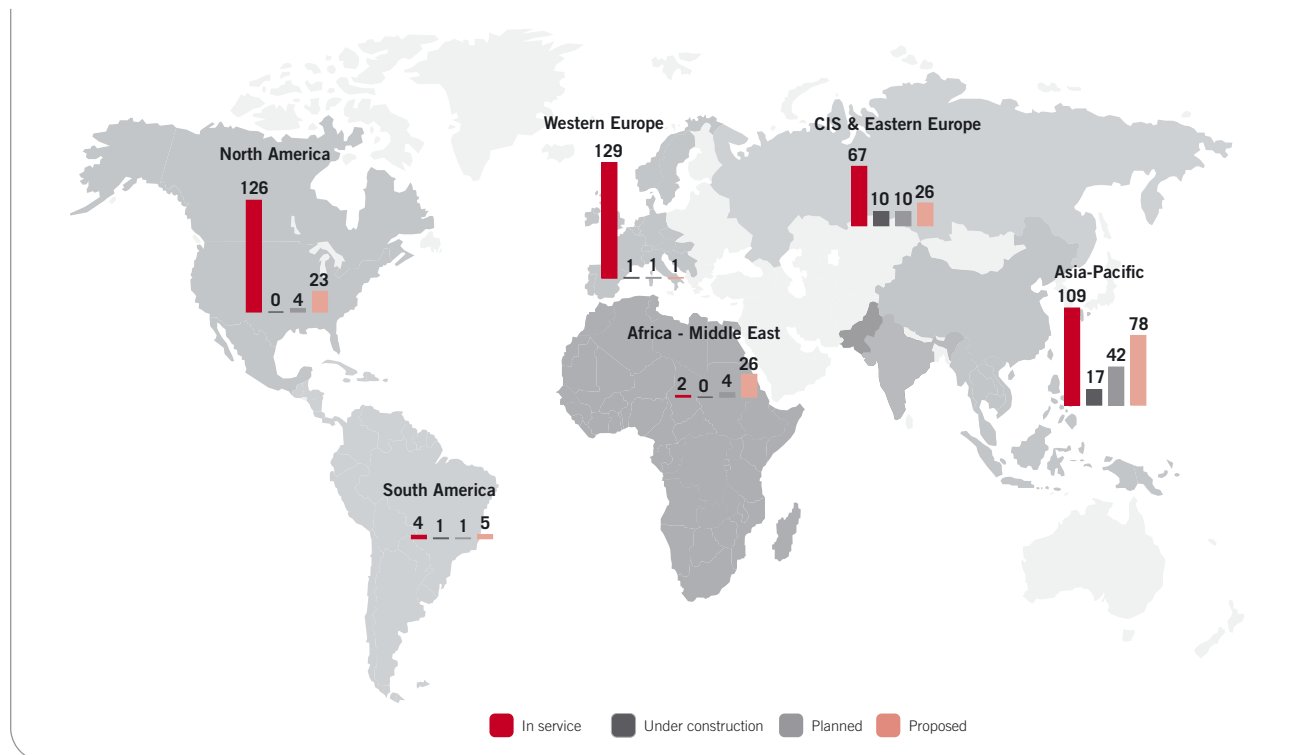
A total of 438 reactors representing 391 GWe (371 GWe net) were connected to the grid in 31 countries in the world's largest power consuming regions as of December 31, 2006. A total of 435 reactors were operating in 2006, representing generation of 388 GWe.

With almost 45% of the world's installed capacity, Europe is the leading region for nuclear power generation, ahead of North America, which represents approximately 30% of global capacity.

However, through 2015, most of the medium-term growth potential for nuclear power is located in Asia (Japan, South Korea and now China) and, to a lesser extent, in the CIS, as indicated below.

At year-end 2006, 29 reactors were under construction around the globe, compared with 23 at year-end 2005; 62 reactors were either on order or planned, compared with 39 in 2005; and 160 reactors are planned for the coming years, compared with 110 in 2005.

Reactors connected to the grid, under construction or planned as of year-end 2006



Source: AREVA, based on WNA data.

These reactors represent three main technologies:

- Most of the world's operating reactors are light water reactors, including pressurized water reactors (PWR) and boiling water reactors (BWR); 358 of these reactors are connected to the grid, including 51 VVER reactors (PWR) using Russian technology.
- There were only 44 Canadian-designed heavy water Candu reactors connected to the grid in 2006.
- There are 18 gas-cooled reactors (Magnox and AGR) in service in the United Kingdom. These reactors are scheduled to be shut down.

A few other reactors use graphite as a moderator (Russian RBMK light water reactors) or breeder technology.

4.2.2.2. Status of nuclear power

Energy and the environment

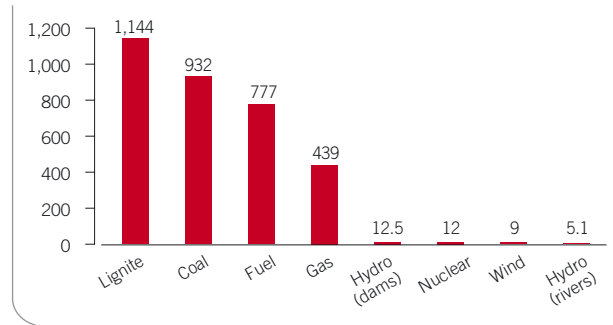
The strong growth in energy demand could have serious consequences for climate change. The IEA anticipates a 50% increase in CO₂ emissions by 2030 if the current trend does not alter course. The increased concentration of human-generated CO₂ in the atmosphere, one of the leading causes of climate change, could trigger a temperature increase of from 2°C to 4°C by the end of the century, according to the Intergovernmental Panel on Climate Change (IPCC).

Nuclear power is a major source of mass electricity generation that emits as few greenhouse gases as renewable energies. In its July 2004

4.2. The Nuclear Power and Transmission & Distribution markets

report, the World Energy Council compared emissions for each energy source based on their full generating cycle, in metric tons of CO₂ equivalent emitted per unit of electricity generated (see chart below). The divide between carbonaceous energy sources (lignite, coal, oil, gas) and non-carbonaceous ones (nuclear power, renewables), at a minimum ratio of 30:1, is clearly visible.

CO₂ emissions by power generation source



Source: AREVA, from data provided by the World Energy Council, July 2004 – Comparison of Energy Systems using Life Cycle Assessment.

Countries that ratified the Kyoto Protocol have agreed to reduce their greenhouse gas emissions from 2008 to 2012 to below 1990 levels. Simultaneously, the European Union set up a system to cap CO₂ emissions and established an emissions trading system that became effective on January 1, 2005. These measures assign an economic value to CO₂ emission reduction, with a market price of around €6.5 per metric ton (MT) of CO₂ as of December 31, 2006.

According to the “Climate Change” brochure published by Foratom in 2005, the world’s nuclear power plants avoid the production of 2.2 billion MT of CO₂ each year, i.e. 7.7% of the world’s annual emissions, which were estimated at 26.1 billion MT in 2004, according to the International Monetary Fund’s publication 2006

World Economic Outlook. All European Union countries have ratified the Kyoto Protocol. Their greenhouse gas reduction objective for the 2008-2012 period is 0.4 billion MT below 1990 levels. This can be compared with the CO₂ emissions avoided by nuclear power in the European Union of approximately 0.7 billion MT of CO₂ per year. Nuclear power plants avoided CO₂ emissions in the United States as well, in the amount of 0.7 billion MT.

This is almost as much as the emissions of all of the country’s 58 million automobiles. More and more, nuclear power is showing itself to be an essential component of the energy mix.

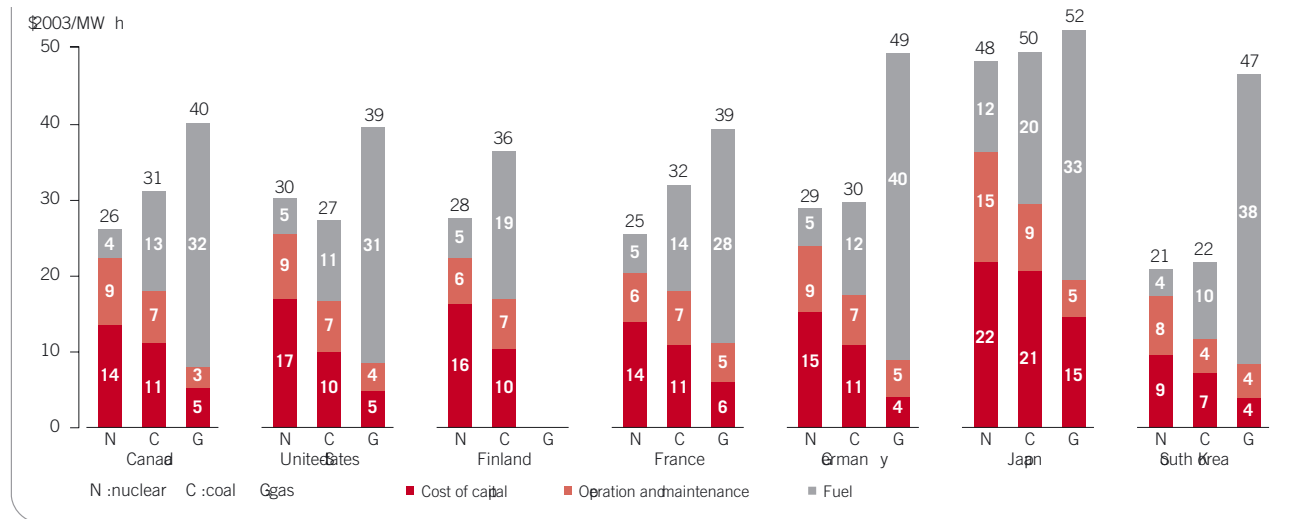
Competitiveness of various energy sources

In terms of cost, the “Projected Costs of Generating Electricity” study updated by the OECD/IEA/NEA in 2005 indicates that nuclear power’s competitiveness has improved since 1998. Based on a 5% discount rate, nuclear power is the most competitive baseload option in 12 of the 13 countries that selected this approach. At a 10% discount rate, nuclear power continues to be the most competitive source of energy in 9 out of 13 countries.

The study is based on an 85% load factor, a conservative figure compared with the potential of Generation III reactors, and assumes a 40-year service life for reactors and coal-fired plants and a 25- to 40-year service life for gas-fired plants. Generating costs include the decommissioning of facilities at the end of their service life and waste disposal.

Unlike its fossil fuel competitors, nuclear power has the additional advantage of being relatively insensitive to fluctuations in fuel prices, according to the “Reference costs of electric power generation” report published by the French Department of Energy and Commodities in July 2003. If the price of uranium were to increase from \$20/lb to \$40/lb of U₃O₈ sustainably, the cost of electricity would increase from €28.40/MWh to €29.80/MWh, i.e. by 5%. The price of uranium as U₃O₈ averaged \$48.50/lb in 2006.

Competitiveness of electricity generated by nuclear power compared with coal and natural gas (in 2003 \$/MWh, excluding CO₂ costs)



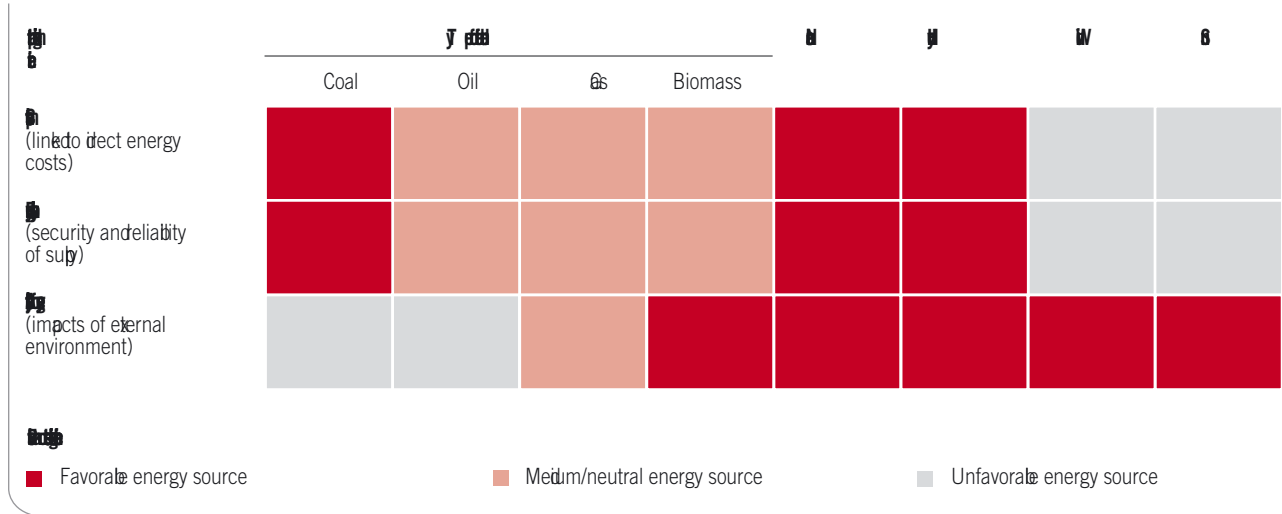
Source: OECD NEA/IEA study updated in 2005, discount rate of 5%.

4.2. The Nuclear Power and Transmission & Distribution markets

As shown in the chart below, in comparing the merits of different sources of energy for electric power generation, the World Energy Council report identified nuclear power and hydropower as the most

advantageous solutions based on three criteria: competitiveness (energy accessibility and availability), energy security and environmental impacts

Comparison of energy sources used for power generation



Source: World Energy Council (WEC), July 2004.

A new European energy strategy

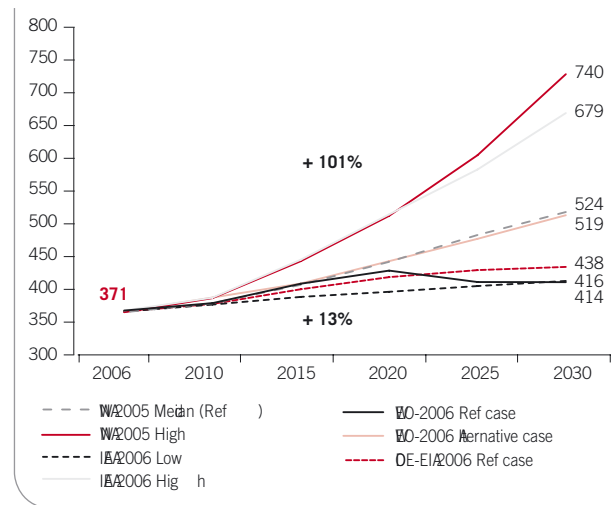
The European Commission published its *Green Paper*, “A European Strategy for Sustainable, Competitive and Secure Energy” in March 2006. For the first time, it launched a clear, objective and non-ideological debate on all energy options and recognizes that nuclear power “represents at present the largest source of largely carbon free energy in Europe”.

After the consultation process that followed the Green Paper’s publication in 2006, the Members of the Commission adopted an energy package that gives new impetus to nuclear power’s key role for the European Union. In the package, nuclear power is presented as one of the least expensive low-carbon energy sources, and therefore an “unavoidable component of the EU’s present and future energy mix.”

4.2.2.3. Outlook for nuclear power around the globe

In 2005 and 2006, several institutes produced nuclear power forecasts for 2030. In particular, the IEA’s 2006 forecasts on changes in nuclear power programs sees much more favorable prospects for nuclear power than forecasts from two years ago. The figures reflect the impact of the measures already taken and those under discussion. These projections are summarized below.

Outlook for world nuclear power programs (in net GWe)



Sources: IAEA, World Nuclear Association, International Energy Agency, US Department of Energy.

In 2006, nuclear reactors connected to the grid represented around 371 GWe net (i.e. around 391 GWe gross). These reactors were an average of 29 years old. Assuming a 40-year reactor life on average, approximately three out of four reactors will have to be replaced by 2030 to maintain overall capacity. Only 120 GWe would have to be replaced by 2030 if the life of the

4.2. The Nuclear Power and Transmission & Distribution markets

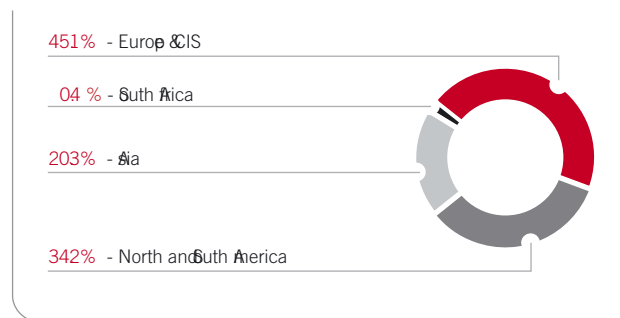
reactors is increased to 50 or even 60 years, as contemplated by many utilities worldwide. Overall, depending on the scenario, between 160 and 490 GWe net will have to be replaced with new construction by 2030.

4.2.2.4. The challenges of nuclear power in different regions of the world

As the benefits of nuclear power in terms of cost, security of supply and greenhouse gas emissions are recognized, existing reactors will be modernized, their service life extended and their available capacity increased. This should also lead to reactor construction to renew and expand installed capacity worldwide and will be a potential source of long-term growth for all of AREVA's nuclear operations.

The chart below shows the breakdown of nuclear power generation among Europe, North and South America, and Asia in 2006.

Nuclear power generation by geographic area in 2006



Source: *Nucleonics Week, February 2007, restated by AREVA.*

With the idea of expanding reliance on nuclear power over the years to come, especially by emerging countries, the International Atomic Energy Agency (IAEA) is promoting a new framework to respond effectively to demand from individual countries while still reinforcing non-proliferation safeguards. A few years ago, the IAEA launched the International Project on Innovative Nuclear Reactors and Fuel Cycles (INPRO) to support the development of innovative nuclear power generating systems and to reflect the specific needs of developing countries better. It continues to review multinational initiatives to secure the supply of fuels and fuel-related services so as to minimize the number of facilities and proliferation risks. In this spirit, it organized a special fringe event at its General Conference in September 2006 to encourage the participation of as many countries as possible and hear the different stakeholders' proposals and requests.

A true revival of nuclear power around the world will depend on when political decisions will occur, which varies from one region to the next.

In Western Europe, reactor replacements and new reactor construction in countries with more recent units cannot be expected until the next decade, unless energy policies change dramatically. In France, replacement of its power reactors began with EDF's decision to build its first-of-a-kind EPR at Flamanville. Suez-Electrabel is also contemplating the construction of a new reactor. In Finland, construction of the first EPR ordered in late 2003 continued, with start-up scheduled for 2010. In Eastern Europe and the United Kingdom, some projects could translate into orders soon.

In North America, utilities began extending reactor service life in 2000. These programs are expected to continue through 2015. After 2010, these initiatives should be supplemented in the United States with the construction of new reactors. AREVA intends to participate actively in this market with the EPR reactor. The Energy Bill enacted by Congress in 2005 offers many incentives to utilities for the construction of the first new reactors. Canada and Latin America have expressed renewed interest as well.

In Asia, in addition to the programs of South Korea and Japan, new power plant construction will primarily occur in China (2005-2020 program) and India. Other countries have also shown interest in nuclear power over the long term, including Vietnam and Indonesia.

South Africa, where demand is high, is expected to announce new projects beginning in 2007.

Europe

Europe had 196 nuclear reactors and generating capacity of 179 GWe at the end of 2006. These reactors generated 1,261 TWh, about the same as in 2005. This compares with total electricity generation in Europe of an estimated 5,254 TWh, representing an increase of 3% over 2005.

On average, nuclear power represented 24% of all the electricity generated in Europe in 2006, although there are significant differences from one country to the next. For instance, nuclear power represents a large proportion of all electricity generated in France and Belgium (78% and 56%, respectively) and a smaller proportion in Germany (32%), Finland (28%) and Russia (16%).

4.2. The Nuclear Power and Transmission & Distribution markets

	Gross installed nuclear capacity (GWe)		Gross nuclear power generation (TWh)	
	2006	2005	2006	2005
France*	65.9	65.9	449.5	450.6
Germany	21.4	21.4	167.4	162.1
Russia	23.2	23.2	154.5	146.8
United Kingdom**	11.9	12.8	71.9	82.0
Ukraine	13.8	13.8	90.2	88.8
Sweden	9.2	9.2	67.7	70.5
Spain	7.7	7.9	59.7	57.5
Belgium	6.1	6.1	46.6	47.6
Finland	2.8	2.8	22.9	23.3
Other	16.9	18.2	130.6	127.3
Total	178.9	181.3	1,261.0	1,256.5

*Excluding Phoenix, considered a research reactor.

**Estimated; British power generation statistics for 2006 are not available.

Source: *Nucleonics Week*, February 2007, restated by AREVA.

There were positive signs in the European Union, although countries that had decided to phase out nuclear power have not revisited their positions. Nuclear power is increasingly viewed as a vital means of ensuring security of supply and fighting climate change. As a preview to publication of its energy strategy in early 2007, the European Commission published a *Green Paper* on security of energy supply in 2006 acknowledging the role of nuclear power in the EU's energy mix.

A breakdown of nuclear power in the main European countries is provided in the table below.

- In France, two important laws were passed in June 2006:
 - the law on transparency and security in the nuclear field creating the ASN, an independent nuclear safety authority in charge of monitoring safety and radiation protection, and
 - the law on the management of radioactive materials and waste, which was passed in accordance with the 1991 law on the disposal of high-level long-lived waste following a public debate. In particular, it stipulates that reversible geologic disposal should be the “reference” solution for high-level radioactive waste and recommends continuing research on partitioning and transmutation and on underground disposal.

The preliminary public debate on the construction of an EPR at the Flamanville site took place from October 2005 to February 2006. Following publication of the report from French national public debate commission CNDP, the EDF board of directors decided in May 2006 to continue with the project. The ground-breaking ceremony took place on October 10, 2006.

- In Belgium, the Energy 2030 commission presented its preliminary report on the country's energy needs through 2030 to the prime minister in November. The report concludes that

“the application of more rigorous post-Kyoto policies in Belgium without nuclear energy would be extremely costly. Belgium should keep the nuclear option open and reconsider closure of the power plants”. A parliamentary debate is slated for 2007. In view of the government's moratorium on MOX fuel fabrication, Belgonucléaire decided to close its Dessel fabrication plant in June.

- In Germany, the government upheld the Nuclear Exit Law despite the country's growing energy dependence, especially on Russian natural gas, because a reassessment of the law would risk splitting the German coalition. RWE and EnBW have filed official requests to extend the operating period for Biblis A (a 1,225 MWe PWR) and Neckarwestheim (an 840 MWe PWR). In principle, these requests will be dealt with at the 2007 Energy Summit, which should also set the conditions and scope for replacement of 60,000 MWe in generating capacity by 2022, equivalent to half of the country's existing installed nuclear generating capacity.
- In Finland, the AREVA-Siemens consortium continued construction of the EPR. Construction is scheduled to last 5 1/2 years, with completion in early 2011. TVO President Pertti Simola reaffirmed on December 19, 2006 that “the best reactor in the world is under construction at Olkiluoto”. Discussions on the possible construction of the country's sixth nuclear power plant continued.
- In the United Kingdom, the government published its 2006 *Energy Review*, which advocates a significant role for nuclear power in the UK's future energy mix for reasons of security of energy supply and climate change. The Nuclear Decommissioning Authority (NDA) published its map of the future of the Sellafield site and the dismantling of BNFL, marked by the sale of Westinghouse to Toshiba this year. The NDA will also roll out the country's strategy on waste disposal in deep geologic repositories. Prime Minister Tony Blair and President Jacques Chirac decided jointly to create a French-British forum to accelerate civilian nuclear power cooperation between the two countries.
- In Sweden, the new Prime Minister announced that Sweden might consider building new power plants after 2010. Public financing of nuclear research is now legal. An INES level 2 event at Forsmark in July did not have a substantial impact on public opinion, which remains by and large favorable to nuclear power.
- The Spanish nuclear power program has not seen any new developments since a government decision in 1997. Nuclear power represents 20% of the country's generating capacity and the nuclear option remains open.

Countries that had not shown any interest in nuclear power for a long time, such as Italy and Portugal, now have renewed interest.

The European Union added to its expansion with the arrival of two nuclear countries, Bulgaria and Romania. In 2006, Bulgaria shut down two reactors and Slovakia, one. This trend should continue in Slovakia and Lithuania. Most of the Central European countries with nuclear power are either already building or announcing the construction of new reactors, including Bulgaria, which awarded a

4.2. The Nuclear Power and Transmission & Distribution markets

contract for the construction of two reactors to Russian company AtomStroyExport; Lithuania, which joined forces with its Baltic neighbors; and Romania. New players such as Czech company CEZ are emerging and international acquisitions are taking place, like Italian company ENEL's acquisition in Slovakia.

- In Russia, President Putin launched an initiative against a backdrop of non-proliferation and the war on terrorism to lead Russia and the United States into bilateral discussions on the building blocks for the future of nuclear power. Subjects include the creation of international fuel cycle service centers and the opening of the US market to Russian imports, despite continuing friction on Iran. Russia stepped up the revamping of its civilian nuclear industry to turn it into a major international market player. The Russian government has gradually been taking control of that industry through new legislation and acquisitions, while granting the companies involved private corporation status on the AREVA model. At the same time, Russia announced a bold domestic nuclear power program featuring the construction of 20 reactors valued at €43 billion by 2015. Further south, Turkey and Armenia have plans for nuclear power plants.

North and South America

A total of 130 nuclear reactors representing 125 GWe in generating capacity are located in North and South America. These reactors generated 953 TWh in 2006, up 1.7% from 2005. This compares with approximately 6,129 TWh in total power generation, up 1.9% from 2005.

	Gross installed nuclear capacity (GWe)		Gross nuclear power generation (TWh)	
	2006	2005	2006	2005
Canada	15.0	15.0	98.4	92.5
United States	105.7	105.7	822.5	817.9
Mexico	1.4	1.4	10.9	10.8
Brazil	2.0	2.0	13.8	9.8
Argentina	1.0	1.0	7.7	6.9
Total	125.1	125.1	953.3	937.8

Source: *Nucleonics Week, February 2007, restated by AREVA.*

On average, nuclear power represented 16% of all electricity generated in North and South America in 2006, with significant differences from one country to the next. Nuclear power represents 19% of all electricity generated domestically in the United States and 16% in Canada, but only 3% in Brazil. The status of nuclear power in the main countries of the region is described below.

- In the United States, energy issues gained in importance throughout the year. Both the Bush Administration and a bipartisan Congress expressed concerns about energy independence and global warming, resulting in renewed interest in alternative fuels

and technologies, including renewable energies and nuclear power. Oil reserves continued to drop, and there have been growing concerns about the country's aging and inadequate power transmission and distribution system. Although scheduled increases in production capacity are mostly for coal- and gas-fired power plants, support grew for nuclear power as a clean and inexpensive baseload energy.

In August, Unistar announced an agreement between AREVA and BWXT to manufacture components for the US EPR. Electric companies Ameren and the Californian Fresno group expressed an interest in building the EPR. An estimated 15 applications for Construction and Operating Licenses (COL) will be filed by 2008, thanks to the 2005 Energy Policy Act, which offers substantial financial incentives to the nuclear industry for the construction of new nuclear power plants. In December, the US Nuclear Regulatory Commission approved the first Early Site Permit (ESP) for Exelon's Clinton power plant, and four others are under review. Meanwhile, the race to renew licenses for operating reactors is still on, and the licenses for 45 of the 103 US reactors have already been renewed. Energy companies and suppliers continued to merge. Toshiba finalized its acquisition of Westinghouse, and General Electric and Hitachi announced that they were forming a global alliance to combine their nuclear operations through a cross-shareholding arrangement.

The bilateral nuclear cooperation agreements progressed, with the United States taking concrete preliminary steps with respect to India, Russia and China. The Department of Energy (DOE) began setting up an incentive program to encourage investment in clean energy technologies and advanced fuels, and teamed up with industry for research on closing the fuel cycle as part of the Global Nuclear Energy Partnership initiative (GNEP). In November, the DOE selected 11 industrial teams, including AREVA, to conduct site characterization studies in connection with the construction of an integrated used fuel recycling facility and an advanced recycling reactor. AREVA is also one of three companies selected to conduct design and engineering studies for the Next Generation Nuclear Plant (NGNP), a Very High Temperature Reactor (VHTR) that produces both hydrogen and energy. The DOE gave its most recent schedule estimate for submittal of a license application for a nuclear fuel repository at Yucca Mountain (June 2008), and legislation for construction of used fuel storage facilities was adopted. AREVA formed AREVA Federal Services, a new organization dedicated to the federal services market.

- In Canada, the province of Ontario announced plans in June 2006 to build new power plants, but is not necessarily planning on negotiating a contract with national constructor Atomic Energy Canada Limited (AECL). The Ontario government said it would choose the technology that is "best for Ontarians". The province of Alberta also indicated for the first time that it might consider nuclear power if it saw a commercial interest in doing so. The debate on privatization of AECL started up again in 2006, without reaching a conclusion. To help it navigate in the new situation, AREVA formed AREVA Canada Inc., a new subsidiary that will be in charge of planning industrial alliances with the group and representing group interests with Canadian stakeholders.

4.2. The Nuclear Power and Transmission & Distribution markets

- In Latin America, Argentina announced its intention of investing heavily in its nuclear program, in particular to complete the Atucha 2 reactor in partnership with Canadian builder AECL. Brazil unveiled a plan to build seven reactors over the next 20 years, beginning with the completion of Angra 3, and in Mexico a call for tender for the construction of a new nuclear power plant could be launched as early as 2008. Other countries, like Chile, are indicating an interest.

Asia-Pacific

This region has 110 nuclear reactors representing 85 GWe in generating capacity. The reactors generated 566 TWh in 2006, up 3.5% from 2005. This compares with total estimated generated power of 6,233 TWh in 2006, up 5.5% from 2005.

On average, nuclear power represented 9% of all electricity generated in 2006, with significant differences from one country to the next. For instance, nuclear power represents a large proportion of all electricity generated in South Korea and Japan (39% and 30% respectively), yet nuclear power's share is minimal in China (3%) and India (2%). Several countries have reaffirmed and are continuing their nuclear power programs, and several major calls for tenders have been issued.

	Gross installed nuclear capacity (GWe)		Gross nuclear power generation (TWh)	
	2006	2005	2006	2005
Japan	49.9	48.9	303.2	287.9
China	8.0	7.0	54.1	53.1
India	3.9	3.3	17.6	17.6
South Korea	17.7	17.7	148.7	145.6
Taiwan	5.1	5.1	39.9	40.0
Pakistan	0.5	0.5	2.7	2.6
Total	85.1	82.5	566.2	546.8

Source: *Nucleonics Week, February 2007, restated by AREVA.*

- In October 2006, the new Japanese trade minister reaffirmed his government's commitment to pursuing its nuclear power and used fuel treatment programs. The new electricity generation plan published in 2006 will accelerate Japan's nuclear power plant construction program, with 13 new reactors scheduled for 2017, bringing 17 GWe in additional capacity and boosting nuclear power's share in the energy mix to 40% by 2013. Initially, this was the goal for 2030. The strategic choice to treat all used fuel was confirmed in October 2005. At the Rokkasho Mura treatment plant, testing is proceeding as planned and the startup of commercial operations is scheduled for the end of 2007. After suffering some delays, the MOX program now enjoys the support of several utilities.
- In South Korea, construction of the Shin Kori 1 reactor was officially begun and ground breaking for Shin Wolsong 1 & 2 started in 2006. Five other reactors are planned for startup before 2020, for a total of 9,600 MWe in new capacity.

- China confirmed its resolve to develop nuclear power as one of the main resources to satisfy its growing need for electricity. Calls for tenders have been issued at the national and international level, not only to duplicate second-generation reactors already in service in the country, but also to acquire Generation III technologies. The goals are ambitious: by 2020, 28,000 MWe must be added to the existing 12,000 MWe in service or under construction. The 40 GWe thus acquired in 2020 will account for 4% of China's installed generating capacity. Westinghouse was selected at the end of 2006 as the preferred bidder for part of the Generation III reactor contract. China intends to capitalize on the size of its program to develop its own front end and back end fuel cycle. Contacts are being established to secure uranium supplies. Discussions are ongoing between AREVA and its Chinese customers about the possibility of a global partnership that would also include Generation III reactors.

- In India, negotiations for an agreement with the United States began in 2005, marking an important step forward. In December 2006, the US Congress adopted compromise legislation allowing President Bush to negotiate with India, even though a nuclear-armed India has never signed the Non-Proliferation Treaty. Ratifying the agreement and implementing it, however, will require (1) a safeguards agreement between India and the International Atomic Energy Agency (IAEA) and (2) the consensus by the parties to the directives of the Nuclear Suppliers Group (NSG) to amend their own rules on the export of nuclear technology and materials. These steps forward in US negotiations will certainly contribute to further progress in this area, helping other countries also negotiating with India, including France, to reach cooperation agreements, which for the moment are stalled pending the above two requirements.

- Australia has the world's largest uranium deposits (more than a million metric tons) and is the world's second-largest uranium producer. A report commissioned by the Australian Prime Minister and published in late 2006 underscores the country's interest in increasing its production of natural uranium and especially in planning for the construction of nuclear plants, which would help to significantly reduce greenhouse gas emissions. The first reactors could start operating within 10 to 15 years.

Africa

- South Africa is the only African country with a nuclear power program. The two reactors built by AREVA at Koeberg generate around 4.4% of the nation's electricity. Future power needs would require the construction of 40,000 MWe of capacity by 2020, half of which would be to replace obsolete facilities. Following a series of blackouts, South African utility Eskom is now urgently acquiring small gas-fired plants to satisfy peak demand. It also plans to build "conventional" nuclear power plants to generate 8,000 MWe over the same period. A first block of 3,000 to 5,000 MWe is expected to be confirmed in 2007.

4.2.3. THE TRANSMISSION & DISTRIBUTION MARKET AND CHALLENGES AROUND THE WORLD

4.2.3.1. The Electricity Transmission and Distribution market

Transmission and distribution are fundamental components of power grid operations and management. The market is buoyed by increasing electricity consumption, itself fueled by the creation of wealth at the national and regional levels. Building reliable and efficient power systems is both a requirement for and a consequence of economic growth and investment in power generation.

The transmission and distribution market also benefits directly from positive external factors such as:

- changes in national energy policies and the development of renewable energies;
- the optimization and replacement of aging equipment to improve network safety and reduce the risk of power supply interruptions;
- interconnection of regional networks to link sources of power generation with areas of power consumption;
- deregulation of electricity markets, with diverse impacts on national transmission and distribution markets, depending on the characteristics of existing infrastructure;
- organizational changes at electric utilities, such as centralization of procurement.

All of these factors are used to predict demand for power generation equipment and contribute to transmission and distribution market growth. The group estimates that the total annual transmission and distribution market will grow from €43 billion in 2006 to €56 billion in 2010, representing average annual growth of 6 to 7%.

4.2.3.2. The challenges of power transmission and distribution around the world

Europe

While not the most dynamic market, Europe offers a number of opportunities related to new infrastructure requirements. On the one hand, European Union countries are well aware of the problems caused by obsolete infrastructure, including the risk of blackouts. Their goal is therefore to modernize their equipment and promote the establishment of a unified European network.

In the United Kingdom, the Office of Gas and Electricity Markets (OFGEM) reports that electricity transmission companies need to invest between €8 and €11 billion to upgrade networks during the 2007-2012 period. In France and Germany, replacement equipment will be needed for aging networks over the medium term. Growing economies in Central and Eastern Europe are also confronted with network obsolescence issues and rising demand for electric power. Russia is a typical example of infrastructure requirements in the region. Network obsolescence and lack of capacity caused a blackout in Moscow in 2005. To remedy this situation, European and local electric utilities are planning major investments which will contribute to the strength of the transmission and distribution market. In Russia, energy holding company RAO UES announced a major capital spending plan totaling €6 billion over three years for the entire power generation industry (generation, transmission and distribution). Several interconnection projects to create regional networks are still contemplated, for instance between Russia and Western Europe.

4.2. The Nuclear Power and Transmission & Distribution markets

North and South America

In the wake of regular power failures with severe economic consequences, the United States now recognizes the need to establish reliable power infrastructure. The Energy Bill enacted in 2005 encourages capital spending and grid modernization. This legislation emphasizes three main objectives:

- establishment of regulations to ensure network reliability;
- promotion of capital spending through financial incentives; and
- regulatory conditions governing utility compensation.

Due to the maturity of the North American markets, demand for grid management systems and maintenance services is also expected to grow.

Significant transmission and distribution investment is also planned in Latin America. Through its growth acceleration program (PAC), Brazil showed its resolve to launch large power generation and transmission projects to improve its network. The Central American Interconnection System (SIEPAC) is now under way and aims to connect the networks of six Central American countries, i.e. Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua and Panama. Establishing regional networks should help resolve the problems caused by power failures on the continent and eliminate the blackouts that affect countries such as Venezuela on a regular basis.

Asia

China is one of the most promising countries in terms of demand for electrical equipment, particularly transmission and distribution products. China must develop efficient networks to satisfy demand fueled by its booming economy and to correct significant shortcomings. To satisfy these needs, numerous projects are being implemented, both for power generation and for electricity transmission and distribution. Confronted with the same macroeconomic constraints as China, India has developed a sustainable energy policy. A major effort was made in the areas of power generation and rural electrification. In addition, the Indian Energy Ministry has decided to reduce power losses on the network, leading to investment in transmission and distribution.

Africa and Middle East

High oil prices continue to have a favorable impact on the ability of countries in this region to finance capital expenditures. Major turnkey systems projects have already been launched, such as interconnection of the Persian Gulf countries, including Kuwait, Saudi Arabia, Bahrain, Qatar, Oman and the United Arab Emirates. In Africa, transmission and distribution investment is limited to projects financed by multilateral development organizations. At the same time, South Africa, which regularly experiences power supply interruptions, is trying to ensure security of power supply for its citizens.

4.3. The energy businesses of the AREVA group

4.3.1. NUCLEAR POWER

4.3.1.1. A few fundamental concepts for an understanding of the group's nuclear power operations

Using fission energy in nuclear power plants

A nuclear power plant is an electric generating station with one or more reactors. Like all conventional thermal power plants, it consists of a steam supply system that converts water into steam. The steam drives a turbine, which in turn drives a generator, producing electricity.

In nuclear power plants, the only area in which radioactivity is present is the steam supply system, called the "reactor".

The reactor is enclosed in a reinforced containment building meeting nuclear safety requirements. The three main components needed to sustain, control and cool the fission process in the reactor core are fuel, a moderator and a coolant. Reactor types are a function of the combination of these three components. Several combinations have been tested, but only a few of them have gone beyond the prototype stage to commercial operations.

A heat source and a cooling source

Like all other power plants, a nuclear power plant has a heat source (the nuclear steam supply system with its heat exchangers) and a cooling source to remove the resulting heat. This is why power plants are usually built near the sea or a river – the water is used to cool the steam. Many power plants also have cooling towers, where the water is sprayed, evaporating as it falls and dissipating residual heat.

Moderator and coolant

During the fission process, neutrons are released at very high speed. They slow down as they strike lighter atoms, making them react much more with uranium 235 atoms. Reactors called "thermal neutron" or slow reactors take advantage of this property, which reduces the uranium 235 enrichment level required for the chain reaction. In light water reactors, water is the slowing medium, or moderator, as well as the heat removal medium, or coolant.

The world's most prevalent reactor: the pressurized water reactor

In pressurized water reactors (PWRs), the fuel is made of slightly enriched uranium and the moderator and coolant both consist of water.

The reactor core is flooded with pressurized water from the primary cooling system. The fission reaction heats the water. The heat is transferred via heat exchangers to water in a secondary cooling system, converting it to steam. The nuclear steam supply system consists of the reactor core and the steam generators. For safety reasons, the primary cooling system is separate from the secondary cooling system, whose steam drives the turbo-generator.

PWR reactors have a triple containment system to prevent the release of radioactive fission products. The primary barrier in this system is the metal cladding around the fuel. The secondary barrier consists of the separate primary and secondary cooling systems. The third barrier is comprised of the nuclear steam supply system enclosed in a concrete containment building designed to contain hazardous products in the event of a leak. Most of the reactors in the French nuclear power program are PWRs, as is the case around the globe.

Boiling water reactors (BWR) are generally comparable to PWRs. The main difference is that the water boils when it is exposed to the fuel and the primary and secondary cooling systems are not separate.

4.3. The energy businesses of the AREVA group

4.3.1.2. AREVA's nuclear businesses

Through its Front End division, Back End division and Reactors and Services division, the AREVA group operates in every area of the nuclear cycle.

In the front end of the cycle, AREVA supplies uranium and offers the conversion and enrichment services needed to fabricate the fuel assemblies that go into the reactor core. In the Reactors and Services division, the group has expertise in all of the processes and technologies needed for reactor design, construction, maintenance and continuous performance improvement. AREVA focuses principally on the PWR and BWR markets. In the back end of the cycle, AREVA is a specialist in the management and treatment of used fuel, from which the group recovers reusable materials to fabricate fresh uranium-plutonium fuel (MOX) that is recycled in PWRs and BWRs.

The Front End division's operations include uranium ore exploration, mining and concentration; conversion of uranium as U_3O_8 into uranium hexafluoride (UF_6); uranium enrichment; and design and fabrication of nuclear fuel.

The Reactors and Services division is in charge of nuclear power plant design, construction and modernization; nuclear power plant equipment supply; and nuclear services, particularly for scheduled reactor outages.

The Back End division focuses on used fuel treatment and recycling; design and fabrication of casks for the transportation and storage of nuclear materials; and nuclear materials transportation and logistics.

In summary, the group:

- sells uranium to its utility customers;
- supplies uranium processing services to produce fuel, and designs and fabricates fuel assemblies;
- designs and builds power plants and provides life extension services;
- offers engineering services and equipment to optimize power plant performance; and
- recycles its customers' used fuel to recover reusable materials and/or treat them for the safe disposal of nuclear waste.

However, AREVA does not normally own the materials provided by customers for processing, nor is it responsible, in most instances, for the waste generated by used fuel treatment on behalf of customers or nuclear power plants. AREVA does not operate nuclear reactors.

4.3. The energy businesses of the AREVA group

AREVA's competitive position by business sector

Due to the unique character of the processes involved, each stage in the nuclear cycle constitutes an industry in its own right, with its own technologies and business models. The AREVA group has developed know-how that puts it in the lead worldwide and has adopted an industrial organization that is consistent with these different business sectors. AREVA is the world leader in civilian nuclear power, as illustrated below.

Global competitive positions by business sector (AREVA estimates)

	Market 2006	Cameco	Urenco	Usec	AREVA	Toshiba / Westinghouse	BNFL/BNG ⁽²⁾	Rosatom (Russia) ⁽³⁾	General Electric / Hitachi ⁽⁴⁾	Others
Front End										
Mining/Natural uranium*	65,000 MT	15-20%		5-8% ⁽¹⁾	20-25%			20-25%		25-30%
Conversion/Chemistry	61,000 MT	20-25%		5-8% ⁽¹⁾	25-30%			20-25%		20-25%
Enrichment*	43 million SWU**		20-25%	25-30%	20-25%			20-25%		5-10%
Natural uranium fuel (UO ₂)	6,800 MT				30-35% ⁽⁹⁾	20-25%		10-15%	15-20%	10-15% (MHI)
Reactors and Services	€11 billion				20-25% ⁽¹⁰⁾	15-20%		5-10%	10-15%	35-40%
Back End										
Treatment	30,000 MT ***				70-75%		10-15% ⁽⁵⁾	10-15%		JNFL ⁽⁶⁾ in future
Recycling (MOX fuel)	2,211 MT***				65-70%		1-5% ⁽⁷⁾			25-30% ⁽⁸⁾ (Belgonucléaire) JNFL in future ⁽⁶⁾

* Compared to the previous year, the lowering of tails assay to factor in rising front end prices drew down the uranium market in 2006 and increased the enrichment market.

**Separative Work Units.

***Cumulative amount (in MTHM) of used Light water reactor (LWR) fuel treated and cumulative amount (in MTHM) of LWR MOX fuel fabricated, according to AREVA estimates.

(1) Usec sells natural uranium and conversion services, but does not own the corresponding production facilities.

(2) BNFL / BNG became a services company specialized in site operations and cleanup services. Under a 10-year agreement signed in 2005, Cameco I acquires uranium conversion services from BNFL. These conversion services are either accounted for in Cameco's share, or fall in the "other" column.

(3) Rosatom's civilian operations are scheduled to be included in the new state-owned Atomprom organization.

(4) The closing of the merger of their nuclear businesses is expected to occur in the 1st half of 2007.

(5) In April 2005, the NDA's Thorp treatment plant at Sellafield was shut down following an important technical hitch. On January 10, 2007, the regulatory authority consented to its restart.

(6) JNFL's treatment plant (800 MT) and MOX fabrication plant (130 MT) are expected to start up in mid 2007 and mid 2012 respectively.

(7) Ramp-up of the NDA's SMP plant is currently in progress.

(8) Belgonucléaire's Dessel plant ceased production in mid 2006.

(9) Including Yi Bin fuel factory (just as the Westinghouse figure includes Enusa).

(10) There appear to be some discrepancies compared with 2005: in 2005, AREVA's share of the reactors and services market was incorrectly rounded and competitors' market shares were uncorrectly estimated due to the lack of financial data.

Source: AREVA - based on companies' publications or AREVA estimates.

4.3. The energy businesses of the AREVA group

4.3.2. ELECTRICITY TRANSMISSION AND DISTRIBUTION OPERATIONS

4.3.2.1. A few fundamental concepts for an understanding of the transmission and distribution business

Electricity is generated at relatively low voltages of 10,000 to 25,000 volts. Current voltage is stepped up before the electricity is transmitted. Transmission over high voltage lines (230,000 to 765,000 volts) reduces power losses attributable to heating, enabling electricity to be transported over long distances at low cost.

The electric power supply system consists of the transmission lines and their connection to stations and substations. Electricity moves through the network according to a law of physics known as “the path of least resistance”, like water flowing through a canal system. Electricity enters a medium voltage distribution system via a substation. A final substation reduces the voltage to 120 or 240 volts for use by the consumer.

The deregulation of electricity markets and the need to transport electricity across borders require the development of interconnections between power systems operated by different companies.

4.3.2.2. The transmission and distribution business

Electricity transmission and distribution includes the supply of electricity transmission and distribution products, systems and services used to regulate, switch, transform and dispatch electric current in electric power supply systems connecting the power plant to the final user. The Transmission & Distribution division's products and solutions play an essential role in power grid reliability, safety and quality.

The Transmission & Distribution division designs, manufactures and installs complete product lines used at every stage of electricity transmission and distribution. The Transmission & Distribution division is ranked third in this sector worldwide and is the world's second largest supplier to electric utilities.

The Transmission & Distribution division supplies products, systems, services and software for:

- high voltage power transmission, including conventional equipment, shielded substations, instrument transformers and power transformers;
- medium voltage distribution, including compact transformer substations, distribution transformers, circuit breakers, engine starting cells and lightning protection systems;
- substation protection and control; and
- grid management.

The division's customers are electric utilities as well as the oil, mining, metals, wind energy, paper, glass, transportation and power electronics industries.

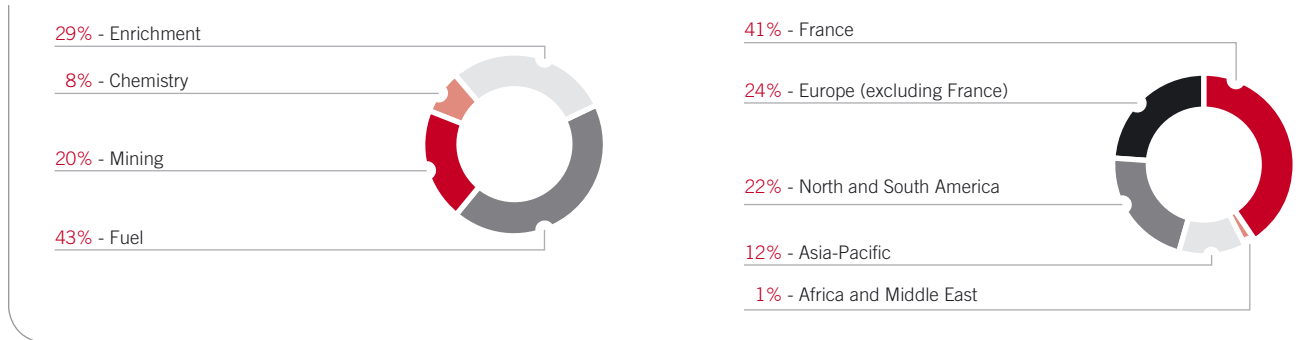
4.4. Front End division

KEY DATA

(in millions of euros, IFRS)

	2006	2005
Sales revenue	2,919	2,631
Operating income	456	374
Workforce at year end	11,995 employees	11,047 employees

2006 sales revenue by business unit and region



OVERVIEW

The Front End division represented 27% of the AREVA group's sales revenue in 2006. It combines all of the fuel cycle operations that take place before nuclear power is generated: uranium exploration, mining and concentration; conversion into uranium hexafluoride (UF₆); uranium enrichment services; and nuclear fuel design and fabrication.

AREVA is the only international group to operate in every stage of the nuclear cycle. This gives the group a decided competitive edge, as it offers comprehensive solutions to customers while creating synergies among business units. AREVA ranks first worldwide in the front end of the nuclear cycle.

- In Mining, AREVA is the world's third largest producer of uranium (see section 4.4.1.4.). The group's market share, including trading activities, is approximately 23%. AREVA delivered more than 14,000 metric tons (MT) of uranium to its customers in 2006. The group has an excellent diversified mining portfolio with operations in Canada, Kazakhstan and Niger, or under development, most notably Cigar Lake in Canada and Imouraren in Niger.

- In Chemistry, AREVA is the world's foremost supplier of conversion services, with an estimated 25% share of the world market and a very strong position in the European market.
- In Enrichment, AREVA is one of the world leaders in enrichment services, with some 25% of the world's available capacity. The group intends to capitalize on the deployment of centrifuge enrichment technology. It began construction of the Georges Besse II gas centrifuge enrichment plant in 2006.
- In Fuel, AREVA ranks first worldwide. It supplies around 30% of the world's nuclear fuel requirements and 40% for the boiling water reactors (BWRs) and pressurized water reactors (PWRs) used in the West.

Customers retain ownership of the materials used in these operations. They buy uranium concentrates from AREVA, which then undergo processing in industrial facilities, up through production of the fuel assembly.

4.4. Front End division

The group operates mines and manufacturing plants in Europe, North America, Asia, Australia and Africa. Its customers are the operators of nuclear power plants (utilities) and research reactor operators.

The total annual market for enriched uranium is approximately 65,000 MT of natural uranium and 43 million separative work units (SWU - see Glossary). In the fuel business, the division provides assemblies primarily to light water reactors designed in the West, of which there are close to 350 worldwide. These reactors require 6,000 to 7,000 MT of enriched uranium fuel each year.

The division's business model is characterized by large capital outlays over long periods of time, creating a major barrier to entry. As a result, commercial relationships tend to be sealed whenever possible by medium- to long-term contracts averaging five years. This business model gives the division good visibility on backlog, which amounted to more than €11 billion at year-end 2006, or around four years of sales revenue. Over the short to medium term, this revenue is not very sensitive to natural uranium prices or to the cost of its enrichment or conversion.

STRATEGY AND OUTLOOK

AREVA plans to strengthen its position in the front end of the cycle by developing its mining resources, optimizing or replacing its production sites, and streamlining its fuel products.

• Increasing mineral resources and production

For more than 15 years, the market for natural uranium has suffered from a severe imbalance between primary supply of uranium and demand. This imbalance is offset by the use of so-called secondary resources. The secondary resources come from strategic inventories stockpiled by utilities in the 1980s and, beginning in the late 1990s, from the arrival on the market of materials originating in the former Soviet Block. They can also be traced to the arrival on the civilian market of natural uranium derived by diluting highly enriched uranium (HEU) from dismantled Russian and American weapons.

The "Megatons to Megawatts" agreement entered into between the United States and Russia on February 18, 1993 is the first non-proliferation agreement providing for the commercial reuse of fissile materials. Over a 20-year period through 2013, Russia has agreed to convert 500 MT of HEU into low-enriched uranium for civilian use. The conversion is done in Russia using a dilution process. The 5.5 million SWUs of HEU currently recovered each year in this manner are covered by a marketing agreement with US Enrichment Company (USEC), exclusively authorized to market this material. The natural uranium component in the form of UF₆, which represents an average of 9,000 MT of natural uranium per year, is covered by a marketing agreement between Russia and a team consisting of AREVA, Cameco and Nukem. AREVA's share averages 2,600 MT of natural uranium per year.

The gradual draw-down of inventories, until now the main source of secondary supply, impacts the market in two ways:

- It places considerable pressure on spot prices for natural uranium: the spot price in US dollars continued to rise, reaching \$72.00 per pound in January 2007, ten times the price recorded in 2001. This in turn puts pressure on prices negotiated between suppliers and utilities for their medium- and long-term contracts.
- It means that major players, including AREVA, must continue their exploration efforts and increase their uranium production capacities. This will enable them to fill the gap with primary

resources when the secondary resources are fully depleted early in the next decade. Accordingly, in 2005, AREVA launched a major expansion plan to upgrade its existing facilities, significantly increase its exploration activities, develop new mining properties, and ensure external growth through partnerships and acquisitions. With mineral rights in the key regions of Canada, Niger and Kazakhstan, AREVA is well positioned in this regard. AREVA will also benefit from the start-up or expansion of production at the Katco site in Kazakhstan and at Cigar Lake in Canada. AREVA estimates that ramp-up of production at these sites from 2006 to 2012, along with other initiatives undertaken as part of the expansion program, should enable it to double its production capacity by the next decade.

• Replacing enrichment and conversion production plants

The enrichment market is structured around a small number of international players in the United States, Europe and Russia. Demand is stable, but growth is moderate, in line with installed reactor capacity growth. The group's Georges Besse enrichment plant was initially designed for a useful life of 20 years. It has been operating successfully since 1979. Through regular investment in maintenance and modernization, the plant's technical sustainability is assured until early in the next decade. However, the price of electricity, the main cost component in gaseous diffusion enrichment, is a critical issue.

To deal with these technical and economic considerations, AREVA plans to shut the plant down and replace it with a new facility. AREVA will use centrifuge enrichment technology, which has been proven from both a production and economic standpoint (see section 4.4.3.3). Construction of the Georges Besse II plant will require a capital outlay of approximately €3 billion¹ from 2006 to 2018, including the cost of rights to the technology. This plan is based on an agreement concluded with Urenco (see section 4.14.3.2.).

In addition, the group is evaluating the replacement of conversion capacity at the Comurhex plant, located at the same site. A detailed feasibility study has been completed and construction should begin in the near future.

(1) In constant 2001 euros.

• Improving productivity in the nuclear fuel business

The fuel fabrication industry has strong barriers to entry consisting of a wide range of technical specifications which only reactor designers can fully grasp. It is nonetheless still a highly competitive market, given the excess production capacity that exists worldwide. Market growth is also a function of installed generating capacity and plant load factors, minus the effect of heightened fuel performance.

AREVA supplies one third of the market and intends to preserve its leadership position through the excellence of its production processes and by designing new and ever more innovative products. Important programs are under way to improve productivity. These include exchanging best practices among production sites, specializing some of these sites in component supply, and development of fabrication plant capability to manufacture different types of fuel assemblies.

• Multiplying internal synergies to compete more effectively

AREVA's main competitors operate in only part of the front end of the cycle. These competitors are Cameco in the mining and chemistry sectors, Converdyn in conversion, Urenco and Usec in the enrichment business, and Westinghouse, General Electric and their Japanese partners in fuel fabrication. Russia's nuclear industry, which is in the process of being unified through Atomprom, is the only competitor that may eventually be able to offer products and services spanning the entire front end. Atomprom's competitive positioning remains a question mark, considering its long history of serving utilities that operate reactors based on Russian technology.

At a time when certain segments of the fuel cycle market are dominated by existing and anticipated tensions, AREVA intends to provide its customers the added value of its unique positioning in every step of the fuel cycle and to develop innovative offers by harvesting internal synergies. This is one of the goals of the AREVA Solutions program.

4.4. Front End division

4.4.1. MINING BUSINESS UNIT

4.4.1.1. Key data

(in millions of euros, IFRS)	2006	2005
Sales revenue	582	508
Workforce at year end	2,993 employees	2,657 employees

4.4.1.2. Businesses

In addition to uranium trading, the *Mining* business unit's four main activities are:

- mineral exploration, i.e. discovering new ore bodies for future mining;
- mining operations: ore extraction using various methods and techniques;
- ore processing: concentration of uranium contained in ore using chemical processes;

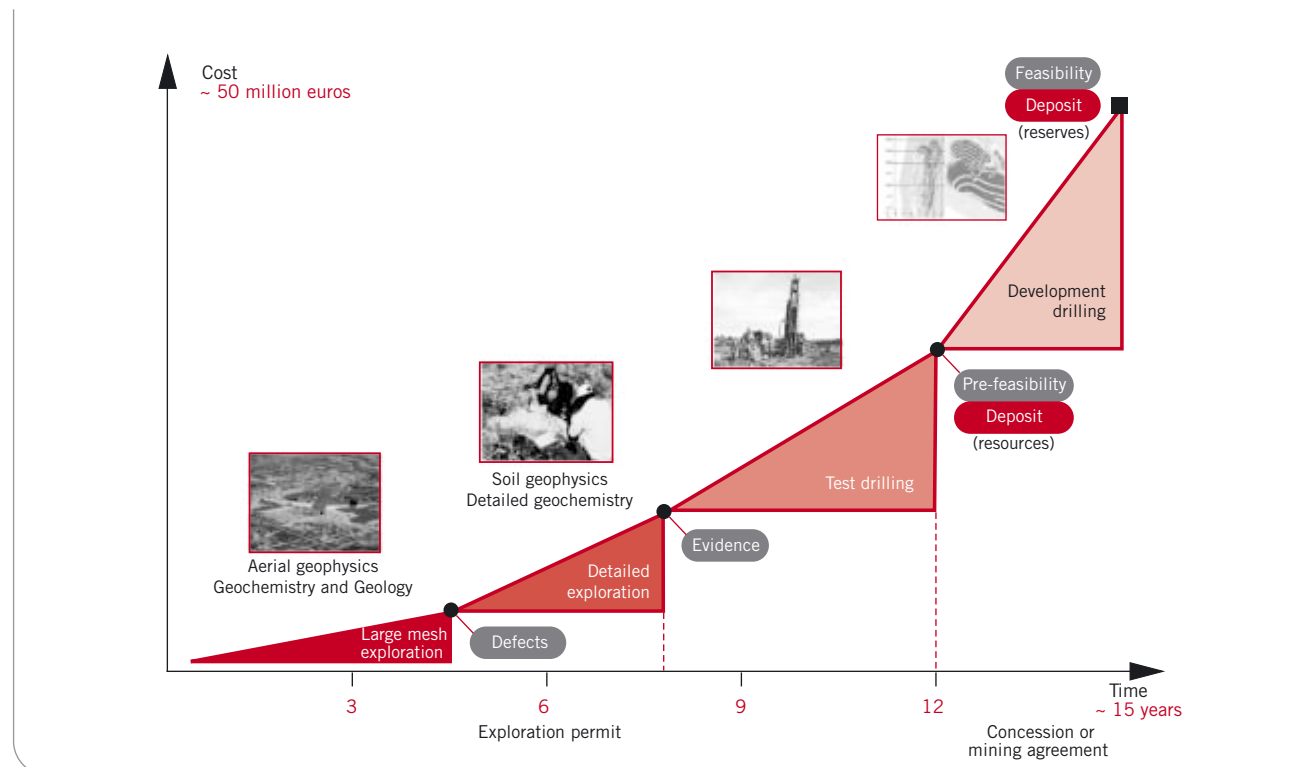
- site reclamation after mining: restoration of mine sites in accordance with stringent environmental standards.

The group's mining operations focus first and foremost on uranium. A relatively abundant metal that is evenly distributed in the earth's crust, natural uranium contains two main isotopes: non-fissile U_{238} represents 99% of natural uranium; fissile U_{235} represents 0.7%.

AREVA also produces gold through La Mancha, a subsidiary established on September 28, 2006 by combining the group's gold assets with those of Canadian company La Mancha Resources Inc. AREVA's gold operations began in the 1980s as a diversification opportunity and helped maintain its mining know-how at a time when the uranium market was depressed.

Mining operations cover particularly long cycles requiring significant capital expenditures over several years before the operations themselves begin, i.e. until the first deliveries of uranium are made and the first sales proceeds collected. Then cash flow increases before once again falling off in the final years of operation. Ore bodies can be acquired at any stage in the process to demonstrate feasibility.

Uranium mining business model: from exploration to mining feasibility*



* Before licensing (construction permit process: 5 to 10 years).

Source: AREVA.

The first phases of exploration consist of detecting surface or subterranean mineral indicators using aerial or ground geophysics (gravimetry, electromagnetics, radiometry) focusing on the radiation emitted by the uranium rock as well as geochemistry and surface geological surveys. AREVA selects targets based on promising mineralization history. This is followed by test drilling to develop an initial estimate of the deposit's resources.

Once the attractiveness of the deposit has been confirmed, the drilling grid is tightened to refine the estimate of resources and confirm mining feasibility, both technically and economically (reclassification from resource to reserve).

These operations, which generally require an exploration permit that eventually confers mining rights, take 10 to 15 years at an average cost currently estimated at €50 million per ore body over the entire period.

Once technical and financial feasibility has been demonstrated, the ore is mined, either from open pit or underground mines, or using in-situ leaching techniques (see Glossary). The choice of method is dictated by the ore body's characteristics.

Ore extracted from open pit and underground mines is transported to a processing plant. There, it is milled and uranium is recovered using acidic solutions. Uranium in the resulting slurry is precipitated and dried to produce a concentrate called "yellowcake". This product is packaged and shipped to the conversion plant of the customer's choice.

In-situ leaching techniques are used to recover uranium from low-grade or very-low grade deposits. In-situ leaching can often be implemented quickly. The leaching process consists of injecting an oxidizing solution into the mineralized area to dissolve the uranium selectively. The solution is then pumped to the surface and stripped of uranium in processing plants.

Mine site reclamation is an important activity that calls for specialized mining and civil engineering techniques and involves many areas of expertise.

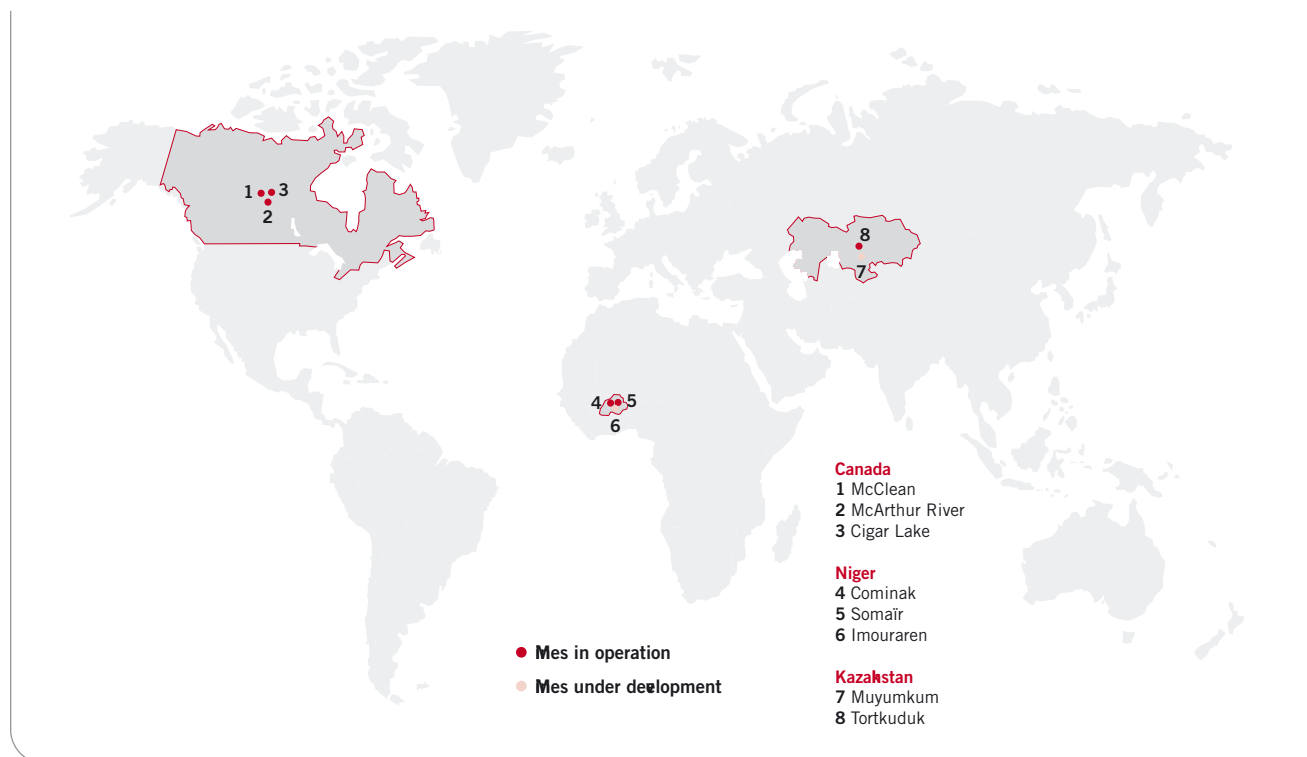
4.4.1.3. Manufacturing and human resources

The group has staff in Africa, North America, Asia, Europe and, to lesser extent, Australia.

Production sites are located in three countries: Canada, Niger and Kazakhstan.

Site facilities are operated by companies in which AREVA has an equity interest (see below). The percentage of interest may differ from the share of production allocated to AREVA. This information is provided in section 4.4.1.5.

Main production sites and projects of the Mining business unit (projects: Cigar Lake, Imouraren and Tortkuduk)



4.4. Front End division

Canadian sites

AREVA receives production from two mine sites: McClean Lake, operated by AREVA, and McArthur River/Rabbit Lake, operated by Cameco Corporation. A fourth deposit, Cigar Lake, also operated by Cameco Corporation, may come into production in the coming years.

These sites are operated through joint ventures. They are located approximately 600 kilometers north of Saskatoon in the Athabasca basin of Saskatchewan.

The group deploys ISO 14001-compliant environmental management systems at all sites and for all operations. McClean Lake, Cluff Lake (shut down five years ago) and the group's exploration activities are all certified under ISO 14001 in 2000 and 2004.

For the past two years, AREVA has stepped up its exploration efforts in Canada, particularly in the Athabasca basin, which remains the country's most promising region for uranium mining.

McClean Lake

McClean Lake is operated by AREVA, which owns 70% of the ore body (Denison Mines Ltd 22.5%, Ourd Co. Ltd of Japan 7.5%).

Uranium production started in 1999 with ore extraction from small deposits near the surface.

The ore is processed in the Jeb mill, commissioned less than ten years ago. The mill's capacity, currently 8 million pounds of U_3O_8 , is being expanded to 12 million pounds of U_3O_8 by 2009. This joint venture has 450 employees, 40% of whom come from the local community.

McArthur River

McArthur River is operated by Cameco Corporation, which holds a 69.8% interest (AREVA 30.2%). McArthur is the largest high-grade uranium deposit in the world.

The deposit was discovered in 1988 and mining began in December 1999.

Remotely operated equipment is used to mine the deposit to prevent direct exposure of the miners to the very high-grade ore body. The ore is processed at the Key Lake mill located approximately 100 kilometers south of the deposit, which has a capacity of 7,190 MT of uranium per year (18.7 million pounds of U_3O_8). The mill is operated by Cameco Corporation, which holds an 83.3% interest (AREVA 16.7%). This joint venture employs about 310 people.

New operating procedures and new pumping capacities have been successfully implemented under the oversight of province regulators since the excavation incident that occurred in 2003, causing partial flooding of the mine.

Cigar Lake

Cigar Lake will be operated by Cameco Corporation, which has an equity stake of 50.03% (AREVA 37.1%, Idemitsu Uranium Exploration Canada Ltd 7.88%, Tepco Resources Inc. 5%).

Cigar Lake is the world's second largest high-grade uranium deposit, after McArthur River.

AREVA discovered the deposit in 1981 and proposed the mining technique to be used there, and then contributed to its development. Located 450 meters below the surface in fractured, water-saturated rock, the deposit cannot be mined with conventional methods. The partners, including AREVA, developed a technology to harden the ground by freezing it. The ore is removed with high pressure water jets (jet boring technique). Infrastructure tunnels are located in more solid rock under the deposit to position equipment, drill the ore body to freeze the ground, and mine it by jet boring.

Following receipt of the administrative permits, the partners decided to mine the deposit in December 2004 and launched the construction phase.

On October 23, 2006, the tunnel used to access the upper area of the ore body collapsed partially just below the water table, completely flooding the mine. Boreholes are being drilled from the surface to plug the collapsed tunnel with concrete. At this stage, Cameco believes that operations could restart in the coming years, subject to approval by the Canadian Nuclear Safety Commission (CNSC).

Cigar Lake will produce 6,900 MT of uranium per year at full capacity (18 million pounds of U_3O_8). The ore will be processed at the McClean and Rabbit Lake mills during the first phase of operations, lasting approximately 15 years.

Niger sites

CEA exploration teams detected uranium in Niger in the 1960s. The uranium deposit is located in the piedmont plains west of the granitic Air mountains. The deposits are sedimentary.

Two companies, Somair and Cominak, were established to operate the mines, located approximately 800 kilometers north of Niamey. Mining development led to the creation of two new cities, Arlit and Akokan.

Approximately 1,700 people work at the sites. In addition to providing jobs, the companies offer health, social and educational services to the local populations of this isolated and economically deprived area.

As of today, deposits have only been mined in the Arlit region. AREVA's concession covers 360 square kilometers (140 square miles). Both Somair and Cominak have ISO 14001 certification.

The discovery of new deposits in this uranium-rich province is a strong probability. The group is planning a major exploration program and submitted 19 new permit applications in 2006 in accordance with recently amended Nigerien mining law.

Somaïr

Somaïr (Société des Mines de l’Aïr) was established in 1968. The company is operated by AREVA, which owns 63.4% of the shares, with the government of Niger owning the remaining 36.6% through Onarem, the national mining resources agency.

Somaïr has operated several mines near Arlit since 1971.

The ore is extracted in open pit mines and processed in a 2,000 MT mill (5.2 million pounds of U₃O₈) at the site. Somaïr employs about 600 people.

Cominak

Cominak (Compagnie Minière d’Akouta) was established in 1974. AREVA is the operator of the company and owns 34% of its shares. Other shareholders include Onarem of Niger (31%), Overseas Uranium Resources Development Company Ltd of Japan (Ourd, 25%), and Enusa Industrias Avanzadas S.A of Spain (Enusa, 10%).

Since 1978, Cominak has operated Akouta and Akola, two large deposits near the town of Akokan. The ore is extracted underground. The on-site mill has a capacity of 2,000 MT of uranium per year (5.2 million pounds of U₃O₈). Cominak employs about 1,100 people.

An action plan is being implemented at the mine to optimize production while the company prepares to operate the new Afasto ore body at the end of 2007.

Imouraren project

In July 2006, AREVA received an exploration permit for Imouraren, 80 kilometers south of Arlit. The permit includes an ore body discovered in 1969 which was to have been operated in the 1990s. Operations had to be suspended when the market collapsed. AREVA has decided to restart the project now that market conditions are more favorable. One hundred people are currently employed at the site. More than 55 kilometers of development drilling was completed over a period of one year and more than 2 metric tons of ore were shipped for test processing to SEPA, AREVA’s laboratory for industrial scale plants.

Kazakhstan sites

The mining company Katco was established in 1997 to develop and operate the Muyunkum and Tortkuduk deposits in southern Kazakhstan, approximately 250 kilometers north of Simkent. The company headquarters are located in Almaty.

Shareholders include AREVA (51%) and the Kazakh company Kazatomprom (49%), which is responsible for overseeing national nuclear operations, particularly natural uranium production.

Development of the two mine sites, located approximately 100 kilometers apart, started in April 2004 after the signature of a series of agreements between the shareholders. These agreements ended a feasibility study lasting more than three years with a full-scale pilot plant. The nominal production objective for both deposits is 1,500 MT of uranium per year (3.9 million pounds of U₃O₈).

Considering the size of the deposits, the prospects for ore discovery in new areas under permit to the company, and the recent 35-year extension of Katco’s underground mining concession, production could be increased by 2010.

The Muyunkum processing plant, built in 2005, began production in November of that same year. The Tortkuduk processing plant is under construction, with start-up scheduled for 2007.

Site reclamation

The group has spent more than €400 million to date to dismantle mining facilities and reclaim 13 sites in France, Gabon, the United States and Canada. Once reclamation has been completed, the land is reseeded and monitored, which involves monitoring and analysis of numerous environmental parameters. Monitoring is conducted as part of AREVA’s environmental management system over a period of time determined by the improvement and stability of chemical and radiological parameters, with objectives going well beyond the regulatory requirements. This period is specific to the site’s natural characteristics as well as to local community expectations. Experience to date indicates that this period is generally ten years or more.

In France, mill tailings are recorded by Andra, the French radioactive waste management agency. AREVA remains the owner of the tailings, which are subject to specific radiological and environmental monitoring certified under ISO 14001.

4.4.1.4. Market and competitive position

Market

The demand for uranium by nuclear power programs worldwide, expressed in natural uranium equivalent, was around 67,000 MT in 2006. Demand has risen modestly over the last five years, from 0.5% to 1% per year, reflecting increased load factors, the commissioning of new reactors, and increased capacity at an ever growing number of reactors. In addition, some utilities have contributed to the demand by rebuilding their inventories over the past two years. There is also a certain level of speculative demand aimed at capitalizing on the continuing rise in prices.

World production, down slightly in 2006, continues to cover approximately two thirds of world consumption.

The net effect is an imbalance between primary sources of supply and demand. Indeed, since the beginning of the 1990s, more than 40% of the demand has been satisfied with so-called secondary resources: excess inventories held by utilities and fuel cycle companies, material from diluted HEU, use of MOX fuel (see Glossary), and enriched reprocessed uranium (ERU).

Due to the depletion of excess uranium inventories, particularly those of the utilities and those stockpiled in Russia, primary sources will represent a growing share of supply and demand, as shown in the chart below. However, additional sources of supply

4.4. Front End division

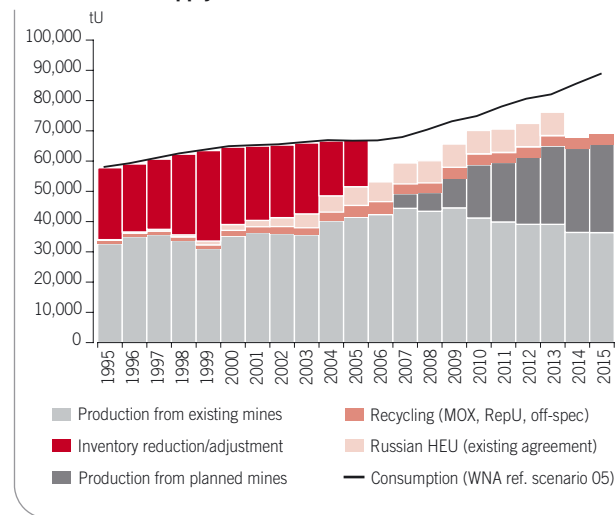
will be limited in the near future, considering the time needed to develop new production, for both technical and regulatory reasons.

The increase in production will be the product of new mines offsetting mine shut-downs contemplated after 2010.

These projects include Cigar Lake in Canada, several projects in Kazakhstan, Langer Heinrich and Rossing's expansion in Namibia, and the expansion of Olympic Dam in Australia.

Except for projects already launched or in development, world production scenarios do not take into consideration any significant contribution from hundreds of junior mining companies, at least for the next ten years. This is the minimum amount of time required to assess the feasibility of early stage projects and bring them into production.

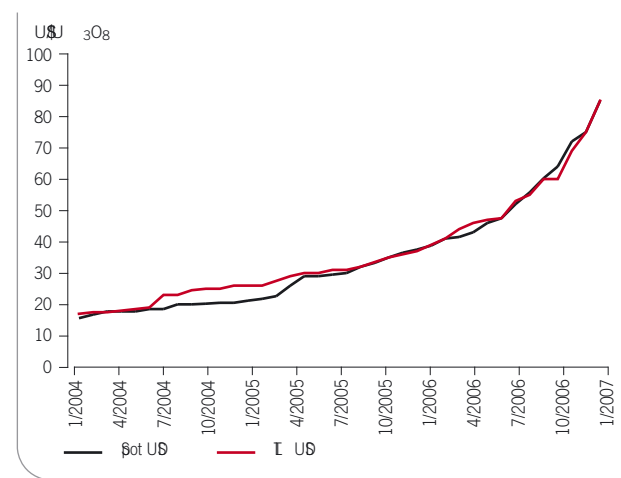
World uranium supply and demand



Sources: taken from UxC & WNA, 2005.

Uranium price pressures mounted in 2006 as primary production must again become the main and lasting source of supply. The flooding of the Cigar Lake mine in October 2006 added to the price pressures. Prices are likely to remain reasonably high in light of the heavy capital expenditures needed over the long term.

Uranium price indicators (in current US dollars)



Source: TradeTech.

Estimated world production in 2006

Estimated world uranium production in 2006

Top ten uranium producing countries

Rank	Country	Production	%
1	Canada	10,050	28%
2	Australia	7,602	22%
3	Kazakhstan	5,279	10%
4	Russia	3,350	8%
5	Niger	3,434	8%
6	Namibia	3,067	7%
7	Uzbekistan	2,400	6%
8	United States	1,650	3%
9	Ukraine	1,400	2%
10	South Africa	750	2%
Total Top 10 / world production		38,982	95%
Other		2,018	5%
World production		41,000	100%

Top ten uranium producers

Rank	Producer	Production
1	Cameco	8,028
2	Rio Tinto	5,820
3	AREVA	5,272
4	Kazatomprom	4,359
5	WMC/ODM	2,878
6	TVEL Russia	3,350
7	Navoi / Uzbekistan	2,500
8	Nufcor / South Africa	750
9	Vostgok / Ukraine	1,400
10	CNNC / China	850
Total Top 10 / world production		35,207
Other		5,750
World production		40,957

4.4.1.5. Resources, reserves and production sites

Uranium

The group's reserves and resources were up slightly, by 3.5%, in 2006.

Mineral reserves in deposits accessible to the group represent approximately 114,800 metric tons of uranium.

Reserves in the ground are supplemented with so-called secondary sources. In particular, AREVA has access to the equivalent of close to 2,600 MT of natural uranium per year through 2013 in connection so-called "Russian HEU" agreements to reuse uranium from Russia's dismantled nuclear weapons.

As in 2005, the 2006 annual report was prepared based on mineral resources in the ground to ensure consistency with reporting methods used by AREVA's partners and competitors.

The volume of reserves dropped by about 18% from 2005, or - 25,600 MT. Most of this temporary decrease reflects the downgrading of Kazakh reserves to the "resources" category, which will be updated in 2007 based on economic results from initial production.

Approximately 308,000 MT can be reasonably expected to be recorded as reserves over the medium term, representing a very sharp increase of 226,000 MT. This change is a reflection of the group's efforts to upgrade its portfolio of resources. Accelerated exploration activities have produced encouraging results at Shea Creek and Cree extension in Canada, newly added to the portfolio. Intense development is expected to bring mining projects in

northern Canada (Kiggavik) and northern Niger (Imouraren) to the feasibility stage soon.

The development of projects initially suspended for economic reasons decreases the potential of other mineral resources in the ground, which are preserved for the longer term. These currently represent in the neighborhood of 63,000 MT of uranium. This figure could increase in the future, with new discoveries expected as a result of major exploration campaigns currently being conducted by the group in Canada, Mongolia, Kazakhstan and Australia.

The group's total mineral resources in the ground over the medium to long term thus come to close to 370,000 metric tons.

AREVA's resources and reserves at year-end 2006, together with its uranium production in 2006, are listed in the tables below. Uranium from diluted Russian HEU and other secondary sources is not included.

Estimating methods

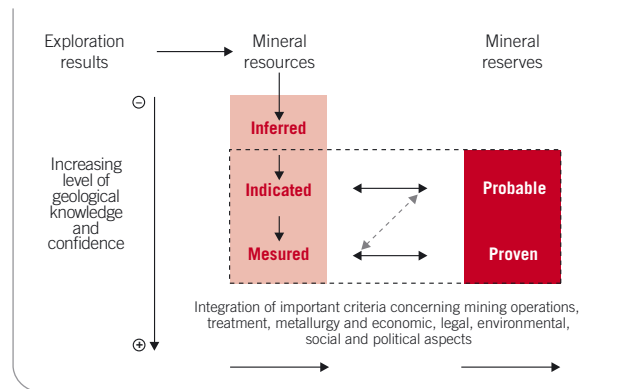
AREVA's resources and reserves are estimated based on data gathered by the group's employees or taken from audited reports. The group's Reserves department is responsible for these estimates.

In Canada, the group's reserves are established based on independent estimates or audit reports by the shareholders of the companies operating the mines. In Niger, they are established in a certification report meeting Canadian standard NI-43-101 prepared by Geostat Systems International, Inc.

(See the Glossary for a definition of "mineral reserves in the ground", "mineral resources in the ground", and "other mineral resources in the ground").

Note: All of these resources are given as "in the ground", i.e. before processing losses.

The terms "measured", "indicated" and "inferred" correspond to the degree of reliability of mineral resource estimates in terms of volume, grade, density, form and physical characteristics (see Glossary).



4.4. Front End division

Criteria and parameters

		AREVA Share			Reserve parameters			Mining permit	
Country	Site	Operator	Equity interest (%)	Share of production (%)	Recovery (%)	Life of deposits** (years)	Type*	Beginning	End
Australia	Koongarra	AREVA NC	100.00%	100.00%	-	-	OP	n.a.	n.a.
Canada	Cigar Lake	Cameco	37.10%	37.10%	98.56%	12.6	UG	n.a.	n.a.
Canada	Cree Extension	Cameco	27.94%	27.94%	-	-	n.d.	n.a.	n.a.
Canada	Dawn Lake	Cameco	23.086%	23.086%	-	-	n.d.	n.a.	n.a.
Canada	Key Lake	Cameco	16.67%	30.20%	97.90%	0	OP	n.a.	n.a.
Canada	Kiggavik	AREVA NC	99.00%	99.00%	-	-	OP	n.a.	n.a.
Canada	McArthur	CAMECO	30.195%	30.195%	97.90%	19.6	UG	2004	2008
Canada	McClellan	AREVA NC	70.00%	70.00%	97.50%	1.7	OP/UG	2005	2009
Canada	Midwest	AREVA NC	69.16%	69.16%	98.50%	3.2	n.d.	n.a.	n.a.
Canada	Shea Creek	AREVA NC	75.50%	75.50%	-	-	n.d.	n.a.	n.a.
Canada	Sissons Schultz	AREVA NC	50.00%	50.00%	-	-	UG	n.a.	n.a.
United States	Malco Texas	AREVA NC	71.00%	71.00%	-	-	ISL	n.a.	n.a.
United States	Malco Wyoming	AREVA NC	71.00%	71.00%	-	-	ISL	n.a.	n.a.
United States	Pathfinder	AREVA NC	100.00%	100.00%	-	-	OP/UG	n.a.	n.a.
France	Cogema France	AREVA NC	100.00%	100.00%	-	-	n.d.	n.a.	n.a.
Kazakhstan	Muyunkum Phase 1	AREVA NC	51.00%	100.00%	-	-	ISL	2000	2039
Kazakhstan	Muyunkum Phase 2	AREVA NC	51.00%	51.00%	-	-	ISL	2000	2039
Kazakhstan	Tortkuduk Phase 1	AREVA NC	51.00%	100.00%	-	-	ISL	2000	2039
Kazakhstan	Tortkuduk Phase 2	AREVA NC	51.00%	51.00%	-	-	ISL	2000	2039
Niger	Arlit Concession	AREVA NC	100.00%	100.00%	-	-	n.a.	n.a.	n.a.
Niger	Cominak	AREVA NC	34.00%	46.40%	96.20%	13	UG	1975	2043
Niger	Imouraren	AREVA NC	70.00%	100.00%	-	-	n.d.	n.a.	n.a.
Niger	Somaïr	AREVA NC	63.40%	100.00%	94.19%	13.7	OP	1968	2043

* OP: open-pit mine

UG: underground mine

n.d.: not defined (the deposits are not yet in operation)

ISL: In-Situ Leaching.

** Effective January 1, 2007.

Source: AREVA.

Estimated mineral reserves in the ground at year-end 2006

Country	Site	Proven			Probable			Total reserves			Change 07/06 ⁽³⁾ MTU	AREVA Share of production ⁽⁴⁾ MTU
		Mineral 000 MT	Grade ‰ ⁽²⁾	Metal MTU ⁽¹⁾	Mineral 000 MT	Grade ‰	Metal MTU	Mineral 000 MT	Grade ‰	Metal MTU		
Canada	Cigar Lake	497	175.14	87,045	0	0	0	497	175.14	87,045	^(a) (2,020)	32,294
Canada	Key Lake	62	4.4	272	0	0	0	62	4.4	272	0	82
Canada	McArthur	530	148.33	78,659	280	223.27	62,510	810	174.23	141,169	^(b) (1,314)	42,626
Canada	McClellan	623	6.61	4,115	0	0	0	623	6.61	4,115	^(c) 252	2,880
Canada	Midwest	170	60.5	10,262	0	0	0	170	60.5	10,262	0	7,097
Kazakhstan	Muyunkum Phase 1	0	0	0	0	0	0	0	0	0	^(d) (6,662)	0
Kazakhstan	Muyunkum Phase 2	0	0	0	0	0	0	0	0	0	^(d) (7,353)	0
Kazakhstan	Tortkuduk Phase 1	0	0	0	0	0	0	0	0	0	^(d) (11,829)	0
Kazakhstan	Tortkuduk Phase 2	0	0	0	0	0	0	0	0	0	^(d) (2,373)	0
Niger	Cominak	1,739	4.36	7,584	4,910	4.04	19,816	6,649	4.12	27,400	^(e) 5,594	12,713
Niger	Somair	938	2.96	2,780	4,935	2.91	14,341	5,872	2.92	17,121	^(f) 2,248	17,121
Total		4,558	41.84	190,718	10,125	9.55	96,666	14,683	19.57	287,384	(23,457)	114,813

Note: the terms "proven" and "probable" relate to the level of reliability in estimates of mineral reserves, in terms of quality, grade, density, form and physical characteristics (reliability of estimates ranging from the highest level to the lowest level in this table).

(1) MTU: metric tons of uranium.

(2) Ore grade in ‰.

(3) The change in estimated reserves and resources relates to the total tonnage of minerals in the ground.

Quantity of metal estimated in 2007 + metal production (mine output) in 2006 – quantity of metal estimated in 2006.

(4) AREVA share of production: the share of uranium produced during the year and "sold/distributed" to AREVA by the mining joint venture. Source: AREVA.

(a) Downgrading of part of the reserves to indicated resources (source: Cameco).

(b) Downgrading of reserves (source: Cameco).

(c) New estimate of inventories at the mouth of the mill.

(d) Downgrading of reserves to resource pending update of valuation/estimate criteria.

(e) Upgrading of Akouta and Ebba areas (Afasto) from resources to reserves.

(f) New estimate of resources for the Tabelle ore body and new valuation of reserves for the Tamou ore body.

Source: AREVA.

4.4. Front End division

Estimated mineral resources in the ground at year-end 2006 (excluding reserves)

Country	Site	Measured			Indicated			Measured + indicated			Change 07/06 ⁽³⁾ MTU	AREVA Share of production ⁽⁴⁾ MTU
		Mineral 000 MT	Grade % ⁽²⁾	Metal MTU ⁽¹⁾	Mineral 000 MT	Grade % ⁽²⁾	Metal MTU	Mineral 000 MT	Grade % ⁽²⁾	Metal MTU		
Canada	Cigar Lake	0	0	0	61	41.62	2,539	61	41.62	2,539	^(a) 2,539	942
Canada	McArthur	75	72.2	5,415	40	71.01	2,830	115	71.79	8,245	^(b) 1,873	2,490
Canada	Midwest	0	0	0	123	18.31	2,247	123	18.31	2,247	0	1,554
Kazakhstan	Muyunkum Phase 1	4,492	0.6	2,695	6,610	0.6	3,966	11,102	0.6	6,661	^(c) 6,661	6,661
Kazakhstan	Muyunkum Phase 2	0	0	0	12,255	0.6	7,353	12,255	0.6	7,353	^(c) 7,353	3,750
Kazakhstan	Tortkuduk Phase 1	0	0	0	19,716	0.6	11,829	19,716	0.6	11,829	^(c) 11,829	11,829
Kazakhstan	Tortkuduk Phase 2	0	0	0	3,954	0.6	2,373	3,954	0.6	2,373	^(c) 2,373	1,210
Niger	Cominak	0	0	0	391	3.37	1,316	391	3.37	1,316	^(d) (6,953)	611
Niger	Imouraren	0	0	0	69,200	1.18	81,500	69,200	1.18	81,500	^(e) 81,500	81,500
Niger	Somair	0	0	0	8,108	1.02	8,263	8,108	1.02	8,263	^(f) 1,866	8,263
Total		4,567	1.78	8,110	120,458	1.03	124,216	125,025	1.06	132,326	109,041	118,810

Country	Site	Inferred			Change 07/06 ⁽³⁾ MTU	AREVA Share of production ⁽⁴⁾ MTU
		Mineral 000 MT	Grade % ⁽²⁾	Metal MTU ⁽¹⁾		
Canada	Cigar Lake	317	143.51	45,446	0	16,860
Canada	Cree Extension	663	27.45	18,198	^(g) 18,198	5,084
Canada	Kiggavik	8,338	2.07	17,255	^(h) 17,255	17,082
Canada	McArthur	585	62.35	36,451	0	11,007
Canada	Midwest	57	39.31	2,252	0	1,558
Canada	Shea Creek	580	18.23	10,581	⁽ⁱ⁾ 10,581	7,989
Canada	Sissons Schultz	15,810	2.5	39,572	^(j) 39,572	19,786
Kazakhstan	Muyunkum Phase 2	2,091	0.58	1,210	0	617
Kazakhstan	Tortkuduk Phase 2	18,228	0.6	10,937	0	5,578
Niger	Arlit Concession	20,403	0.63	12,845	^(k) (1,155)	12,845
Niger	Cominak	8,392	2.68	22,493	^(l) 3,775	10,437
Niger	Imouraren	71,932	0.99	70,900	^(e) 70,900	70,900
Niger	Somair	3,226	2.98	9,627	^(m) (488)	9,627
Total		150,622	1.98	297,768	158,638	189,370

Note: The terms "measured", "indicated", and "inferred" relate to the level of reliability in estimates of mineral resources in terms of quality, grade, density, form and physical characteristics (reliability of estimates ranging from the highest level to the lowest level in this table).

(1) MTU: metric tons of uranium.

(2) Ore grade in %.

(3) The change in estimated reserves and resources relates to the total quantity of minerals in the ground.

Quantity of metal estimated in 2007 - quantity of metal estimated in 2006.

(4) AREVA share of production: the share of uranium produced during the year and "sold/distributed" to AREVA by the mining joint venture. Source: AREVA.

(a) Downgrading of part of the reserves to indicated resources (source: Cameco).

(b) Downgrading of reserves to resources (source: Cameco).

(c) Downgrading of reserves to resources pending update of valuation/estimate criteria.

(d) Upgrading of Akouta and Ebba areas from resources to reserves.

(e) Transfer from "Other resources" to "Resources" following new estimates.

(f) Abandonment of resources at the Tamou deposit and transfer of "Other resources" at Artois deposit to "Resources" following new estimates.

(g) New estimate of resources at the Millennium deposit.

(h) Transfer of "Other resources" to "Resources" at the Center, East and Main Zone areas.

(i) New estimate of resources at the Kianna deposit.

(j) Transfer of "Other resources" to "Resources" at the Andrew Lake and End Grid deposits.

(k) New estimate of resources at the Grand Artois deposit.

(l) Upgrading of Akouta and Ebba areas from resources to reserves.

(m) New estimate of resources at the Tabelle deposit.

Source: AREVA.

Other estimated mineral resources in the ground at year-end 2006

Country	Site	Measured			Indicated			Measured + indicated			Change 07/06 ⁽³⁾ MTU	AREVA Share Share of production ⁽⁴⁾ MTU
		Mineral 000 MT	Grade ‰ ⁽²⁾	Metal MTU ⁽¹⁾	Mineral 000 MT	Grade ‰	Metal MTU	Mineral 000 MT	Grade ‰	Metal MTU		
Australia	Koongarra	624	10.55	6,585	188	5.33	1,000	812	9.34	7,585	0	7,585
Canada	Dawn Lake	0	0	0	347	14.35	4,977	347	14.35	4,977	0	1,149
Canada	Kiggavik	0	0	0	0	0	0	0	0	0 ^(a)	(17,255)	
Canada	McClellan	791	10.25	8,112	91	10.5	957	882	10.28	9,069 ^(b)	(3)	6,348
Canada	Sissons Schultz	0	0	0	0	0	0	0	0	0 ^(c)	(39,572)	
United States	Malco Texas	0	0	0	808	0.84	677	808	0.84	677	0	481
United States	Malco Wyoming	1,773	0.88	1,557	6,400	0.93	5,949	8,173	0.92	7,506	0	5,329
United States	Pathfinder	247	4.3	1,060	2,253	2.16	4,868	2,499	2.37	5,928	0	5,928
France	AREVA NC	143	1.2	172	6,249	1.81	11,279	6,392	1.79	11,451	0	11,451
Kazakhstan	Muyunkum Phase 2	0	0	0	11,542	0.75	8,661	11,542	0.75	8,661	0	4,417
Niger	Cominak	1,763	3.53	6,223	649	3.07	1,996	2,412	3.41	8,219 ^(d)	589	3,814
Niger	Imouraren	0	0	0	0	0	0	0	0	0 ^(e)	(118,100)	0
Niger	Somair	11,462	0.76	8,682	1,409	2.14	3,017	12,871	0.91	11,699 ^(f)	(3,770)	11,699
Total		16,803	1.93	32,391	29,935	1.45	43,382	46,738	1.62	75,773	(178,109)	58,201

Country	Site	Inferred			Change 07/06 ⁽³⁾ MTU	AREVA Share Share of production ⁽⁴⁾ MTU
		Mineral 000 MT	Grade ‰ ⁽²⁾	Metal MTU ⁽¹⁾		
United States	Pathfinder	2,967	1.21	3,576	0	3,576
France	AREVA NC	287	0.48	139	0	139
Kazakhstan	Muyunkum Phase 2	4,180	0.64	2,684	0	1,369
Niger	Imouraren	0	0	0 ^(d)	(25,500)	0
Total		7,434	0.86	6,399	(25,500)	5,084

Note: The terms "measured", "indicated", and "inferred" relate to the level of reliability in estimates of mineral resources in terms of quality, grade, density, form and physical characteristics (reliability of estimates ranging from the highest level to the lowest level in this table).

(1) MTU: metric tons of uranium.

(2) Ore grade in ‰.

(3) The change in estimated reserves and resources relates to the total quantity of minerals in the ground.

Quantity of metal estimated in 2007 - quantity of metal estimated in 2006.

(4) AREVA share of production: the share of uranium produced during the year and "sold/distributed" to AREVA by the mining joint venture. Source: AREVA.

(h) Transfer of "Other resources" to "Resources" at the Center, East and Main Zone areas.

(b) Ore extracted.

(j) Transfer of "Other resources" to "Resources" at the Andrew Lake and End Grid deposits.

(d) Upgrading of Akouta and Ebba areas from resources to reserves.

(e) Transfer from "Other resources" to "Resources" following new estimates.

(f) Transfer from "Other resources" to "Resources" following new estimates at Artois deposit

Production

(in metric tons of uranium)

Country	Site	Total ⁽¹⁾ Share of production ⁽²⁾	
		2006	2006
Canada	McArthur	7,200	2,174
Canada	McClellan	690	483
France	Herault mining group	5	5
Kazakhstan	Muyunkum Phase 1	352	352
Niger	Cominak	1,866	693
Niger	Somair	1,565	1,565
Total		11,678	5,272

(1) MTU: metric tons of uranium in the concentrates after milling.

(2) AREVA share of production: quantity of uranium produced during the year and "sold/distributed" to AREVA by the mining joint venture. Source: AREVA.

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Gold

Estimated mineral reserves in the ground at year-end 2006

Proven			Probable			Total reserves			AREVA share	
Mineral 000 MT	Grade g/t	Metal kgAu	Mineral 000 MT	Grade g/t	Metal kgAu	Mineral 000 MT	Grade g/t	Metal kgAu	Change 07/06 kgAu	Equity interests* kgAu
4,390	5.25	23,037	2,228	4.34	9,678	6,618	4.94	32,715	⁽¹⁾ (1,154)	9,409

Estimated mineral resources in the ground at year-end 2006 (excluding reserves)

Measured			Indicated			Measured + indicated			AREVA share	
Mineral 000 MT	Grade g/t	Metal kgAu	Mineral 000 MT	Grade g/t	Metal kgAu	Mineral 000 MT	Grade g/t	Metal kgAu	Change 07/06 kgAu	Equity interests* kgAu
4,442	3.14	13,963	3,472	4.05	14,071	7,915	3.54	28,034	⁽²⁾ 11,922	12,815

Inferred			AREVA share	
Mineral 000 MT	Grade g/t	Metal kgAu	Change 07/06 kgAu	Equity interests* kgAu
7,200	3.6	25,925	⁽²⁾ 16,704	10,461

Other estimated mineral resources in the ground at year-end 2006

Measured			Indicated			Measured + indicated			AREVA share	
Mineral 000 MT	Grade g/t	Metal kgAu	Mineral 000 MT	Grade g/t	Metal kgAu	Mineral 000 MT	Grade g/t	Metal kgAu	Change 07/06 kgAu	Equity interests* kgAu
700	4.9	3,428	1,724	4.36	7,527	2,424	4.52	10,954	⁽²⁾ 7,623	3,070

Inferred			AREVA share	
Mineral 000 MT	Grade g/t	Metal kgAu	Change 07/06 kgAu	Equity interests* kgAu
2,077	4.05	8,421	⁽²⁾ 6,108	2,623

Note: The terms "measured", "indicated", and "inferred" relate to the level of reliability in estimates of mineral resources in terms of quality, grade, density, form and physical characteristics (reliability of estimates ranging from the highest level to the lowest level in this table).

* AREVA share: percentage of AREVA's equity interest in La Mancha Resources.

⁽¹⁾ Downgrading of Frog's Leg reserves (Australia) pending new feasibility study in 2007 (3/30).

⁽²⁾ New resources at Ariab Mining Co. (Sudan).

Source: La Mancha Resources.

Production

(in kg of gold)

	Total* 2006	AREVA share** 2006
Total	⁽³⁾ 4,482	1,241

* kg = quantity of gold in kilograms contained in the concentrates after milling.

** Share of production: quantity of gold produced during the year and "sold/distributed" to AREVA by the mining joint venture.

⁽³⁾ From AMC site (Sudan) and Ity site (Côte d'Ivoire). No production in Australia.

For more information, please visit www.lamancharresources.com

4.4.1.6. Relations with customers and suppliers

Customers now tend to select longer term contracts to guarantee the security of supply to their reactors.

Tighter supplies created an upward pressure on prices in 2006. As a result, pricing formulas continued to reflect a trend initiated in 2004, where prices include a combination of a base price indexed to inflation and price indicators reflecting market conditions at the time of delivery.

It is likely that spot prices at the time of delivery will become an essential component of pricing conditions as the imbalance between supply and demand continues in the short term. In addition, considering the economic model inherent in the development of uranium deposits (see section 4.4.1.2), pricing terms could include a floor price guaranteeing that the producer operates future projects profitably.

Suppliers

Except for uranium obtained by diluting high enriched uranium (HEU) from Russian weapons, as described in "Strategy and Outlook" in section 4.4 of this report, all uranium delivered to customers by the *Mining* business unit is mined by companies or joint ventures affiliated with AREVA.

It should be noted that current increases in commodity prices for chemical reagents, energy, mechanical parts, etc., have an impact on the business unit's production costs.

4.4.1.7. Research and development

Mineral exploration

Unlike most uranium mining companies, AREVA continued its mineral exploration program during 20 years of market collapse. Approximately 3% of the business unit's sales revenue is allocated to this program. With this strategy, AREVA was able to preserve the know-how of its geology department, collect and analyze up-to-date scientific data, and prepare new projects in anticipation of a market turnaround. With a growing budget representing about €30 million in 2006, AREVA will deploy an ambitious exploration program over the next few years, and plans to triple its financial commitment in the medium term.

Near-term outlook

As of the end of 2007, AREVA will have hired 130 geologists over a two-year period, thus bringing to 200 the number of geologists on staff. In the past, this level of commitment enabled the company to discover the large deposits of France, Niger and Canada, including Cluff Lake and Cigar Lake.

The first action items are to accelerate development efforts near active mining sites and to prepare new exploration campaigns in uranium-rich provinces familiar to the group. These efforts have

already yielded significant results, even though AREVA knows that many years may be required before a minable ore body is discovered.

In Niger, the AREVA group analyzed results collected during the 2004 aerial geophysics campaign and decided to submit targeted permit applications that may be approved in 2007. Approval of these permits was delayed due to changes in the mining law. The group had already received permits in 2006 for the Agebout and Afouday areas, including the Imouraren deposit. AREVA also started significant development work to improve the characterization of the Imouraren ore body and determine mining feasibility. Feasibility will be assessed in 2007.

In Eastern Canada, new exploration programs yielded encouraging results in Shea Creek, south of the former Cluff Lake mine site. In Australia, an exploration office was opened in Adelaide and exploration work began in the Olympic Dam region. In Finland, preliminary field work prompted AREVA to submit permit applications covering four promising areas. Permits for the Eno region of Karelia were granted at the end of the year. Local opposition has been registered in areas near Helsinki.

Medium- and long-term outlook

Teams of geologists, miners, chemists and economists are working on emerging projects as well as older prospects, particularly in North America and Central Asia.

Research

The *Mining* business unit performs studies and research to develop mining techniques, ore milling technologies and the in-situ leaching process, in particular at Somaïr sites in Niger.

4.4.1.8. Operations and highlights

Primary production should represent an increasing share of the total uranium supply as excess inventories held by utilities and Russia are gradually depleted. However, considering the time needed to develop new production for technical and regulatory reasons, additional sources from primary production will be limited in the near future.

For this reason, AREVA rolled out an expansion plan to double its share of the uranium market by the beginning of the next decade, with more than 10,000 MT of production and deliveries ranging from 11,000 to 20,000 MT.

This plan focuses first and foremost on production development, particularly new projects (Katco, Imouraren), strengthened exploration, and external growth, including the establishment of a business development team.

First, an audit of the group's mines was carried out to determine capital expenditures required to adapt the facilities to sustainable and increasing production levels. In some instances, these improvements required a temporary reduction of production levels, as was the case at the Cominak mine in Niger.

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Nonetheless, the group was able to deliver 15,000 MT of uranium in 2006, including trading activities, compared with 13,200 MT in 2005.

On October 22, 2006, Cameco announced that a major incident had occurred during the development phase of the Cigar Lake underground mine. After quickly deciding to let the mine flood naturally, Cameco established an action plan to seal the collapsed area with concrete and drain the mine. The concrete is injected from the surface in 14 boreholes. This injection phase could be completed in the second quarter of 2007.

Despite a significant drop, Canadian production remained AREVA's main source of supply by volume, representing a little over 50% of the group's total uranium production.

Production remained stable in Niger, which represents 40% of the group's total uranium output, including the Akola/Akota deposits operated by Cominak and the Tamou deposit operated by Somair.

A capital spending plan was set up in Niger in 2006 to plan for and rapidly increase production capacity at existing facilities. In addition, the group received three new permits, including one concerning the Imouraren deposit. The technical and financial feasibility study concerning this ore body was launched during the year.

In Kazakhstan, the Muyunkum South plant started production at the end of 2005. AREVA's first industrial venture in Kazakhstan proved successful, with production of more than 400 metric tons of uranium in 2006. Production at the Muyunkun deposit is expected to ramp up until nominal capacity is reached in 2007. In the Tortkuduk area, construction started on a second plant in the first quarter of 2006. The work is scheduled to be completed in the spring of 2007. The Tortkuduk base camp was inaugurated in July 2006.

In 2006, AREVA started a process to contribute its gold activities to a publicly traded subsidiary. The transaction was completed at the end of September 2006 as a reverse takeover of La Mancha Resources Inc., a Canadian junior gold mining company traded on the Toronto Stock Exchange (TSX). AREVA holds 64% of the company's shares. The float is approximately 30%.

4.4.1.9. Outlook and development goals

The *Mining* business unit had a significant backlog of orders at the end of 2006. As announced in 2005, one of AREVA's major goals is to diversify its portfolio of customers.

At the end of 2006, approximately 44% of the business unit's backlog was based on pre-2003 prices and 56% had been gradually placed under contract under prices in effect during the 2004-2005 period. The increase in uranium prices will have a relatively small impact on the business unit's sales revenue and income through 2008, and a much greater impact starting in 2009. During the 2007-2008 period, for example, a third of all deliveries is indexed to market prices.

With the nuclear revival and rising demand, uranium is once again a strategic resource. AREVA has therefore decided to leverage all of its assets to bolster its position as a reliable supplier. To implement its expansion plan, the company will bring new projects on line on an accelerated basis, launch a business development unit, and position itself to discover the ore bodies of the future.

In Canada in particular, group specialists are evaluating the feasibility of the Midwest, Kiggavik and Sissons projects. In Niger, fast-track development of the Imouraren project should translate into a decision in 2007.

In Kazakhstan, the Muyunkum project reached industrial scale in 2006. The Tortkuduk project should reach that stage in 2007. Last but not least, the group is evaluating the potential for restarting operations at US uranium sites considered uneconomical until recently.

The group is also investing heavily in human resources, tripling the number of geologists on staff and creating the AREVA Mining College.

Having gathered together the necessary technical, human and financial resources to increase its production and marketing capabilities, AREVA intends to strengthen its position on the uranium market even further.

4.4.2. CHEMISTRY BUSINESS UNIT

4.4.2.1. Key data

(in millions of euros, IFRS)	2006	2005
Sales revenue	246	283
Workforce at year end	1,601 employees	1,640 employees

4.4.2.2. Businesses

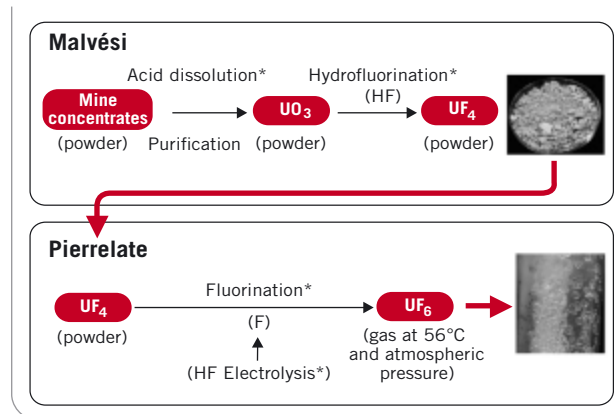
Conversion of natural uranium into uranium hexafluoride

The *Chemistry* business unit's primary business is to convert natural uranium (U_3O_8) into uranium hexafluoride (UF_6). Uranium enrichment, the necessary next step in nuclear fuel fabrication, requires uranium in the chemical form of UF_6 as feed material, regardless of enrichment technology.

Uranium concentrates shipped from the mine for conversion are owned by the utility customer. Conversion is a two-stage process. In the first stage, uranium is converted into uranium tetrafluoride (UF_4). This involves dissolving the mine concentrates with acid, then purifying, precipitating and calcining them to produce UO_3 powder. This product is then hydrofluorinated with hydrofluoric acid, converting it into UF_4 , a green, granular substance. These operations are carried out at the Comurhex Malvési plant in Narbonne, France.

In the second stage, the UF_4 is converted into uranium hexafluoride (UF_6) through fluorination. One of the chemical characteristics of UF_6 is that it becomes a gas when heated at relatively low temperature. The fluorine used in this process is produced through electrolysis of hydrofluoric acid. These operations are carried out in the Comurhex Pierrelatte plant in southern France.

The following diagram summarizes the process.



* Purely chemical operations (no change to the uranium's isotopic composition).

Stabilizing uranium hexafluoride through defluorination

The uranium enrichment process (see *Enrichment* business unit) generates depleted uranium hexafluoride that has a reduced proportion of the isotope U_{235} . This depleted uranium is converted into stable, insoluble and non-corrosive uranium oxide that can be safely stored pending reuse. The AREVA NC Pierrelatte defluorination plant is the only facility in the world to convert depleted uranium hexafluoride into oxide on a production scale. The conversion of depleted uranium hexafluoride into an oxide generates an ultra-pure 70% hydrofluoric acid, a marketable by-product.

Recycling of uranium from used fuel

After a residence time of three to four years, nuclear fuel is unloaded from the reactor still containing 96% uranium. The uranium is recovered through treatment operations performed at the AREVA NC La Hague plant (see *Treatment* business unit) and is shipped to the *Chemistry* business unit's Pierrelatte site in the form of uranyl nitrate, where it will be converted into a stable oxide through denitration or reconverted into uranium hexafluoride. Some European reactors, including the Cruas power plant in France, are loaded with fuel made of recycled uranium from used fuel treatment.

Other fluorine derivatives

The business unit's conversion know-how, particularly in the field of uranium fluorination, has been used to diversify into non-nuclear applications as well.

For instance, Comurhex developed a line of fluorine derivatives which now represent 2% of the business unit's revenue.

- Tungsten hexafluoride is used in the microelectronics industry to manufacture cell phones, smart cards and global positioning systems.
- Fluorine-nitrogen products are used in the automotive industry to treat plastic materials and seal gasoline tanks.
- Chlorine trifluoride is used to clean Eurodif's gaseous diffusion enrichment barriers and, in its ultra-pure form, to fabricate microprocessors.

In the fluorochemicals sector, Air Liquide and Air Products are the two main customers. The group is the leading producer of fluorine in Europe and the second largest in the world.

Technology sales

AREVA NC earns a return from its internationally recognized expertise in depleted uranium defluorination by selling its technology to world

4.4. Front End division

class companies. AREVA's know-how will enable customers to store this reusable material safely and to produce hydrofluoric acid that can be marketed to the chemical industry.

4.4.2.3. Manufacturing and human resources

The *Chemistry* business unit operates primarily at four plant sites, all of which are located in France:

- The Comurhex Malvési plant produces UF₄ in five furnaces, which operate concurrently.
- The Comurhex Pierrelatte plant produces UF₆ in two flame reactors.
- The AREVA NC Pierrelatte plant defluorinates depleted uranium in four production lines.
- Three AREVA NC and Comurhex plants at Pierrelatte convert uranyl nitrate, through denitration, into oxide or hexafluoride.
- The AREVA NC Miramas plant recycles lithium.

The business unit has an annual production capacity of 14,500 metric tons (MT) for UF₆ conversion, 14,000 MT for defluorination, 2,800 MT for denitration and 80 MT for fluorine derivatives for industry.

The proximity of the *Chemistry* business unit's facilities to those of the *Enrichment* business unit represents real savings for our customers by reducing UF₆ transportation costs to Eurodif and enhancing safety.

The business unit's personnel are certified for work involving potentially toxic chemicals and are familiar with the specific characteristics of uranium.

4.4.2.4. Market and competitive position

The annual demand for conversion services in 2006 was around 61,000 MT, including 20,000 MT in Western and Central Europe, 6,700 MT in Eastern and Southeastern Europe, 20,000 MT in North America, and 12,200 MT in Asia.

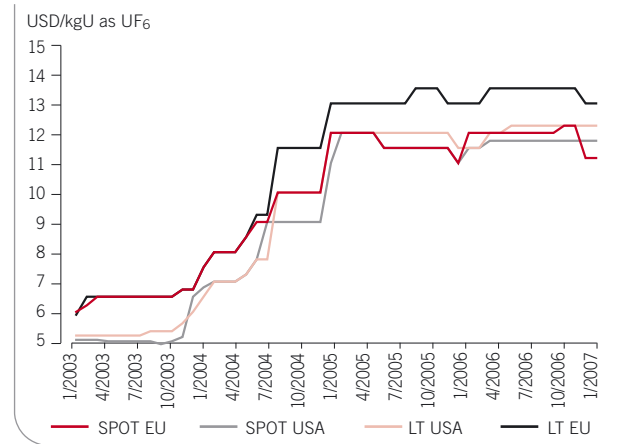
AREVA is the world leader in uranium conversion services, with 12,320 MT of UF₆ produced in 2006, despite a two-month hiatus in production.

Its main competitors are Cameco in Canada, Converdyn in the United States and Rosatom in Russia. Cameco's and Converdyn's nominal conversion capacities are comparable, at 12,500 MT per year and 12,700 MT per year respectively. Russia has a large amount of underused capacity at its Rosatom plants due to technical and geographical limitations. The plants are mainly used to satisfy the needs of Russian reactors.

Prices for UF₆ conversion tumbled in 2000-2001, falling to \$2.50 per kilogram of uranium contained in the UF₆, mainly due to the arrival of UF₆ inventories on the market in the wake of USEC's privatization

in the United States and to the use of HEU⁽¹⁾. Prices rose in 2002-2003, as shown in the graph below, returning to the levels of the early 1990s, i.e. around \$6.00/kg. Since 2004, the representative price for UF₆ conversion in Europe shot up to close to \$12.00/kg in early 2005 under the cumulative effect of the absorption of UF₆ inventories available on the market, Converdyn's difficulties, reduced quantities of UF₆ stemming from the use of HEU, and BNFL's announced intention of withdrawing from the market. In 2005, prices stabilized at about \$12.00-13.00/kg in the various geographic markets, despite BNFL's announcement that it plans to continue to operate its plant. In 2006, benchmark prices were stable in North America and Europe at around \$12.00-13.00/kg.

UF₆ conversion price indices in US dollars



Source: Tradetech.

4.4.2.5. Relations with customers and suppliers

Customers

At the request of nuclear utility customers, the average term of three to five years is being raised to as many as ten years for recently signed conversion contracts. In 2006, Comurhex delivered to more than 20 utility customers and traders across the globe. Most of the Chemistry business unit's customers are located in Europe, Asia and the United States. Technology sales contracts are usually for five-year terms.

Suppliers

The *Chemistry* business unit limits its exposure to interruptions of chemical reagent supplies needed for production operations by contracting with suppliers based in Europe as well as in the rest of the world.

(1) HEU: Highly Enriched Uranium.

4.4.2.6. Operations and highlights

In 2006, the group converted 12,320 MT of U_3O_8 into UF_6 , down from 14,042 MT in 2005. This decrease reflects a two month long interruption of production in January and February, when exceptionally heavy rains flooded the Malvési plant's lagoon area.

Several long-term contracts were signed in 2006 or are in the process of being finalized with utility customers in Japan, China, the United States and Europe. In addition to representing substantial future revenues, these contracts extend as far as 2028 and are indicative of AREVA's diversified regional presence in the conversion market.

In addition, the denitration business produced 1,856 MT, the defluorination business produced 8,314 MT, and 310 MT tons of oxide were produced for the MOX fuel business.

The *Chemistry* business unit also acquired all of the CEA's land holdings at the Pierrelatte site in December 2006, representing 220 hectares (550 acres). This acquisition provides AREVA with the space necessary to build new production facilities.

4.4.2.7. Outlook and development goals

The *Chemistry* business unit's strategic objective is to bolster its leadership position on the uranium conversion market. It will continue to benefit from the integration of AREVA group businesses and its physical proximity to Europe's enrichment plants.

To achieve this objective, the *Chemistry* business unit's Comurhex 2 plant rejuvenation project is in the design phase. This initiative is consistent with the group's enrichment programs, in particular the construction of the Georges Besse II enrichment plant at the Tricastin site.

In enriched reprocessed uranium (ERU), the UF_6 fluorination plant project should give AREVA a tool for reprocessed uranium recycling that is unique in Europe.

In addition, technical evaluations were launched in 2006 to rebuild and modernize existing facilities at the Pierrelatte site and improve water management at the Malvési site.

Significant R&D work was carried out to strengthen operations and rejuvenate the *Chemistry* business unit's facilities. The main objectives are to:

- reduce the environmental impact of the plants and control gaseous effluents;
- reduce the use of energy by improving equipment efficiency;
- recycle by-products.

Measures taken will ensure that conversion capacity remains available to supply Europe's enrichment plants.

The *Chemistry* business unit's main sustainable development goal is to reduce its environmental impacts and improve the safety of its facilities continually. Steps are being taken at each site to achieve these goals, and particularly to strengthen the Environmental Management System, optimize waste processing, and reduce the quantity of water taken from the environment.

4.4. Front End division

4.4.3. ENRICHMENT BUSINESS UNIT

4.4.3.1. Key data

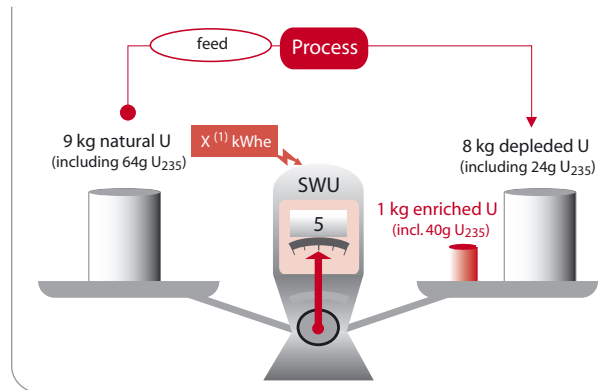
(in millions of euros, IFRS)	2006	2005
Sales revenue	844	727
Workforce at year end	1,902 employees	1,498 employees

4.4.3.2. Businesses

The *Enrichment* business unit alters the isotopic composition of natural uranium. This operation is performed on uranium hexafluoride (UF₆). The customer delivers natural UF₆ to the enrichment facility. UF₆ is a chemical compound of uranium and gaseous fluorine that contains the fissile isotope of uranium (U₂₃₅) needed to make nuclear fuel for light water reactors. Enrichment is the process by which the 0.7% content of U₂₃₅ in natural UF₆ is raised to 3 to 5% to achieve a level of fuel reactivity suitable for reactor requirements.

An enrichment plant's production is expressed in separative work units (SWU). This unit is proportionate to the quantity of uranium processed and is a measure of the work required to separate the fissile isotope. As shown in the figure below, it takes nine kilograms of UF₆ and five SWUs to produce one kilogram of enriched uranium (at a 4% enrichment level) and eight kilograms of depleted uranium (at 0.3%).

Enrichment process



(1) Varies depending on the process. Source: AREVA.

Two enrichment processes are currently in use on an industrial scale worldwide: centrifugation and gaseous diffusion. Currently, the AREVA group uses the latter process.

However, the agreement signed with Urenco and its shareholders in 2003, finalized in July 2006, gives AREVA access to the centrifugation technology. By implementing this technology, the future Georges Besse II plant will consume 50 times less electricity than the gaseous diffusion process (see Highlights, section 4.4.3.6). Another advantage of centrifuge technology is

its modular construction, enabling gradual ramp-up of production and adjustment of production capacity to market demand. This technology is set to be used in the new Georges Besse II plant, whose estimated cost is €3 billion. Construction is expected to span the period from 2006 to 2018.

The capital-intensive enrichment industry also has a strong political dimension. Historically, major nuclear nations have sought to control their own production capabilities to ensure energy self-sufficiency while limiting nuclear proliferation. This aspect is vital to an understanding of decisions by the key market players and placing them in their proper context.

4.4.3.3. Manufacturing and human resources

The *Enrichment* business unit is based at the Tricastin nuclear site in France's Rhône valley.

The business unit uses the Georges Besse plant of its subsidiary Eurodif to perform enrichment services. AREVA NC holds a 59.7% stake in Eurodif, directly or indirectly, and the remaining 40.3% is held by foreign partners⁽¹⁾.

The Socatri plant, a wholly owned subsidiary of Eurodif at the same site, maintains equipment used by the Georges Besse plant and processes uranium-bearing liquid effluents.

The Georges Besse plant and Socatri have ISO 9001, ISO 14001 and OSHAS 18001 certification under an integrated management system since 2004 and 2006 respectively.

Since the finalization of the agreement on centrifugation in 2006 (See Highlights, section 4.4.3.6), the Enrichment business unit's workforce includes 50% of the ETC⁽²⁾ workforce. At constant consolidation scope, approximately 80% of all Enrichment business unit employees work at the Georges Besse plant.

The Georges Besse enrichment plant consists of an enrichment cascade with 1,400 diffusion stages divided into 70 groups. The plant has a maximum capacity of 10.8 million SWUs/year. Capacity utilization varies between 40% and 100%, depending on the period of the year.

The gaseous diffusion process takes advantage of differences in the atomic weights of U₂₃₅ and U₂₃₈ to separate these two isotopes in UF₆. The gas molecules are in perpetual motion and strike the walls of whatever encloses them. Since these molecules all have the same kinetic energy, the lighter ones – those of the U₂₃₅ isotope – are also the fastest and strike the wall of the enclosure more often statistically than the heavier molecules of

(1) The other shareholders of Eurodif SA are Synatom of Belgium, Enea of Italy, Enusa of Spain, and Sofidif, a company owned by French and Iranian interests. AREVA NC has a 60% stake in Sofidif.

(2) Enrichment Technology Company.

the U_{238} isotope. If that wall is porous, the lighter molecule has a higher probability of crossing through this barrier than the heavier molecule.

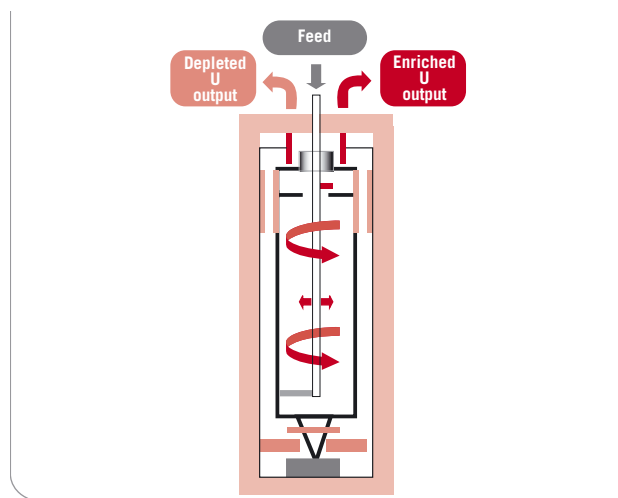
The UF_6 is brought to the gaseous state and enriched in a series of steps in a cascade of diffusion barriers. This isotopic separation is the enrichment service sold to electric utilities. The separative work unit (SWU) is an international unit of measure for enrichment services and sales, and is independent of the separation technology used.

In providing enrichment services to some 100 reactors operated by 30 utilities worldwide, the *Enrichment* business unit consumes as much electricity as the greater Paris area when operating at full capacity, or an average of 3 to 4% of France's entire generation of electricity. For some customers, including EDF, the *Enrichment* business unit's biggest customer, SWU sales are made under a processing contract in which the customer provides the electricity necessary for its own enrichment requirements. These arrangements concern approximately half of the volumes processed. Consequently, the customer only pays for the enrichment service, and not for the cost of the electricity.

Starting in 2009, the *Enrichment* business unit will operate the Georges Besse II plant using centrifuge technology developed by ETC. The plant will be operated by Société d'Enrichissement du Tricastin, a wholly owned subsidiary of the AREVA group.

As in gaseous diffusion, the centrifuge enrichment process uses the difference in atomic weight between U_{235} and U_{238} to separate these two isotopes in the UF_6 , though the technology is different.

Centrifuge enrichment concept



Source: AREVA.

An elongated cylinder spins in a vacuum at very high speed inside a sealed housing. Uranium in the form of gaseous uranium hexafluoride (UF_6) is introduced, as in the gaseous diffusion process.

The centrifugal force of the machine throws the heaviest particles to the cylinder walls, effectively separating them from the lighter isotope. The gas enriched in the lighter isotope, located closer to the center of the bowl, flows towards the top of the machine, while the gas with the heavier isotope flows towards the bottom. The enriched and depleted products are recovered at either end of the machine.

4.4.3.4. Market and competitive position

Available worldwide enrichment capacity⁽¹⁾ is approximately 36 million SWU, excluding 5.5 million SWU from the dilution of HEU from Russia's defense program (see section 4.4, "Strategy and Outlook" of the Front End division), for which Usec of the United States is the sole importer. Available capacities are shown below.

Operator	Available capacity	Technology
USEC - Production	5 million SWU/yr	Gaseous diffusion
USEC - Russian HEU	5.5 million SWU/yr	Dilution
AREVA / Eurodif (France)	10.8 million SWU/yr	Gaseous diffusion
Rosatom (Russia)	12 million SWU/yr	Centrifugation
Urenco (UK, Germany, Netherlands)	8.1 million SWU/yr	Centrifugation
CNNC / China	1.1 million SWU/yr	Centrifugation
Other (Japan, Brazil)	0.3 million SWU/yr	Centrifugation
Total	42.8 million SWU/yr	

Source: AREVA.

The AREVA group thus has approximately 25% of the world's total available capacity, HEU included. World supply is equal to world demand, estimated at 44 million SWUs in 2006, as follows:

- Eastern Europe and Russia: 17%
- Asia: 22%
- Western Europe: 32%
- North and South America: 29%

AREVA has the largest share of the Western European enrichment market, ahead of Urenco and Rosatom. In Eastern Europe, the demand is almost entirely met by Rosatom, for historical reasons.

In the United States, part of the demand is met with enriched uranium diluted from HEU recovered from Russian weapons and imported by Usec under an exclusive agreement, supplemented in part by Usec's domestic production. Both Urenco and AREVA operate in the US market, despite the edge that Usec has due to its access to HEU. Nonetheless, Usec filed dumping and illegal subsidies claims against the European companies. The decisions

(1) Taking into account agreements limiting Russian sales in the European Union and the United States.

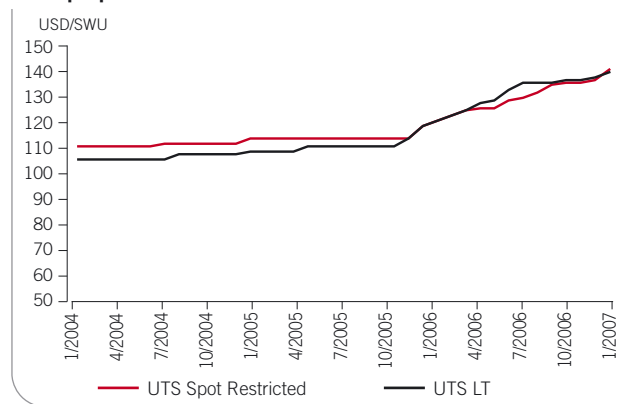
4.4. Front End division

handed down in 2006 were favorable to AREVA (see section 4.14.5). Usec is also the largest supplier to Asia, mostly for historical reasons, ahead of Urenco and AREVA, with JNFL and CNNC supplying marginal quantities.

Excess capacity characterized the 1995-2000 period, mainly due to the use of HEU, which caused prices to fall. This was amplified by Usec's commercial strategy in the face of growing competition from the other enrichers at a time when the US dollar was very strong against the euro. Prices started to rise in 2001, primarily in the US market. The spot price had risen from \$80.00 (2001) to \$135.00 per SWU by the end of 2006, as shown in the graph below. Since then, prices have risen modestly as markets anticipate a potential imbalance between supply and demand. However, the price rise in dollars is significantly offset by the fall in the dollar/euro exchange rate over the period.

Most of the *Enrichment* business unit's services in 2006 were made in euros in the euro zone, and much of the backlog from Asia and North America, quoted in US dollars, is hedged.

SWU spot prices from 2004 to 2006 (in current US dollars)



Source: average SWU values published monthly by Nuexco/TradeTech.

Market growth is limited in volume but relatively secure, especially in Asia, where nuclear power programs are growing faster than in the other three major regions of the world. The growth in this market is also due to the widespread increase in nuclear power plant load factors, burn-ups requiring higher enrichment assays, and new projects.

The general lowering of tails assays sought by utilities, driven by the rapid price increase for natural uranium, is another factor.

The market is also regulated by geopolitical considerations. In Europe, the Euratom Supply Agency monitors the supply of uranium and enrichment services in accordance with the Corfu Declaration, which governs SWU imports into the European Union. In the United States, implementation of the HEU agreement allows imports into the US of materials from dismantled Russian weapons. Pursuant to the Suspension Agreement, Russia also agrees not to deliver any other enrichment service to the United States.

4.4.3.5. Relations with customers and suppliers

Customers

The market for enrichment services is a medium-term market, with contracts currently signed for 3-5 year periods on average. In addition to EDF, the *Enrichment* business unit has close to 30 utility customers divided among the United States, Europe and Asia, representing commitments from a hundred reactors worldwide.

Suppliers

As long as the gaseous diffusion process remains in service, electricity is the business unit's largest procurement.

As in previous years, the *Enrichment* business unit constantly seeks to procure electricity on the market at a competitive cost.

4.4.3.6. Operations and highlights

The main event of the year was the closing of the agreement with ETC Urenco and its shareholders. This agreement gives AREVA access to the centrifuge technology developed by ETC.

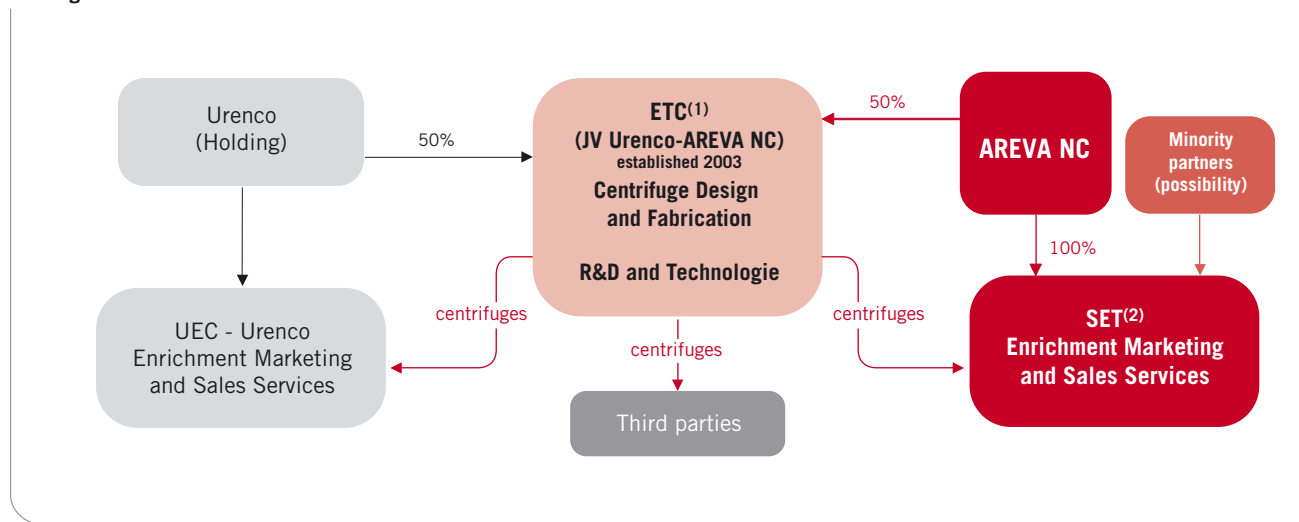
AREVA became an ETC shareholder on July 3, 2006. The group owns 50% of the company, alongside Urenco. Simultaneously, AREVA gains access to the centrifuge technology of ETC, which will be responsible for designing and manufacturing the centrifuges.

AREVA was thus able to start the construction of the Georges Besse II plant at its Tricastin site, for which construction permits were issued in March 2006. Public inquiries were concluded on July 21, 2006 and the inquiry commission issued a favorable opinion on the application to build the plant. The regulatory process to license the plant and administrative permits concerning effluents and water usage are ongoing and should be completed in 2007.

Civil works and construction have begun. The first enrichment module is scheduled to start up in early 2009 and the plant will ramp up until nominal capacity is reached.

The legal structure of the holdings is shown in the following figure.

ETC legal structure



(1) Enrichment Technology Company.

(2) Société d'Enrichissement du Tricastin.

Source: AREVA.

Commercially, 2006 was a fruitful year, with a high level of enrichment services sales continuing from previous years and new orders, especially from Asia, Europe and United States, strengthening the backlog.

The Georges Besse plant achieved scheduled production levels and deliveries while demonstrating its ability to adjust to work load.

For more information regarding the customs dispute initiated by USEC against Eurodif in December 2000, refer to "Disputes" in section 4.14.5 of this annual report.

4.4.3.7. Outlook and development goals

Demand is assured for the next 20 years, based on current nuclear power programs and the known service life of reactors. Growth is limited but relatively steady. Growth in Asia should coincide with the nuclear revival in some countries, particularly the United States and Finland.

In the medium term, and subject to a rising US dollar compared with the euro, the *Enrichment* business unit should see its backlog continue to fill up and be more evenly balanced among the three large markets of Europe, the United States and Asia. The export backlog has risen. As of the end of 2006, the average export backlog was equal to five years of sales.

Eurodif and EDF signed an amendment to the enrichment services supply contract in January 2007 to set terms for 2007 and to extend the contract for at least one more year. The contract has been in force since 1996.

For the coming years, the *Enrichment* business unit's main goal is to transition smoothly from the gaseous diffusion process to the centrifuge enrichment process. The total capital cost of the Georges Besse II project is about €3 billion⁽¹⁾ over the 2006-2018 period.

(1) In constant 2001 euros.

4.4. Front End division

4.4.4. FUEL BUSINESS UNIT

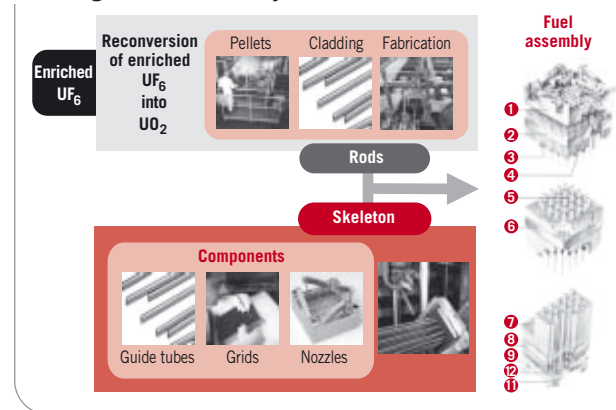
4.4.4.1. Key data

(in millions of euros, IFRS)	2006	2005
Sales revenue	1,248	1,113
Workforce at year end	5,245 employees	5,252 employees

4.4.4.2. Businesses

The *Fuel* business unit designs, fabricates and sells nuclear fuel assemblies for PWR and BWR power plants and for research reactors. The fissile material remains the property of the customer. In addition to conventional enriched uranium oxide fuel, the business unit also supplies MOX fuel and enriched reprocessed uranium fuel (ERU – see Glossary) using fissile materials recycled from used fuel. The *Fuel* business unit sells part of the group's MOX fuel. The Back End division's *Recycling* business unit fabricates the MOX fuel (see section 4.6.1.) and may also sell MOX fuel rods directly to other fuel designers/vendors.

Main stages in fuel assembly fabrication



Source: AREVA.

Reactor safety is a function of several requirements:

- containment of all radioactive materials, as defined by nuclear safety standards, under both normal and accidental conditions;
- control of the chain reaction; and
- cooling of the reactor core.

Fuel assemblies contribute to reactor safety by sealing fissile materials and radioactive fission products inside zirconium alloy cladding, which forms the primary containment barrier.

Once unloaded from the reactor, the fuel assembly must continue to provide fissile material and fission product containment. Fuel design must also allow for residual heat dissipation and fuel handling, even after

having been stored for relatively long periods. In addition, the fuel design must allow for treatment when the closed fuel cycle has been chosen.

Used fuel is replaced every 12 to 24 months with partial core reloads representing 20% to 50% of the total number of assemblies in the reactor, depending on core management techniques and fuel assembly performance.

The number of assemblies replaced simultaneously constitutes a reload.

The *Fuel* business unit has expertise in every aspect of the fuel design and fabrication process, from the production of zirconium and its alloys to fabrication of the final fuel assembly. Nuclear fuel is by no means an ordinary or easily substituted product. A large number of advanced scientific and technical skills are needed to achieve flawless design and fabrication quality, an absolute requirement. The *Fuel* business unit has expertise in three key areas:

- Design: This includes neutronic, thermo-hydraulic and mechanical strength codes and a database built on lessons learned from many years of reactor operations. Fuel designs are referenced in the reactor license application, making the fuel designer one of the utility's most important partners during discussions with the nuclear safety authorities.
- Zirconium and zirconium alloy production: This draws on expertise in chemical and metallurgical processes and technologies.
- Fuel assembly fabrication: This requires knowledge of chemistry, powder metallurgy, various assembly techniques, including advanced welding, mechanical systems and machining, and numerous non-destructive examination methods and physical/chemical analyses.

The *Fuel* business unit also manufactures and markets finished and semi-finished zirconium products. Several of the business unit's competitors – fuel designers and/or fabricators – are also its customers.

4.4.4.3. Manufacturing capabilities

The *Fuel* business unit is organized into three business lines:

- “Design and Sales”, based in Germany, France and the United States;
- a “Zirconium business” line encompassing the full range of manufacturing processes, from zircon ore to finished product, which operates five plants in France and one in Germany, with each plant specializing in one aspect of zirconium metallurgy or forming;
- “Fuel Fabrication”, organized into seven plant sites, two in the United States and five in Europe, which mainly supply European utilities.

The *Fuel* business unit includes two other entities:

- Cerca has plants in France and is mainly active in the fabrication and sale of fuel elements for research reactors, a market in which it is the world leader. It also fabricates and sells radioactive sources for medical and laboratory applications.
- Federal Operations, located in the United States, provides nuclear engineering services to the US Department of Energy (DOE) as well as to other federal government programs.

4.4.4.4. Market and competitive position

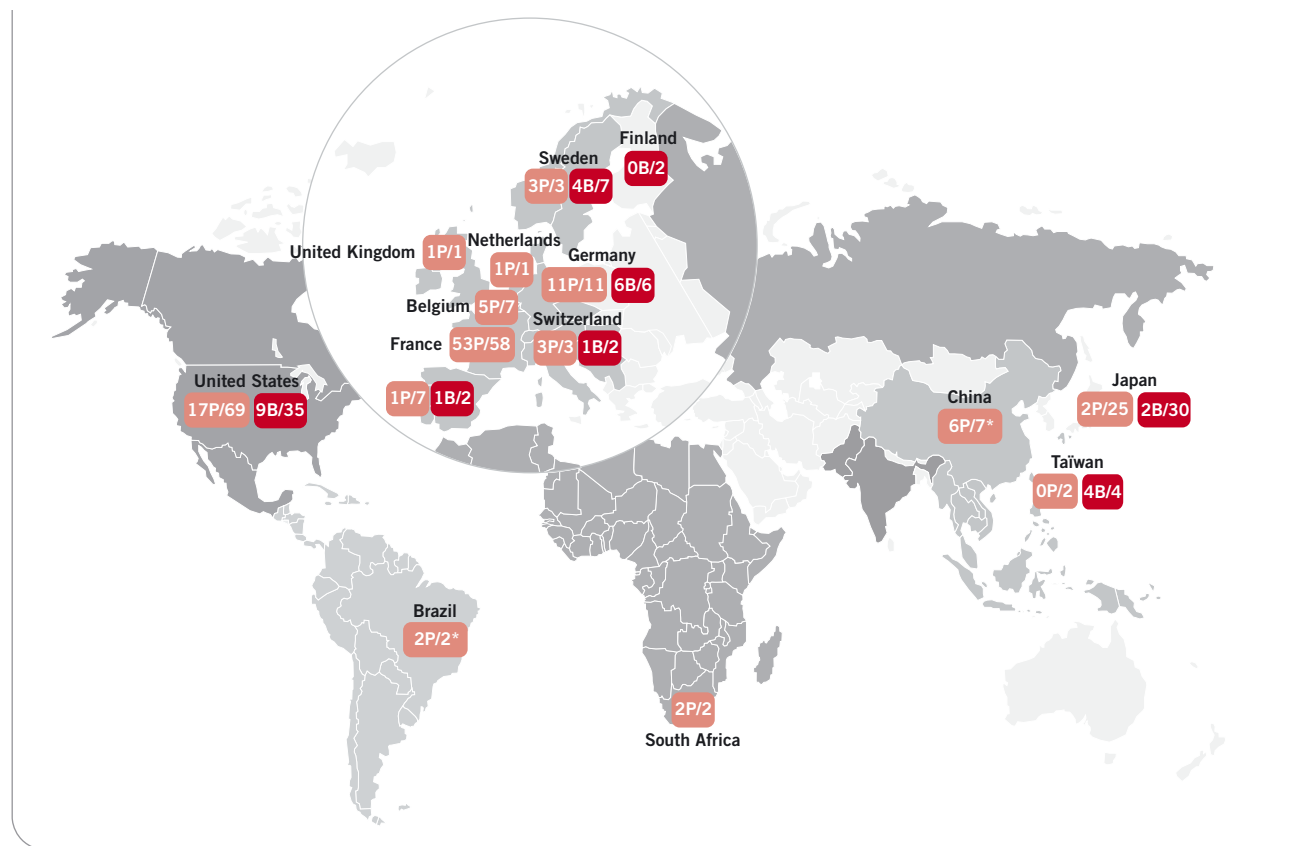
The *Fuel* business unit's principle business is the fuel assembly market for BWRs and PWRs – excluding the Russian-designed VVERs – and

for research reactors. AREVA's share of this market is stable at about 40%.

In 2006, the worldwide market, excluding the former Soviet Union, represented about 6,000 MTHM (uranium or plutonium) contained in the assemblies. The United States accounts for 37% of world demand, Europe 36% and Asia 27%.

The fuel industry has reorganized several times over the past few years, leaving three leading groups to satisfy 80% of global fuel demand: AREVA, Westinghouse and GNF. Over the years, the AREVA group has supplied a total of close to 180,000 fuel assemblies to its customers, two-thirds of them PWR and one-third BWR. Today, 134 of the world's 308 operating PWRs and BWRs (as of the end of August 2006, excluding VVERs) routinely use AREVA fuel, as shown in the figure below.

World map of reactors loaded with AREVA fuel



* Local fabricator that uses AREVA NP technology.

Note 1: P = pressurized water reactor (PWR); B = boiling water reactor (BWR). (-/-) = Number of reactors supplied with fuel by AREVA / total number of reactors in service.

Note 2: In addition to the 286 PWR and BWR reactors in operation worldwide shown on this map, there are also PWRs and BWRs that do not use AREVA fuel, located in Mexico (2 BWR), Slovenia (1 PWR), South Korea (16 PWR), India (2 BWR) and Pakistan (1 PWR).

Sources: IAEA, WNA (August 2006).

4.4. Front End division

Of the 134 reactors supplied with fuel by AREVA:

- two-thirds are reactors designed by AREVA, demonstrating the synergies between the *Fuel* business unit and the Reactors and Services division, which account for 92% of AREVA's installed capacity;
- the other third represents 21% of AREVA's competitors' installed capacity.

As the following charts show, the AREVA group is the European leader and continues to win market share in the United States.

This stability is explained to a large extent by the fact that 2006 deliveries were made under the same multi-year contracts that governed 2005 deliveries.

Market share of fuel players in 2006

EUROPE

Total European market: 2,120 MT/year

PWR market in Europe = 1,775 MT/year

79% - AREVA

21% - Westinghouse + Enusa



BWR market in Europe = 345 MT/year

34% - AREVA

28% - GNF Genusa (Geus + Toshiba + Hitachi)

38% - Westinghouse + Enusa

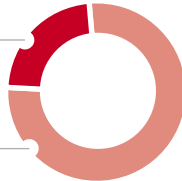
**UNITED STATES**

Total United States market: 2,200 MT/year

PWR market in United States = 1,405 MT/year

23% - AREVA

77% - Westinghouse + Enusa



BWR market in United States = 795 MT/year

28% - AREVA

5% - Westinghouse + Enusa

66% - GNF Genusa (Geus + Toshiba + Hitachi)

**ASIA**

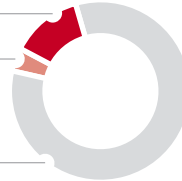
Total Asian market: 1,605 MT/year

PWR market in Asia = 885 MT/year

13% - AREVA

4% - Westinghouse + Enusa

83% - Other



BWR market in Asia = 720 MT/year

9% - AREVA

18% - Other

73% - GNF Genusa (Geus + Toshiba + Hitachi)



Source: Nuclear Assurance Corporation (*FuelTrac*, 8/2006 edition); average values for 2006 ± 1 year.

The existing requirements of operating reactors still determine demand, which continues to be generally flat in terms of volume, since the number of reactors connected to the grid worldwide is expected to remain relatively stable until 2010. A noticeable increase in fuel demand will occur when a sufficient number of new power plants have been connected to the grid, considering that older reactors will be retired in the meantime.

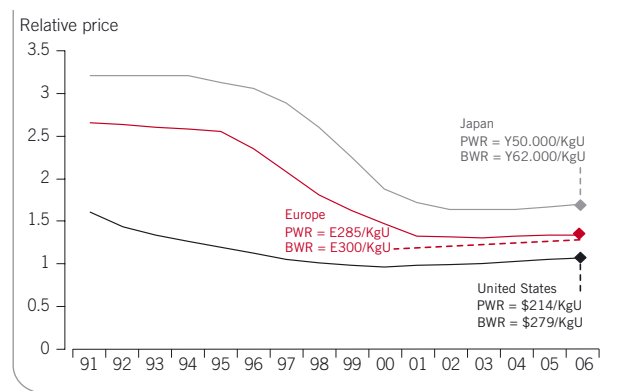
Under these circumstances, excess fuel fabrication capacity continues at the global level.

BNFL's sale of its subsidiary Westinghouse to Toshiba signals a new phase of reorganization among suppliers. Already, the first fallout has been felt: Mitsubishi terminated its cooperative agreement with Westinghouse, while Hitachi signed an agreement with General Electric, and Mitsubishi and AREVA signed a memorandum of understanding. These tremors can be seen as precursors of a general reorganization of the market, particularly in Asia.

Utilities are also reorganizing, with a proliferation of financial investments between electric power producers.

All these elements are contributing to price harmonization in the main regions of Asia, Europe and North America.

Fuel fabrication prices



Source: CKA.

4.4.4.5. Relations with customers and suppliers

Customers

AREVA operates mainly under multi-year contracts covering one or more reactors for the same utility. These contracts usually include services such as transportation and handling, technical support for fuel loading and unloading operations, fuel inspection during scheduled outages, or even underwater repair of damaged fuel rods or assemblies at the utility's reactor site. Given their

importance for customer operations, the contracts normally include penalty clauses, generally capped at the amount of the fuel supplier's services. Warranties are provided for:

- fuel integrity under normal operating conditions and up to the contractual "burn-up" (see Glossary);
- satisfactory reactor operations at nominal power;
- compatibility with fuel assemblies already in the reactor, recognizing that the reactor core is refueled in fractions; and
- transportability and the ability to be stored safely after irradiation.

Suppliers

Fuel fabrication entails chemical and physical conditioning of enriched uranium, followed by its "encapsulation" in a metal structure. The *Fuel* business unit's utility customers own the enriched UF_6 delivered by the enrichment plant.

Generally speaking, rising energy prices and pressures on demand from China's economy have increased prices for all commodities.

The zirconium needed to fabricate most of the *Fuel* business unit's products is affected by pressures in the zircon market. Zircon is the basic commodity from which metallic zirconium is extracted at the Jarrie plant. While the cost of magnesium and electricity stabilized in 2006, the costs of zircon and carbon black increased by 14% and 18% respectively, despite long-term procurement contracts.

Subcontracted fabrication services primarily relate to spacer grid stamping, a key structural component of the fuel assembly. This service is secured via a partnership agreement with Métalis, the main provider of these services.

4.4.4.6. Operations and highlights

Commercially, several significant orders were recorded in 2006:

- The €100 million MOX supply contract with EDF was extended for one year, to 2007.
- A contract valued at more than €130 million to supply several enriched reprocessed uranium (ERU) reloads was signed with Gundremmingen.
- AREVA's contract with TVA was extended to Sequoyah 1 and 2, for around \$70 million.
- In research reactor fuel, Cerca won several important contracts (JRR3, NRG, BR2, etc.), while Cezus extended its contract with Timet Savoie to provide industrial services at the Ugine site through 2015, representing more than €50 million.

4.4. Front End division

After several years of work, a significant milestone was reached in fuel product development and licensing: the French regulatory authorities licensed the operation of EDF reactors on a “MOX parity” basis, i.e. with equivalent burn-up for MOX fuel and UO₂ fuel and an identical reload schedule.

In manufacturing, the Fuel business unit continued to optimize its manufacturing capabilities in 2006:

- The renovation program begun at the Romans plant in France in 2004 is on schedule and within budget. The €100 million project, to be carried out during the 2005-2008 period, will meet more demanding safety, security and radiation protection standards. The government published a decree setting Romans’ maximum conversion capacity at 1,800 MT and maximum pellet loading and fuel assembly capacity at 1,400 MT. The administrative operating permit for 1,000 MT of pellet loading and fuel assembly was received.
- The Lingen site in Germany submitted an application to increase conversion capacity from 650 MT to 800 MT.
- The Richland site in the United States completed the reclamation of effluent retention lagoons linked to an older conversion process. The State of Washington delivered the required paperwork confirming that the project is complete.

Organizationally, the *Fuel* business unit continued to develop its cross-cutting, business line-oriented organization. Following the example of the “Zirconium” and “Design and Sales” business lines, the Fuel Fabrication business line is now organized in a cross-cutting manner over the three regions of France, Germany and the United States.

The goal of the new organization and the increased capacity is to ensure flexibility and security of supply to provide the best possible response to customer requirements.

4.4.4.7. Outlook and development goals

In a stable market, the *Fuel* business unit’s backlog represents three years of sales revenue as of the end of 2006. The business unit’s objective is to bolster its international market share by expanding its market positions in the United States and Asia, chiefly China and Japan, while maintaining its strong European base and preserving its operating margin at all times.

To achieve this objective, the business unit is implementing a series of targeted actions:

- In products, the *Fuel* business unit is continuing to simplify its portfolio of existing products and to reduce the number of manufacturing processes. Development programs, including Gaia (PWR) and Delta (BWR), will be pursued to satisfy already identified long-term requirements. The purpose of these programs is to define the fuel assemblies destined to replace existing designs by the years 2010-2015.
- On the manufacturing side, the business unit is continuing to optimize its production plants to gain the flexibility needed to respond to a wide spectrum of customer requirements while improving productivity.

These actions are combined under the umbrella of the Zero Tolerance for Failure initiative (ZTF) launched by the business unit in 2003. That initiative is helping to meet customers’ increasing expectations for impeccable product and service quality.

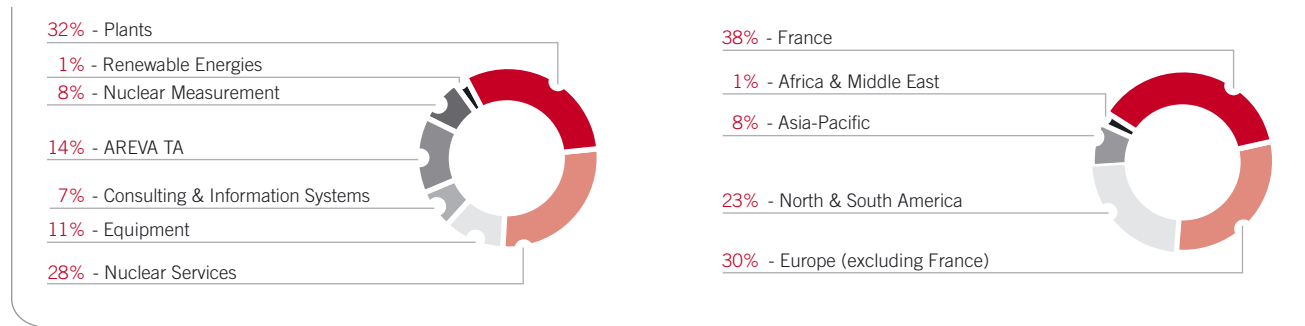
4.5. Reactors and Services division

KEY DATA

(in millions of euros, IFRS)

	2006	2005
Sales revenue	2,312	2,348
Operating income	(420)	87
Workforce at year end	14,936 people	14,323 people

2006 sales revenue by business unit and region



OVERVIEW

The Reactors and Services division contributed 21% to AREVA group sales. The division designs and builds the two leading types of reactors currently in use around the world – pressurized water reactors (PWR) and boiling water reactors (BWR) – as well as naval propulsion and research/test reactors. It also offers products and services for upgrades, inspection, servicing and day-to-day operations of all types of nuclear power plants, as well as for nuclear propulsion and nuclear measurement.

The division is organized into seven business units:

- *Plants* business unit: design, construction and engineering of nuclear power plants.
- *Equipment* business unit: design and fabrication of nuclear power plant components.
- *Nuclear Services* business unit: maintenance, inspection and servicing of nuclear power plants.
- *AREVA TA* business unit: design and fabrication of naval propulsion reactors and safety systems.

- *Nuclear Measurement* business unit: design and fabrication of nuclear measurement instrumentation.
- *Consulting and Information Systems* business unit: consulting, systems integration and MIS outsourcing.
- The newly-created *Renewable Energies* business unit, added in late 2006.

In terms of installed capacity, AREVA supplied the majority of the world's pressurized water reactors (PWR), representing close to two-thirds of all power reactors in the world, in competition with groups such as Westinghouse-Toshiba and Atomprom. Its reactors are located in key regions of the globe: North and South America, South Africa, China and Western Europe.

The group also has solid experience in boiling water reactors (BWR), for which General Electric is the world leader. The use of boiling water reactors is currently limited to the United States, Northern Europe and Japan.

4.5. Reactors and Services division

The new *Renewable Energies* business unit illustrates the strategy of expanding AREVA's offer as regards CO₂-free technologies. This business unit combines sales of biomass-based cogeneration systems, previously a part of the Transmission & Distribution division, and research and development on proton exchange membrane (PEM) fuel cells via Héliion, a company held by

AREVA TA up to now. It also includes AREVA's 29.9% interest in REpower, a German company that designs and develops wind turbines. AREVA made a friendly takeover bid for the remaining share capital of that company on February 5, 2007.

STRATEGY AND OUTLOOK

AREVA's primary objective is to confirm its world leadership in nuclear power by capturing one third of the accessible market for new power plant construction and by promoting the nuclear option as an alternative to fossil fuels throughout the world. This objective is accompanied by AREVA's determination to expand into renewable energies, a natural partner to nuclear power for fighting CO₂ emissions, in which a significant position is targeted by 2011.

In Europe, the group traditionally has very strong positions in France and Germany, which offer a recurring base for business. It has also developed business with other major operators, particularly in Northern and Eastern Europe, some of which have inherited Russian-designed power plants (there are 38 outside Russia) that constitute an attractive market for safety improvement and performance enhancement. For example, the group was selected alongside AtomStroyExport to finish the Belene power plant in Bulgaria.

AREVA's backlog includes the first two orders for Generation III reactor construction in Finland and France, with its Evolutionary Power Reactor (EPR), and plans to play an active role in the potential market for new nuclear power plant construction in the United Kingdom.

The United States, which has the world's largest installed base, is also a growth engine for the division. The group is number one in the services business in that country, particularly with the integration of Siemens' nuclear operations in 2001 and the acquisition of Duke Engineering & Services in 2002. AREVA has conquered considerable market share in the US, particularly for heavy equipment replacement, instrumentation and control system modernization, and service life extension. In September 2005, the group established a joint company with Constellation Energy called UniStar Nuclear to promote the American version of the EPR, in partnership with Bechtel.

In Asia, China is the leading accessible market, pending the possible opening of the Indian nuclear market. The group has been active in China for 20 years, building four of that country's ten nuclear plant units in operation as of the end of 2006. AREVA is in discussions for construction of two EPR units in Guandong province.

The Reactors and Services division will implement its strategy along the following lines:

- Successfully complete construction of the first EPRs and mine lessons learned from them so as to optimize future projects.
- As a complement to the EPR, expand its offer in medium power reactors by designing a pressurized water reactor model in partnership with Mitsubishi Heavy Industries and by finalizing the inherently safe SWR 1000 boiling water reactor design, both in the 1000-1250 MWe power range.
- Strengthen and structure nuclear engineering resources at the regional level to meet an expected sharp increase in demand in the coming years. A major worldwide recruitment effort has been under way since 2004-2005. The group plans to continue its policy of selective acquisitions and alliances in this field.
- Ensure the security of the supply chain for reactor construction by investing as necessary, such as the 2006 acquisition of Sfarsteel in large scale forgings production, and by entering into partnerships as necessary, following the example set by the agreement with BWXT in the United States.
- Continue to develop expertise in the reactor services field and offer innovative integrated services, particularly as regards unit outage management.
- Pave the way for the reactors of the future, in particular by participating in international research and development programs pertaining to Generation IV fast neutron reactors and high-temperature reactors (see section 4.14), for which the group has a strong knowledge base from past efforts in France and Germany.
- Develop the renewable energies business by maximizing in-house synergies.

4.5.1. PLANTS BUSINESS UNIT

4.5.1.1. Key data

(in millions of euros)	2006	2005
Sales revenue	741	769
Workforce at year end	4,163 people	3,962 people

4.5.1.2. Introduction and definitions

A “nuclear power plant” is defined as an industrial plant that generates electrical or thermal energy from one or more nuclear reactors. A “nuclear reactor” is a system that produces heat from the energy released by the fission of uranium and plutonium atoms during a controlled chain reaction. A “nuclear steam supply system” is the combination of equipment used to produce pressurized water vapor from fission energy. A “nuclear island” is the system encompassing the nuclear steam supply system and the fuel-related facilities, as well as the equipment required for the system’s operation and safety. A “conventional island” consists of the alternating current turbogenerator coupled to it, along with the equipment required for their operation.

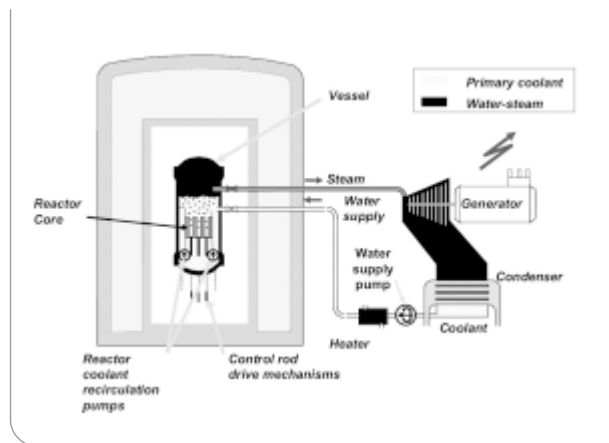
A nuclear power station consists of a nuclear island, a conventional island and miscellaneous equipment.

In nuclear power stations, the turbogenerator unit is driven by the steam produced by energy released through fission of the material in the fuel constituting the reactor core.

Light water reactors (in which water is used as both the coolant and the moderator) now count for more three quarters of the nuclear power reactors in service worldwide. There are two major types of “light” water reactors, as opposed to the heavy water used in other reactor types: boiling water reactors (BWR) and pressurized water reactors (PWR).

In BWRs (see figure below), water vaporizes in the vessel containing the core, comprising the fuel assemblies. The heat from the core is released into the water flowing through it. This steam drives the turbine, then cools and returns to liquid form in the condenser before recirculation in the reactor vessel. Thus, in a BWR, the water is in a closed cycle in which the steam expands directly into the turbine.

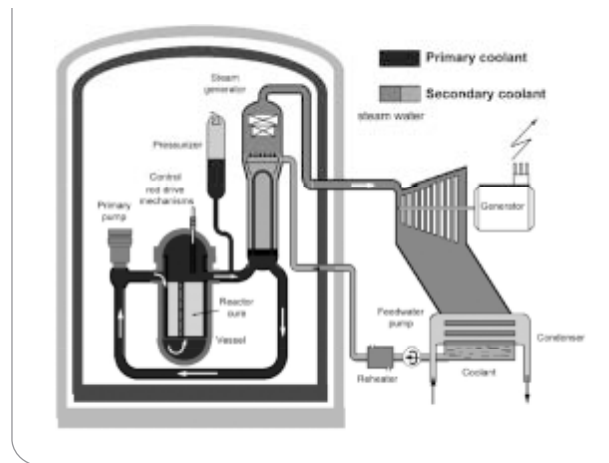
Boiling Water Reactor (BWR) operating concept



Source: AREVA.

In a PWR (see figure below), an intermediate cooling system – the secondary cooling system – is placed between water in the primary cooling system, heated by the reactor core, and the turbine. The heat generated in the reactor’s primary cooling system is released to the water in the secondary cooling system via heat exchangers called steam generators. The water from the secondary cooling system is vaporized in the secondary part of the steam generators, and the resulting steam drives the turbine. The “energy generation” function is thus separate from the “steam generation” function in the PWR.

Pressurized Water Reactor (PWR) operating concept

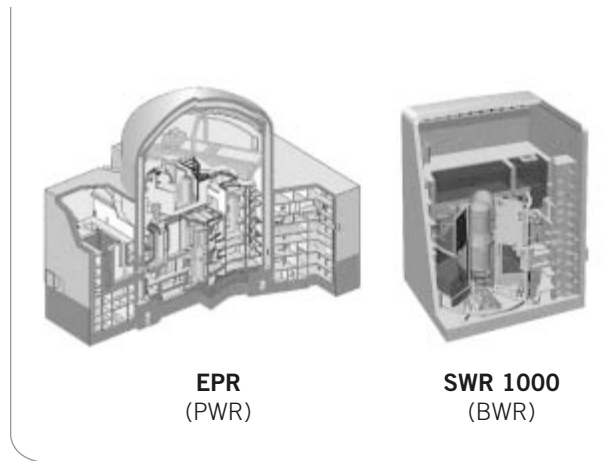


Source: AREVA.

The group is involved in both of these reactor technologies, which represent the majority of reactors in service worldwide.

4.5. Reactors and Services division

The group offers two Generation III reactors



The Evolutionary Power Reactor, or EPR, is a Generation III reactor and the most advanced PWR marketed by AREVA. It uses either 5%-enriched uranium oxide fuel or MOX fuel (see Glossary). Its net electrical output is approximately 1,600 MWe. Compared with earlier generations of reactors, the EPR provides substantially improved performance paired with better economic competitiveness, an even better safety level through significant technological advances, simplified operations and maintenance, and even more satisfactory solutions to environmental concerns (15% reduction in the generation of long-lived radioactive waste). The EPR also has an estimated service life of 60 years, as compared with an initial service life of 40 years for other reactor types.

There have not as yet been any orders for the SWR 1000 (Siede Wasser Reaktor) developed by AREVA, the latest model of boiling water reactors. Positioned in the medium-capacity market, the SWR 1000's electrical output ranges from 1,000 to 1,250 MWe. This new generation of reactors reduces the cost of the kilowatt-hour by taking advantage of existing technology, reducing maintenance requirements and offering a 60-year service life. Waste volumes are reduced by optimizing fuel burnup. Overall reactor safety is enhanced through passive safety systems, especially in the unlikely event of a core meltdown.

The business unit's operations are similar to those of an engineering firm and are not capital-intensive. Nonetheless, significant guarantees must be given to cover reactor performance commitments. There is also growing reliance on partnerships with local engineering firms and constant attention to updating skills.

4.5.1.3. Businesses

The *Plants* business unit is involved in every aspect of nuclear steam supply system and nuclear island construction, from design through connection to the grid. It also provides engineering services to support reactor operations, including service life extension, performance enhancement and renovation.

The business unit's main resource is its engineering staff. It serves as project manager for reactor upgrades and construction. The business unit does not have its own manufacturing capabilities, turning instead to the *Equipment* business unit and subcontractors for that purpose.

The business unit is active in the following segments:

a) Nuclear island construction:

- design, construction and start-up of nuclear islands;
- design and fabrication of electrical systems and advanced instrumentation and control systems for new reactors.

b) Recurring operations to support operating reactors:

- engineering services to support heavy component replacement, enhance performance, extend service life, and other renovations and improvements to power plants and their operations;
- upgrades to and renovation of instrumentation and control systems;
- services for fast neutron reactors, including their dismantling;
- a variety of services for research reactors.

c) Research and development activities (see section 4.5.1.7.).

4.5.1.4. Manufacturing and human resources

The *Plants* business unit's primary assets are engineering resources in:

- France (35% of the workforce),
- Germany (45% of the workforce),
- the United States (20% of the workforce), and
- personnel on temporary assignment with customers worldwide.

The *Plants* business unit also has its own advanced technology development and testing capabilities, with facilities at its technical centers in Karlstein and Erlangen, Germany, and in Creusot and Chalon, France.

To prepare for growth in the new reactor construction segment, a plan to strengthen the business unit's human resources was set in motion in 2003, resulting in the hiring of almost 400 engineers per year since then, mainly in France, Germany and the United States. The plan significantly lowered the age pyramid while stepping up subcontracting and mobility within the group. The business unit is also strengthening ongoing interaction among personnel based in France, Germany and the United States, and revitalizing the sharing and dissemination of skills.

4.5.1.5. Market and competitive position

For recurring business, AREVA estimates the total accessible market – meaning the market comprising the signatory countries of the complete Treaty on the Non-Proliferation of Nuclear Weapons – at around €1.8 billion per year. The *Plants* business unit is a frontrunner in this market for business relating to the design of nuclear steam supply systems, for which it is an original equipment manufacturer (OEM). This business is growing in the instrumentation and control systems and electrical systems segment.

For new construction, AREVA is the leading nuclear reactor constructor in the West to have received new reactor orders since 1999. Its competitors are Westinghouse, sold by BNFL to Toshiba of Japan in 2006, General Electric in the United States, FAE in Russia, and AECL in Canada.

New reactor construction is a market that is destined to grow considerably. The forecasts see the need for 150 to 500 gigawatts of new electrical generating capacity by 2030 (see section 4.2.2.3).

4.5.1.6. Relations with customers and suppliers

The business unit's customers are nuclear utilities all over the world, both for new construction business, where contract values are high, and for non-recurring business covering a very wide range of projects and unit amounts.

Generally speaking, the *Equipment* business unit is the in-house supplier of strategic long-lead heavy components for nuclear power plants, including the reactor vessel, steam generators, reactor coolant pumps and pressurizer. Auxiliary equipment (piping, valves, tanks and heat exchangers) is purchased from traditional suppliers that the group has certified for quality assurance.

4.5.1.7. Research and development

Research and development funded by the *Reactors* business unit within the framework of the group's overall research and development programs represented 4% of the business unit's sales in 2006. Total research and development spending, corresponding to all committed costs, rose by almost 20%.

Whether conducted in-house or in partnership with research organizations, research and development efforts focused on:

- all of the key technologies for pressurized and boiling water reactors and for the design of or changes to new reactor models;
- development and validation of modeling tools and related methods in the fields of nuclear safety and process, control of thermohydraulic and mechanical events, materials performance, and quantification of failure modes;
- development of products and engineering services to support the existing reactor fleet and its service life.

In the United States, work on the EPR's certification continued. The business unit is devoting considerable funds to this effort.

The business unit continued to plan for the future through its work on Generation IV reactors:

- Development of a commercial high-temperature reactor for mixed power/heat generation through its ANTARES program (AREVA New Technology based on Advanced gas-cooled Reactors for Energy Supply). Work to define the reference configuration was completed in late 2006 after a three-year preliminary design phase. Efforts will now focus on finding partners to continue this development work.
- Renewed development of sodium-cooled fast neutron reactors, a long-standing area of expertise: Research on innovations in this field began in 2006 following recent government decisions favorable to fast neutron reactors.

In addition, discussions were opened with Mitsubishi to define a medium power pressurized water reactor under a Memorandum of Understanding concluded on October 19, 2006 in Tokyo, which lays the groundwork for a cooperative agreement between AREVA and Mitsubishi in the nuclear energy field.

4.5.1.8. Operations and highlights

Reactor construction projects

In France

As a logical extension of a previously initiated process (public energy debate in 2003, framework energy policy legislation of July 13, 2005, public debate from October 2006 to February 2007 on the appropriateness of the EPR project at Flamanville), EDF decided in May 2006 to build the first in a series of EPRs at its Flamanville site (the FA3 project) and applied for a construction permit (autorisation de création) from the government. It also continued to prepare for the project by issuing large procurement contracts, including contracts to AREVA for forgings of key heavy components and, following a competitive procurement, for the operating instrumentation and control system.

AREVA and EDF have agreed upon the main contract for the construction of the nuclear steam supply system, which should be signed in early 2007. Construction work has long been scheduled to start as of December 1, 2006.

The construction permit should be issued in early 2007.

In Finland

The contract for the turnkey supply of an EPR power plant at Olkiluoto (the OL3 project), signed in December 2003 between customer TVO and the AREVA/Siemens team, stipulates extremely tight lead times: only four years after the first concrete is poured, compared with normal lead times of five to six years for such a project.

4.5. Reactors and Services division

Furthermore, licensing by the Finish regulator has to be conducted at the same time as construction.

In view of the problems inherent in building a first-of-a-kind reactor – including reactivation of the entire chain of nuclear subcontractors after a long period of inactivity – and in the approval process for documentation specific to the Finish licensing framework, TVO and the AREVA/Siemens team had to revise the reactor delivery schedule. Start-up is now scheduled for late 2010 / early 2011.

In the civil engineering area, the problems encountered in producing nuclear-quality concrete were resolved and construction is proceeding normally. In particular, the foundation slab for the reactor building was poured in the autumn of 2006 under cover of a metal enclosure.

Heavy component fabrication is moving forward at a good pace for the majority of components, i.e. the reactor vessel and vessel head and the steam generators. However, in view of the EPR's capacity, and thus of the size of the primary piping, some manufacturing processes have to be readjusted to ensure the inspectability of these components during operations.

(see also section 4.14.3.2, Risk factors).

In China

Following an international call for tender issued in September 2004 for Generation III reactors, the Chinese and American regulators signed an agreement on December 16, 2006 that opens the door to a competitor for the construction of four nuclear islands.

The Chinese utilities are also pursuing their program to duplicate the existing second-generation nuclear units. AREVA is already involved in building the Ling Ao 3 and 4 units (Ling Ao Phase II), having won both a contract for the design and supply of all the primary system components (primary package) and a contract for the supply of instrumentation and control systems, teamed with Siemens. Other similar projects are currently being launched: in late November 2006, the business unit responded to a call for tender for the instrumentation and control systems of six other units. It has already been awarded the procurement contracts for the forgings for two units.

In the United States

The US nuclear landscape remains very encouraging and the business unit continued to focus on certifying and promoting the EPR, as well as on preparing for the first construction projects, in line with the strategy defined in 2005.

As for the EPR model for the American market (US EPR), preparation of topical reports for the certification application is progressing smoothly. The application should be submitted in late 2007 for certification by the Nuclear Regulatory Commission sometime in 2010.

Similarly, an application for a combined construction permit and operating license (COL) for a first US EPR is being developed with utility Constellation Energy for its Calvert Cliffs site. Constellation

Energy plans to submit the application to the NRC in the first quarter of 2008 and expects to receive an operating license before the end of 2010.

Discussions continued with Constellation Generation, UniStar Nuclear Development (its wholly owned subsidiary) and architect-engineer Bechtel in preparation for the first US EPR construction projects. Discussions focused on the industrial organization and supplier selection for the turbine-generator, for which a request for proposals was organized. AREVA entered into an agreement with BWX Technologies, Inc. (BWXT), a subsidiary of McDermott International, Inc., aimed ultimately at helping to help restart US manufacturing of heavy equipment for US nuclear power plants. It focuses on the manufacturing of equipment for the future fleet of US EPRs and of replacement equipment for existing power plants. In addition, the first large forged parts – with long procurement lead times – ordered for the Calvert Cliffs EPR are currently being manufactured in Japan and France.

In Bulgaria

Following the agreement reached in late 2006 between customer NEK and AtomStroyexport of Russia (ASE) to complete two Russian-designed VVER 1000 units in Belene, the business unit, teamed with Siemens, will act as ASE's designated subcontractor to supply various plant systems, especially the instrumentation and control, electrical and ventilation systems.

Other prospects

The "nuclear revival" continues to take shape, providing new opportunities for EPRs in several countries, including:

- the United Kingdom, where the regulatory authorities are organizing conditions for restart and preparations have begun for pre-licensing of the EPR ;
- South Africa, which announced its choice of the PWR technology for subsequent phases of its nuclear program.

Recurring business

Though the relative share of recurring business still represented almost two thirds of the business unit's sales revenue in 2005 and 2006, this figure is gradually falling and is expected to be about half in 2007, owing to a foreseeable increase in reactor construction activities.

Recurring business nevertheless remains strong in a market that continues to be supported by utility investment in renovations to maintain or improve their production tools to the maximum of their capabilities. Recurring business includes a broad range of services for numerous customers, mainly in AREVA's three "national" markets of France, Germany and the United States, but also for many customers located elsewhere, particularly in Sweden, South Africa and China.

Instrumentation and control system overhauls, mainly consisting of replacing obsolescent analog technologies with digital technologies,

represents a significant proportion of these renovation operations. The business unit has several multi-year projects under way at Dukovany in the Czech Republic, Loviisa in Finland, Ringhals 1 in Sweden, Philippsburg 2 in Germany, Qinshan 1 in China, and Oconee in the US.

Other recurring business includes several hundred scope contracts in varying amounts, exemplified by the following examples.

In France

The large number of EDF power plants still requires updates to a voluminous quantity of technical documentation, such as the “Regulatory Reference Documents for 900 MW and 1,300 MW units”. Similarly, for the third ten-year inspections of the 900 MW units, EDF is making a series of significant modifications in which the business unit is taking part (OEM Package).

In Germany

The “grand coalition” is maintaining the political consensus on the phase-out of nuclear power, thus discouraging utilities from launching major programs. Some of them, however, appear to be determined to continue investing to ensure their long-term production capabilities, like EnBW and RWE, which are preparing an important safety optimization program to justify keeping their Neckarwestheim 1 and Biblis A power plants in service.

In Sweden

The E.On and Vattenfall electric utilities decided to allocate considerable investment to renovations, respectively focusing on:

- Unit 2 of the Oskarshamn power plant (BWR): the PLEX project to revamp the instrumentation and control system and electrical systems under a contract awarded to the business unit at the end of 2006;
- Unit 4 of the Ringhals power plant (BWR): the FREJ project to replace three steam generators and the pressurizer, and to increase capacity. The business unit is in charge of developing backup documentation as part of the overall contract awarded to AREVA.

4.5.1.9. Outlook and development goals

The outlook is still good for recurring business, given the utilities’ determination to optimize reactor reliability and availability, extend service life, and enhance performance. The business unit’s objective is to secure recurring business for the future by adjusting its offer to new customer requirements, improving its methods and work tools, and harvesting product synergies among the three regions.

With regard to new reactor construction projects, the business unit’s short-term objective is to strengthen its leadership position in new power plant construction and to seize the many opportunities available, particularly with the acceleration of the Chinese nuclear program, utility initiatives in the United States, and signs of a revival of nuclear programs in several countries.

4.5. Reactors and Services division

4.5.2. EQUIPMENT BUSINESS UNIT

4.5.2.1. Key data

<i>(in millions of euros)</i>	2006	2005
Contribution to consolidated sales revenue	251	227
Workforce at year end	1,924 people	1,922 people

4.5.2.2. Businesses

The *Equipment* business unit's primary activity is the fabrication of mechanical components for the nuclear island:

- It designs and manufactures heavy components for the nuclear island, including reactor vessels, steam generators and pressurizers.
- It designs and fabricates moving components for the nuclear island, such as reactor coolant pump sets and control rod drive mechanisms that regulate the reaction in the reactor core. Having worked for several decades on optimizing these components for EDF, the business unit now has recognized expertise in this field, particularly in reactor coolant pumps.
- It manufactures large scale forgings used in the fabrication of heavy components for the nuclear island as well as for the petrochemical industry.

The *Equipment* business unit included electromechanical operations until December 29, 2006, when it sold this business to the Altwest group so as to refocus on its core nuclear business. It continues to maintain wind turbines manufactured by JSPM⁽¹⁾.

4.5.2.3. Manufacturing and human resources

The Saint-Marcel plant near Chalon-sur-Saône, France, is dedicated exclusively to manufacturing heavy nuclear equipment for the nuclear steam supply system (NSSS). The main building covers a surface area of 39,000 m² (9.64 acres) and has a lifting capacity of 1,000 metric tons. With an average workforce of 720 people in 2006, the plant is capable of manufacturing the equivalent of two nuclear islands per year, not including moving equipment. Since opening in 1975, the plant has manufactured all of the heavy components for the 900 MWe to 1,450 MWe units in the French nuclear program and had delivered more than 525 heavy components – reactor vessels, vessel heads, steam generators and pressurizers – to customers around the world as of the end of

(1) JSPM is the new name for the Jeumont plant.

2006. The capacity upgrades program was completed in 2006 with start-up of a heavy component hall extension (+2,900 m²), doubled broaching capacity, and overhaul of key machinery.

The Jeumont plant in northern France manufactures nuclear and non-nuclear equipment. Built in 1986, the plant employed 789 people⁽²⁾ in 2006. It has lifting capacity of 350 metric tons and its workshops cover a surface area of 59,000 m² (14.6 acres)⁽³⁾. The size of the plant is such that capacity can be added without major difficulty. In nuclear equipment, the plant specializes in the manufacture of moving mechanical components for the nuclear island and replacement parts for this equipment, including cooling pumps for the reactor coolant system and control rod drive mechanisms. It also provides related services.

Another subsidiary, Somanu, has a facility to decontaminate nuclear power plant equipment prior to repair. That company, located not far from Jeumont in Maubeuge, had an average workforce of 41 people in 2006.

The AREVA Dong Fang joint venture formed with the DFEM group in 2005, based near Chengdu, China, is currently building an assembly facility for JSPM-designed reactor coolant pump sets, which should facilitate supply to the Chinese market.

In addition, in buying the Sfarsteel group on September 8, 2006, the *Equipment* business unit increased its production capacity for large forgings needed to make heavy components for the nuclear island. The new industrial resources in Creusot and the neighboring areas (Saône-et-Loire department of France) include a blast furnace with two presses (including one 11,000 MT press) and substantial machining capabilities provided by special large-capacity machines. These resources also include mechanized welding and machining facilities for mechanical sub-assemblies. The Sfarsteel group consists of four distinct companies with a total workforce of 393 people in 2006.

4.5.2.4. Market and competitive position

The business unit's accessible market consists of all pressurized water reactors. Expansion to the boiling water reactors market in the longer term is also a possibility. The nuclear equipment market consists of two segments: the component replacement market and the new power plant market. These markets have grown substantially with the arrival of programs to extend the life of power plants rather than replace them and the restart of new power plant construction. This trend coincides with more exacting demands from customers, stiffer competition, and price pressures accentuated by the US dollar's continued weakness. The business unit must also cope with growing pressures on the commodities market, especially for steel.

(2) 459 people without the electromechanical operations, sold December 29, 2006.

(3) 31,000 m² without the electromechanical operations.

Supply slightly exceeds demand in this market, where the competition, consisting of five companies, is global: Doosan and Mitsubishi Heavy Industries in Asia, Ensa and Camozzi (formerly Ansaldo) in Europe, and Babcock & Wilcox in North America. In the United States, the Asian and European competitors are often associated with the US company Westinghouse, which provides engineering and project management. In addition, the trend was towards market restructuring in 2006, with Toshiba's buyout of Westinghouse, the alliance between GE and Hitachi, and the MHI partnership with AREVA in the reactor field.

The business unit occupies a dominant position in France, although EDF has completely opened up the large market for steam generator fabrication to the competition. Prices having risen considerably due to higher commodity costs, especially for forgings and tubing, but margins have not followed suit and remain low for heavy components. Despite the challenging situation, the business unit's market share should stay at around 80%.

Price pressures arising from the weak US dollar continue overseas, where the competition is not waning. It will be challenging to maintain the leadership position the business unit has acquired over the past five years in the US, where its market share is 30%, without locating part of its production there. It is worth noting that the US market differs from the European market in terms of the wide range of US utility requirements. Appropriate responses are required, incorporating not only the supply of heavy components for a variety of reactor models, including those of Westinghouse, Babcock & Wilcox and Combustion Engineering, but also their integration and installation in the existing plant, sometimes with capacity increases. In this environment, the synergies between the products and services of the business unit's three plants and of the US-based engineering and services teams are crucial to bringing the global solutions expected by the utilities and are a key discriminator in terms of the competition.

The other key export business corresponds to the particularly dynamic Chinese market, especially for new power plant construction. Even more than in the United States, a strong local presence is crucial to penetrating this market. Along these lines, the business unit formed a jointly-controlled joint venture with the electrical machinery group DFEM. The purpose of the joint venture is to manufacture and market Jeumont-designed reactor coolant pump sets.

Opportunities are available elsewhere in the world as well, particularly in Northern Europe, Brazil and South Africa.

The market for moving components is also oriented towards replacement parts and equipment maintenance services. The Jeumont plant's main competitor in this market is Westinghouse, especially in the United States. The Japanese company Mitsubishi Heavy Industries is also a challenger.

The market for large forgings is extremely attractive, in light of weak supply and the current strong demand. The only competitor in this market is JSW of Japan, whose impressive production capacities enable it to make very large forgings. This ability makes JSW a key player in the manufacture of large forgings of heavy components for the nuclear island.

The replacement market should begin to sag around 2010, in both France and the United States. This trend should be offset by the restart of new reactor construction programs (see *Plants* business unit). Already, the new power plant market generated 50% of the business unit's activity in 2006 and will dominate in the coming years. The environment for this development will be similar to that of the replacement market: fierce competition and continued downward price pressures for now. A key success factor will be the ability to locate part of production to the customer's country.

4.5.2.5. Operations and highlights

Two major events significantly changed the business unit's scope of operations in 2006. The first was the acquisition of the Sfarsteel group, which gave the sector production capacity in large forgings. The second involved the sale of JSE's electromechanical operations.

On the commercial level, the replacement market proved to be particularly active, with several significant contract wins.

In France, the group won a contract to supply six replacement steam generators for the Blayais and Chinon power plants against competition from the Japanese company Mitsubishi Heavy Industries (MHI). In the US market, two major contracts were signed. The first was to supply two replacement steam generators for Prairie Island 2 unit, less than two years after delivery of the steam generators for unit 1. The second was for the replacement and installation of two reactor vessel heads at the Diablo Canyon power plant in California for PG&E. In Sweden, the *Equipment* business unit joined with the *Nuclear Services* business unit to win a key contract for the supply and installation of three steam generators and a pressurizer as part of the Ringhals plant's capacity upgrades. The *Nuclear Services* business unit will be in charge of component installation. In South Africa, the *Equipment* business unit again teamed with the *Nuclear Services* business unit to win a contract to supply a reactor vessel head for Eskom's Koeberg power plant.

On the new power plant market, the United States took a step forward when Constellation signed a purchase option for forgings for an EPR power plant expected to start up in 2015.

From a project standpoint, the year saw a ramp-up in contracts for new power plants, particularly for the manufacture of heavy and moving components for the Olkiluoto 3 power plant in Finland. The Saint-Marcel plant is working hard on this project and has gone to a five-shift operation. At the Jeumont plant, manufacture of reactor coolant pump sets and mechanisms only really started in the summer, once the Finish regulator has issued all the necessary permits.

On an industrial level, the Saint-Marcel plant completed its capacity upgrades program and started a three-year program to reduce by half the time needed for components to go from one end of the workshop to the other. By decreasing this time, it hopes to improve plant performance levels and to stand out from the competition, which has similar manufacturing lead times for

4.5. Reactors and Services division

the time being. A vast revamping program was launched at the Jeumont plant and will continue through 2011.

With a view to future developments in new power plant construction in the United States, the business unit formed a partnership with BWXT, a subsidiary of the McDermott group, to base heavy component manufacturing in America. It should be noted that this concerns the manufacturing aspects only; design, procurement and technical supervision remain the responsibility of the Saint-Marcel plant.

4.5.2.6. Relations with customers and suppliers

Customers

EDF continues to be the *Equipment* business unit's leading customer, although export sales have grown in recent years. The business unit's exports go largely to US utilities, Chinese conglomerates, and of course the Finnish utility for the construction of the Olkiluoto 3 nuclear island. Deregulation and an increasingly competitive market are prompting US customers to demand more financially attractive contracting mechanisms, especially with regard to warranties, delivery schedules and performance-based remuneration. The preference is for global service proposals covering the supply of replacement components, the replacement operations themselves (see *Services* business unit), and related engineering and licensing support. As the only entity in this market capable of offering all of these supplies and services, the AREVA group has a considerable competitive advantage.

Suppliers

The *Equipment* business unit uses two main categories of suppliers in the nuclear field: tube-makers for steam generator tubing and steel companies for heavy components made of forged steel parts.

There is only a handful of steam generator tubing manufacturers. Three of them serve the Western market: Sandvik in Sweden, Valinox in France, and Sumitomo in Japan. Their capacities will meet requirements over the next few years. Considering the critical nature of these supplies, the Saint-Marcel plant has formed alliances with two of the steam generator tubing manufacturers by reserving capacity for long-term requirements.

There are also very few competing steel-makers capable of meeting the quality standards of the nuclear industry. Most of them are concentrated in Italy (Safas and Terni), the United States (Lehigh) and Asia (Doosan in South Korea and JSW in Japan). Of these companies, only JSW is positioned on the market for large forgings, which is also occupied by the Sfarsteel group. China also has considerable capacity (especially CFHI), but companies there have not yet been qualified to meet nuclear industry requirements.

Limited capacity to meet strong demand from the petrochemical industry puts these suppliers on the critical manufacturing path for most of the components produced by the business unit, i.e. forgings and tubing for heavy components, and forgings for reactor coolant pump set casings. Against this backdrop, the business unit was able to secure forging capacity and strengthen its position for this commodity by buying the Sfarsteel group. More than half of the *Equipment* business unit's requirements will be met by the Sfarsteel group, making it possible to continue serving the large petrochemicals market.

4.5.2.7. Research and development

The business unit is working primarily on:

- improving welding processes;
- reducing lead times for component design and manufacturing;
- increasing the service life of reactor coolant pump components;
- developing a 60 Hz pump for the US EPR;
- commercial production of EPR control rod drive mechanisms and improving onsite and in-plant welding processes for the services component;
- part of the business unit's R&D budget is devoted to studying the feasibility of manufacturing components for the reactors of the future (VHTR and ITER).

Concerning Sfarsteel, efforts will focus on improving forging quality and on finding alternative solutions to the systematic use of large forgings, in particular by using a "design-to-cost" approach.

4.5.2.8. Sustainable development

The *Equipment* business unit continued its occupational safety performance improvement efforts in 2006. These efforts paid off with a reduction in the accident frequency rate from 23.3 in 2003 to 5.2 in 2006 for the business unit as a whole⁽¹⁾. The most significant improvement in 2006 was achieved at the Saint-Marcel plant, after several years at a significantly higher level.

In addition, the 5% per year reduction target⁽²⁾ for fossil fuels, electricity, water and paper was met.

All of the sites received OHSAS 18001 certification in 2006, and the Jeumont plant's ISO 14001 certification was renewed.

4.5.2.9. Outlook and development goals

With a healthy backlog of orders, the medium term outlook for the *Equipment* business unit is good. The Saint-Marcel plant will be operating at capacity and Jeumont will begin capacity upgrades aimed at doubling production capacity for pumps and mechanisms in the 2010-2011 time-frame to keep pace with expected development in the new power plant construction market.

The business unit's main challenges are:

- successful integration of Sfarsteel and completion of the upgrades plan to increase capacity from 155 to 195 ingots per year;
- optimization of Saint-Marcel plant performance, particularly by shortening production schedules for heavy components.

(1) Excluding the Sfarsteel group.

(2) Adjusted for changes in operations.

In 2007, new production capacity will also be started up in local markets:

- in the United States, the first reactor vessel head will be fabricated at the BWXT facilities;
- in China, the reactor coolant pump set fabrication facility of the AREVA Dong Fang joint venture will enter service.

Longer term, new power plants orders are expected, helping to offset the decline expected in the replacement market around 2010.

4.5. Reactors and Services division

4.5.3. NUCLEAR SERVICES BUSINESS UNIT

4.5.3.1. Key data

(in millions of euros)	2006	2005
Sales revenue	644	727
Workforce at year end	3,585 people	3,317 people

4.5.3.2. Businesses

The *Nuclear Services* business unit offers services enabling utilities to improve the availability and productivity of their power plants and extend their service life while maintaining a high level of safety.

- These include outage services, which are recurring maintenance operations for which the *Nuclear Services* business unit coordinates and integrates different servicing and inspection operations to reduce outage times. A scheduled outage must be kept as brief as possible and may require teams of more than 1,000 people, some of whom are employees of the *Nuclear Services* business unit, while others are subcontractors and still others the customer's subcontractors. In this case, the *Nuclear Services* business unit's mission may be to coordinate all contractor operations and activities.
- Primary component services, including repairs, servicing and replacement of heavy components in the nuclear steam supply system.
- Non-destructive inspections, which are inspections of safety-related equipment required by regulation. The *Nuclear Services* business unit is the world leader in reactor vessel and steam generator inspections, with a wide range of inspection services for all types of operating reactors.
- Decontamination and chemical cleaning to reduce radiation exposure during repairs and servicing.
- Engineering services and upgrades, drawing on the designer/constructor skills and experience of the *Plants* business unit.
- Services for reactor instrumentation and control systems and electrical systems.
- Offsite servicing of contaminated components in hot workshops⁽¹⁾.
- Some dismantling is also performed on equipment from the reactor coolant system, where expertise in component size-reduction, disassembly and decontamination can be offered.

AREVA's *Nuclear Services* business unit offers the world's largest portfolio of products and services for all reactor types, drawing on its leadership position in the French, German and American nuclear power programs, recognized technical expertise, and a strong international presence.

4.5.3.3. Manufacturing and human resources

By definition, the *Nuclear Services* business unit provides services to customers that operate nuclear power stations. The business unit has all of the resources it needs to develop and certify the processes and tooling it uses to carry out these services.

In addition, the business unit has access to hot workshops⁽¹⁾ in Europe and the United States for offsite maintenance, and to two facilities dedicated to personnel training and education: Cetic in France, co-owned by EDF and AREVA NP, and another facility in the United States.

To provide proximity to the customer and continuous personalized service, staff is regionally based, chiefly in the following countries:

- France: 1,600 people;
- Germany: 700 people;
- United States: 640 people.

The business unit also operates through subsidiaries in Sweden (Uddcomb), Spain (Tecnimarse), Canada (AREVA ANP Ltd.), China (SNE) and South Africa (Lesedi).

4.5.3.4. Market and competitive position

Market

The potential market for the *Nuclear Services* business unit consists of PWRs and BWRs and, to a lesser extent, Candu and VVER reactors.

Outages for servicing and maintenance, or to replace heavy components, are scheduled for these reactors every 12 to 24 months. Each unit outage generates a market ranging from a few million to tens of millions of euros.

AREVA estimates the worldwide nuclear services market at around €3 billion per year for PWRs and BWRs alone, divided equally among Europe, North and South America, and Asia. The market is stable on the whole. Key market drivers are the aging of the world's plants, new reactor construction, and deregulation of electricity markets, accompanied by price pressures.

The barriers to market entry vary according to the segment. Being an original equipment manufacturer (OEM) is a decisive advantage in the area of engineering services and performance improvement,

(1) A hot workshop is a specialized workshop in which contaminated components can be cleaned, maintained and repaired without the constraints of plant outage schedules.

just as it is for primary component services. Differing regulations can also limit access to certain domestic markets.

Competitive position

The competitive landscape evolved in 2006 when Toshiba of Japan bought Westinghouse, previously ranked second worldwide behind AREVA. Now two major players, AREVA and Toshiba-Westinghouse, are competing for first place in the services sector. Following their respective 20% share of the market come Mitsubishi Heavy Industries of Japan, with about 11%, and General Electric, with less than 10%. GE ended the year with a strong alliance with Hitachi of Japan.

The remaining 40% is divided among powerful local companies, such as KPS in the Republic of Korea and AECL in Canada, and a multitude of other specialized companies in every country with nuclear power plants.

The trend is towards consolidation of nuclear services companies and increasingly fierce global competition.

4.5.3.5. Operations and highlights

On the whole, sales revenue for 2006 was significantly impacted by the lack of heavy component replacements. Operating income was nevertheless in line with the forecast and new orders rose in comparison with 2005.

In France, business was relatively good, despite EDF's postponement in late December 2006 of the only steam generator replacement, at Bugey 4. Unit outages were performed without incident. The integrated maintenance services contract signed with EDF in late 2004 continued, with 21 services performed in 2006, compared with 23 in 2005. As in 2005, the reactor vessel and steam generator inspection business was very strong, both in France and overseas. EDF awarded a contract to the *Nuclear Services* and *Plants* business units to perform modifications during the next ten-year inspection of the 900 MWe units.

In Germany, the services contract for four EnBW power plants was extended to 2010. AREVA also won and completed a contract to dismantle in-vessel equipment at the Wuergassen power plant (cutting, decontamination and canisterization). A proposal for similar operations was submitted to E.ON for the Stade plant.

In the United States, business was down compared with last year, mainly due to the lack of heavy component replacements. Unit outages went well, but the percentage of coincidental operations proved to be lower than in 2005, resulting in lower sales revenue. Several contracts were won, including the integrated services contract for the next six unit outages of the Salem plant (Public Service Electric & Gas Company – PSE&G), the contract for replacement of the TMI steam generators (Exelon), and the contract for installation of two reactor vessel heads at Diablo Canyon 1 and 2 (Pacific Gas & Electric Company - PG&E).

In Spain, South Africa, the People's Republic of China and Sweden, the business unit's local platforms are increasingly well integrated into the sector and actively contributing to sales revenue growth. The increase in AREVA's equity interest in the South African company Lesedi, from 41% to 51%, in early November helped strengthen AREVA's position in this developing market.

In the United Kingdom, the eighth unit outage of the Sizewell B plant (British Energy) included replacement of the reactor vessel head and was completed successfully.

Several strategic export contracts were won in 2006. In Spain, the business unit's subsidiaries Tecnimarse of Spain and Uddcomb of Sweden joined forces to win a key maintenance contract for Iberdrola's Cofrentes plant. In South Africa, a contract was signed for the supply and replacement of the reactor vessel head at the Koeburg plant operated by Eskom. In Sweden, Vattenfall group chose the business unit over Westinghouse and MHI for a contract to manufacture and replace the steam generators and pressurizer at its Ringshals 4 plant, and for studies to increase related capacities. In Brazil, where Electronuclear awarded an integrated services contract for the 2006 outage of Angra 2 in the beginning of the year, the new contract for the next outage in March 2007 was also signed.

4.5.3.6. Relations with customers and suppliers

Customers

The *Nuclear Services* business unit's customers are utilities in Europe (France, Germany, Belgium, Great Britain, Spain, Sweden, Switzerland and Slovenia), Asia (China, South Korea, Japan, Taiwan), North America (the United States, Canada), South America (Brazil) and South Africa. The business unit routinely provides services in 30 countries. EDF is our leading customer, at about a third of the business unit's activity, while US utilities represent a total of more than 40% of the business unit's activity.

Deregulation pressures are pushing the market towards global solutions to achieve performance objectives, lower costs and extend power plant service life, all while improving safety levels. These new requirements are leading operators to combine services under integrated maintenance services umbrellas, or – especially in the United States – under multiyear “Alliancing” contracts, or under contracts combining component supply, engineering services, modifications and maintenance services, and even fuel supply.

These new business models are good news for integrated service providers with a global reach such as AREVA.

4.5. Reactors and Services division

Suppliers

Three-fourths of the business unit's procurement is for services. The services business is a highly seasonal one, dictated by reactor outage schedules and optimization of regional electricity supply. Also, the trend is towards reducing reactor outages by concentrating a maximum number of operations into a minimum amount of time.

The business unit must therefore adapt to extreme variations in workload every year. To achieve this, the business unit has entered into numerous partnership agreements with different suppliers to accommodate exceptionally heavy workloads as well as requests for specific crafts. These suppliers and service providers are certified in terms of quality and technical ability to ensure compliance with the basic requirements for this type of work.

4.5.3.7. Sustainable development

The business unit's operations do not have a significant impact on the environment. Only the hot workshops are subject to specific monitoring due to the radioactive operations performed there. We have set a priority on harmonizing assessment models for these impacts.

The *Nuclear Services* business unit is working to control and limit its employees' radiation exposure during servicing operations in customer facilities. Its goal is to adhere to the 20 mSv/year limit that the group wanted to adopt as a single standard for managing its employees' radiation exposure.

All *Nuclear Services* business unit facilities have had ISO 14001 certification since the end of 2005.

4.5.3.8. Outlook and development goals

Two key factors will impact operations in 2007:

- several heavy component replacement operations will occur in France and in the United States, with a significant impact on the business unit's operations;
- new markets will emerge thanks to innovative services like Asset Management, in which the market – led by the United States – is beginning to be interested.

While developing these innovative offers on a contractual and technical level (including information systems support), the *Nuclear Services* business unit will continue to strengthen its positions in export markets by developing and integrating its local platforms in the People's Republic of China, the South African Republic, Spain and Sweden. Additional strategic joint ventures, acquisitions and partnerships will be considered in 2007, based on strategic objectives for each country. The business unit will continue to strengthen its technological leadership and capacity for innovation in the medium to long term, as these are key success factors in a fiercely competitive market.

4.5.4. AREVA TA BUSINESS UNIT

4.5.4.1. Key data

<i>(in millions of euros)</i>	2006	2005
Sales revenue	314	316
Workforce at year end	2,048 people	2,017 people

4.5.4.2. Businesses

Design of power supply systems for naval propulsion

The core business of the *AREVA TA* business unit is designing, manufacturing and maintaining nuclear reactors and related equipment for naval propulsion, and providing related services. This business meets stringent safety, reliability and availability requirements.

The market consists of nuclear powered vessels, industrial facilities and related testing. It requires mastery of key methodologies and technologies, such as systems architecture, project management, digital safety technology, safety analysis, thermohydraulics and neutronics, acoustics and vibration, and integrated logistical support. Nuclear reactors designed by *AREVA TA* have powered the French Navy's submarines and aircraft carriers during all of the fleet's operating missions for more than 30 years.

AREVA TA also provides propulsion-related services and systems, including reactor control systems, monitoring systems, and acoustic discretion for facilities, systems and components. *AREVA TA* has unique experience as a designer and facilities operator for the CEA. In addition to its reactor design activities, the business unit provides support to the operator of onboard submarine and aircraft carrier reactors in the form of services, maintenance and training. This includes support for the management and operation of characterization, training and test reactors, whose role is to prevent technological and human risk at several levels: validation of onboard reactors before sea duty, full-scale testing of innovations, endurance tests, predictive maintenance, and operator training.

Engineering of complex facilities and systems, and design of safe electronic systems

The *AREVA TA* business unit has recognized expertise in the engineering of complex systems and in the design and manufacture of safe electronic systems and equipment, both onboard and on land. These systems ensure the safety, comfort, reliability and availability of highly safe facilities in the manufacturing, nuclear power, and passenger and freight transportation sectors.

AREVA TA has secured its place in this market, which demands performance levels approaching those of the nuclear industry in terms of safety and availability, offering:

- automated monitoring systems for guided transport;
- safety monitoring systems for train conductors;
- operating parameter recorders, commonly called "black boxes," to record operating events;
- control systems to open and close subway doors; and
- train tracking systems.

In 2006, national defense projects accounted for about 58% of the business unit's sales revenue, while civilian nuclear power and industrial sectors such as transportation, industrial applications and the environment made up close to 42%.

4.5.4.3. Manufacturing and human resources

The business unit has five main manufacturing and engineering locations in France:

- Saclay, devoted mainly to support functions and marketing and project operations;
- Aix-en-Provence, dedicated to engineering projects;
- Cadarache, focused on in-service reactor support operations;
- Lyon, dedicated to acoustic and vibration solutions;
- Toulouse, devoted mainly to electronic equipment for industry.

4.5.4.4. Market and competitive position

AREVA TA works primarily in France in the industries of defense, large scientific and industrial instruments, guided transport and aerospace. For national security reasons, there are very few international business opportunities in naval nuclear propulsion.

Its competitors in these fields are traditional systems and technology engineering firms.

AREVA TA strengthened its operations in transportation, particularly in Asia, to bolster its position in relation to French and international systems competitors.

4.5. Reactors and Services division

4.5.4.5. Operations and highlights

Some of the year's highlights are described below.

- The French General Armaments Delegation (DGA) signed a contract for six Barracuda nuclear attack submarines with the French naval shipyards (DCN) and AREVA TA, the project's designated industrial partners. AREVA TA is the prime contractor for the nuclear steam supply system that will be used to propel these submarines. This contract for the largest naval program ever launched in France is noteworthy in that it not only involves designing and developing submarines, but also maintaining them in operating condition during their first years in service. The contract will significantly strengthen AREVA TA's position and help preserve skills in the field of naval nuclear propulsion.
- For onboard reactors on existing submarines and on the Charles de Gaulle aircraft carrier, AREVA TA continued to deploy support operations, involving in particular component upgrading and qualification operations for ships of the French Navy carried out during ship downtime.
- In 2006, ESA also turned to AREVA TA for the nuclear aspects of planning studies for the 2011-2013 EXOMARS project, which will send a Mars orbiter into space. The orbiter will be equipped with radioisotope heater units (RHU) designed to keep temperatures at requisite levels for operation of instrumentation, electrical circuits and onboard batteries.
- Completion of major safety system projects for urban and inter-urban guided transport, marked in particular by the commercial start-up of the MF 2000, a new-generation metro equipped entirely with safety systems designed and developed by AREVA TA. These onboard safety systems make MF 2000 one of the first subways worldwide to be driven entirely by digital safety control systems meeting the highest safety and reliability standards.
- The year saw a large increase in orders for the engineering of large instrumentation systems for science and industry. Design studies for the Jules Horowitz reactor began in 2006, as did preparations for the construction phase. AREVA TA continued to support the prime contractor at the Megajoule Laser project site in Bordeaux, especially during the phase involving insertion of the sphere designed to house the experimental devices in the building. In addition, AREVA TA was awarded a significant contract for safety studies of the International Thermonuclear Experimental Reactor (ITER).

4.5.4.6. Relations with customers and suppliers

AREVA TA's leading customers are the CEA, the French General Armaments Delegation, and the French naval shipyards, DCN. In the markets for nuclear power, transportation and manufacturing, the CEA, EADS and the Paris transit authority, RATP, account for the largest percentage of the business unit's sales revenue.

4.5.4.7. Research and development

Activities carried out under AREVA TA's research and development plan validated the previously defined strategy. Special emphasis was placed on continued research on the low-power reactor concept. In 2006, efforts led to the development of technology building blocks in the field of safety control systems.

4.5.4.8. Sustainable development

The AREVA Way self-assessment initiative was rolled out throughout the organization. In addition, AREVA TA's initiative to listen to stakeholders gave rise to a customer satisfaction survey and an employee opinion survey. Performance improvement goals were identified through these initiatives and broken down for each unit. Moreover, 80% of the business unit's suppliers signed the AREVA Sustainable Development Declaration.

Environmental performance improved significantly once certified environmental management systems were in place and following the employee awareness raising campaign aimed at reducing the business unit's energy and paper consumption.

4.5.4.9. Outlook and development goals

The outlook is for growing sales revenue in the coming years through successful application of engineering solutions and expertise to complex facilities. In addition, significant engineering and support services contracts in naval nuclear propulsion give the business unit greater visibility in terms of sales revenue over the next few years. Business in safety solutions for guided urban and inter-urban transport also indicates growing sales revenue for several years.

The AREVA TA business unit's development strategy continues to focus on several strong areas for growth: supplementing the AREVA group's commercial platform as a designer and supplier of advanced power systems and equipment for naval propulsion, and bringing highly safe and reliable solutions to industry, environmental protection and transportation.

The business unit will also continue to maintain a strong presence in the engineering of large scientific instrumentation, such as the Jules Horowitz reactor, the Megajoule laser and ITER, and of large and complex industrial facilities, and in the management of servicing and maintenance operations.

4.5.5. NUCLEAR MEASUREMENT BUSINESS UNIT

4.5.5.1. Key data

<i>(in millions of euros)</i>	2006	2005
Sales revenue	175	166
Workforce at year end	1,060 people	1,096 people

4.5.5.2. Businesses

The *Nuclear Measurement* business unit develops and markets safety and security measurement and monitoring solutions. It designs, manufactures and markets equipment and systems to detect and measure radioactivity, monitor nuclear facilities, characterize waste and for radiation protection. It also provides related services. Its products and services meet customer requirements for nuclear safety, occupational safety and monitoring of their production operations. In this respect, the *Nuclear Measurement* business unit plays an important role in the central issue of sustainable development for the AREVA group and its main customers, including nuclear operators, research laboratories and government services, in the areas of nuclear and occupational safety.

4.5.5.3. Manufacturing and human resources

The business unit integrates services with its equipment design, manufacturing and sales through 5 main marketing subsidiaries and some 30 offices on five continents.

In terms of manufacturing, the business unit is currently optimizing its operations worldwide by globalizing its production facilities in Europe, North America and Asia.

The business unit now has 9 production sites in the United States, France, Canada, England and Belgium. More than 320 employees work directly in production.

4.5.5.4. Market and competitive position

The nuclear measurement market, including the Homeland Security program in the United States, is a global niche market worth an estimated €900 million per year. The *Nuclear Measurement* business unit, which uses the Canberra brand, is the world leader in this market with a share of around 20% in 2006. The business unit operates in North America, the world's largest market (51% of 2006 sales), Europe (26%, excluding

France), France (14%), Asia (8%), and elsewhere around the globe (1%).

Its principal competitors are SAIC, Thermo, Synodis (MGP) and Ametek / Ortec, which together hold 40% of the market. The remaining 40% of the market is divided among a hundred minor players. The nuclear measurement market is attracting new competitors, particularly in connection with Homeland Security contracts from the US government contracts.

4.5.5.5. Relations with customers and suppliers

Customers

Traditionally, the nuclear measurement market's customers are nuclear power plants, fuel fabrication and treatment plants, radiation chemistry and environmental laboratories, scientific research laboratories and the medical sector.

In addition to these customers, the business unit serves public and private organizations in charge of radiation monitoring at national borders as well as emergency response teams and the armed forces. This customer category is growing, especially in the United States, through a program set up by the Department of Homeland Security.

To be more responsive to customer requirements in its different segments, the *Nuclear Measurement* business unit reorganized its marketing and sales departments into four business lines: Safety, Defense and Non-Proliferation, Nuclear Power Plants, and Laboratories and Fuel Cycle.

Suppliers

Of the commodities used by the business unit, the only one of particular interest is germanium, a copper residue that does not exist in the natural state, because only two or three entities in the world are capable of producing the hyper pure germanium crystals used to manufacture gamma-ray semiconductor sensors. As the largest of the three manufacturers, the *Nuclear Measurement* business unit has a competitive advantage. The other components and materials used by the business unit may be acquired without any particular constraint or risk.

4.5. Reactors and Services division

4.5.5.6. Operations and highlights

The year saw strong business in the defense sector, with new equipment orders from the US Army and the US Department of Homeland Security.

As part of its program on advanced spectroscopic portals (ASP), DHS chose Canberra in 2006 to develop a new generation of germanium-based detection portals to monitor incoming and outgoing border flows. Canberra was chosen for its spectroscopy expertise and engineering capabilities.

4.5.5.7. Outlook and development goals

The business unit's objective for 2007 and the coming years is the successful transformation of niche operations into a high-tech enterprise aimed at serving customers around the globe, particularly by consolidating its world leadership in the laboratories and fuel cycle market and by capturing additional market share in the nuclear power plant and homeland security markets.

4.5.6. CONSULTING AND INFORMATION SYSTEMS BUSINESS UNIT

4.5.6.1. Key data

(in millions of euros)	2006	2005
Sales revenue	156	143
Workforce at year end	2,101 people	2,009 people

4.5.6.2. Businesses

The *Consulting and Information Systems* business unit, under the trade names of Euriware and its subsidiary PEA Consulting, is active in three interrelated fields:

- information systems integration and optimization, representing about 37% of sales;
- supply chain, information system and enterprise management consulting aimed at enhancing overall business performance, representing about 6% of sales;
- evolutionary MIS outsourcing (see Glossary), representing about 57% of the business unit's sales.

The majority of the business unit's contracts are for recurring business, particularly MIS outsourcing, and more than 70% of its contracts are for periods ranging from three to five years.

In addition to the contribution to sales revenue indicated above, the business unit is responsible for managing the group's information systems and industrial information technology.

4.5.6.3. Manufacturing and human resources

The *Consulting and Information Systems* business unit's workforce of close to 2,100 people at year-end 2006 was divided among four regional departments in France: Île-de-France (greater Paris area, more than 40% of the workforce), Western France (about 30%), Central Eastern France (about 20%) and Southeastern France (about 10%). Three service centers in France provide hosting services and remote operations and management of systems and networks.

In 2006, Euriware bought two companies: Eurinfo, which works in the business intelligence field, and Russian-based Open Cascade, which specializes in digital simulation.

Internationally, the business unit entered into strategic partnerships via targeted agreements with manufacturers, software publishers, operators and consulting firms to manage projects in Europe, the United States and Asia. More specifically, a partnership with the Indian company Mastek was initiated in 2006.

4.5.6.4. Market and competitive position

The business unit is active in France's information technology (IT) market, which represented a total of more than €20 billion in 2006 (source: Syntec). The *Consulting and Information Systems* business unit is a recognized player in France, particularly in industrial information technology. The business unit competes with the leading industrial software and systems management firms on the French market.

4.5.6.5. Relations with customers and suppliers

Customers

The *Consulting and Information Systems* business unit's customers are major companies outside the group in the sectors of energy (EDF, the CEA), manufacturing (Sanofi-Aventis, Messier Bugatti, Renault), Defense (French Defense Ministry) and services (France Télécom, Natexis Banque Populaire).

Contracts with these customers generally run three to five years in the case of MIS outsourcing, and for shorter terms in the case of consulting and systems integration.

Suppliers

The *Consulting and Information Systems* business unit's resources consist of software, computer equipment and computer services subcontracts, all of which are integrated into Euriware's services. Its main suppliers are software publishers, including Microsoft, PTC, Oracle, SAP, Veritas, Computer Associates, EMC2 Documentum, Business Object, Filenet and Générax; equipment manufacturers, including HP, IBM, Sun and Dell; data storage suppliers, including EMC and Adic; and service providers, such as SCC.

4.5.6.6. Operations and highlights

In 2006, the consulting, systems integration and MIS outsourcing markets all took off again, although pressures on sales prices remained strong. The business unit took advantage of this growth and renewed all of its MIS outsourcing contracts due to expire, such as those with the Salins group and with the CEA.

In the field of systems integration, the French naval shipyards (DCN) chose Euriware for its Product Lifecycle Management (PLM) project, a major project to manage and share technical data throughout the ship lifecycle. Euriware also signed a contract with Europcar to integrate an electronic document management system. Lastly, the French General

4.5. Reactors and Services division

Armaments Division (DGA) awarded a major computer security project dubbed MTLID (French acronym for technical resources for defense computer security).

4.5.6.7. Outlook and development goals

The French software and data services market is expected to grow by 7% in 2007, according to forecasts by Syntec Informatique. Price pressures for services should remain strong.

The business unit's strategy over the medium term is to continue to develop its three main businesses, i.e. consulting, systems integration and evolutionary MIS outsourcing, as well as its high value-added services, using a streamlined and consistent approach to proposals and centering its position on its strong expertise. It also plans to expand its international business gradually and to establish new production resources for its customers in India and Russia.

Euriware is channeling its efforts into five business lines – total MIS outsourcing, industrial data processing, electronic document management and Product Lifecycle Management (PLM), information system security, and business solutions – to differentiate itself as it pursues its development. As part of the AREVA group's global offer, the business unit is proposing an increasing number of services to the group's major customers and developing proposals with other business units

4.5.7. RENEWABLE ENERGIES BUSINESS UNIT

Expanding on the strategic thinking first initiated when AREVA was established in 2001, the group formalized its renewable energies strategy in 2006.

Three pillars support this strategy: wind power, biomass and fuel cells.

In the field of wind power, AREVA acquired a 21.1% equity interest in REpower in September 2005, which was raised to 29.9% via a share capital increase in 2006. This equity interest is consolidated under the equity method in the group's 2006 financial statements. On February 5, 2007, AREVA made a friendly takeover bid on shares not already held by the group.

The group also has expertise in the design and construction of biomass plants. This is a strong business in global markets, specifically in India and Brazil.

In addition, the subsidiary Hélon was established in 2001 for the purpose of developing fuel cells in the medium- to high-power range and the technology for hydrogen production.

In October 2006, AREVA combined its equity interests in REpower, Hélon and biomass operations in the newly created *Renewable Energies* business unit. AREVA R, a subsidiary of AREVA, is in charge of developing business for this business unit.

4.5.7.1. Key data

<i>(in millions of euros)</i>	2006
Sales revenue	32
Workforce at year end	55 people

4.5.7.2. Strategy

The development of a renewable energies business is strongly linked to AREVA's mission: enabling everyone to have access to ever cleaner, safer and economical energy.

In a balanced CO₂-free energy mix, nuclear power and renewable energies complement each other, with one providing competitive baseload electricity while the other provides supplemental power when weather or local conditions permit.

The objectives of the business unit are to:

- expand the group's portfolio of CO₂-free energy production technologies;
- become a significant player in wind power and bioenergies by participating in their industrial development;
- extend AREVA's reach to high-potential geographical areas and to decentralized markets;
- translate AREVA's sustainable development commitments into action.

Renewable energies benefit from the Kyoto initiative, which gives special weight to this solution in the fight against the greenhouse effect, and from the rise in fossil fuel prices, which makes them more competitive.

Renewable energies are a trend destined to continue in Europe, which has set a goal of 21% of its electricity from renewable sources by 2020. They are also an undercurrent in other regions, with political initiatives on renewable energies multiplying in North America as well as in emerging countries such as China, India and Brazil.

4.5.7.3. Wind power

Market

In the short term, the wind power market is expected to yield the strongest growth. The International Energy Agency (IEA) forecasts that wind power's share of electricity generation will rise from 2% to 3% from 2005 to 2010, at which time it will represent a market of about €20 billion per year.

Europe, with its aggressive goal of 21% "green electricity" (compared with 15% in 2001), should continue to lead the market, building on wind power successes in Germany, Denmark and Spain. With the stagnation of hydropower and the relative maturity of other technologies, growth can only come from wind power, solar power and biomass. Wind power's solid learning curve gives it the strongest advantage of the three. Its share of the European market is expected to rise from 5% to 10%. In 2006, it represented a market of around €8 billion, up 20% from the previous year.

4.5. Reactors and Services division

AREVA's estimates are based on approximately 12% growth in wind power to 2010, with growth strongest in offshore wind power. AREVA hopes to establish a lasting position in wind power by seeking technology leadership in certain segments, such as large capacity wind turbines and offshore wind farms.

AREVA's position

Hamburg-based REpower is one of the leading players in the global wind power sector, specializing in high output turbine technology particularly suitable for offshore sites. REpower designs, tests, assembles and maintains wind turbines. The wind turbines fabricated by REpower range from 1.5 MW to 5 MW. REpower had 2006 sales revenue of €461.5 million. The company employs about 800 people and has a global market share of more than 3%.

REpower offers important manufacturing and marketing/sales synergies with AREVA's Transmission & Distribution division. The transmission and distribution sector accounts for a considerable share of the investment in wind power, given the technical difficulties raised by the intermittency of power generation for the grid.

What AREVA brings to REpower is:

- financial resources for its development, which will be needed to support the strong growth expected for this business;
- access to its client base and sales network through its commercial presence in more than 100 countries, particularly through its transmission and distribution businesses, where the group is very familiar with utilities and power system management companies alike.

4.5.7.4. Bioenergies

Market

A recent report by the International Energy Agency, "Energy Technology Perspectives: Scenarios and Strategies to 2050", forecasts that electricity from biomass will go from 1.3% in 2003 to 2-5% in 2050.

Bioenergy is CO₂-neutral, in the sense that the CO₂ released during combustion was captured by the plant during its growth. The use of bioenergy will foster rural development in some areas. It's also a good way to produce energy renewably without direct reliance on climate conditions.

In view of the costs to gather this resources and its abundance, development is expected to be concentrated in developing countries.

AREVA's position

AREVA is a forerunner in bioenergy technology development in France. These activities were previously part of the Transmission & Distribution division. The group has participated in some 20 projects over the past four years, assuming the role of turnkey power plant designer and builder and supplying substations to connect them to the grid.

AREVA is expecting sales revenue to triple in the next three years to around €120 million by 2009.

It is targeting several high-potential regions, including India, China, Brazil as well as Western Europe. The goal is for 60% of its sales revenue and workforce to be located outside Europe.

This growth will be achieved by developing two markets:

- biomass and lean gas combustion applications and industrial heat recovery;
- methanization and cogeneration facilities coupled with biofuel production.

4.5.7.5. Fuel cells and hydrogen

Market

Fuel cells are a key component of the future energy mix.

Fuel cells are clean, silent and have a high energy yield. The concept is to combine hydrogen and oxygen via a membrane, simultaneously creating water, heat and electricity.

Even though its implementation continues to be complex and costly, this technology is already capable of meeting targeted requirements. The development of new technologies and expanded applications should lead to widespread use in transportation and in distributed networks in the future.

Though hydrogen is now produced in large quantities from fossil fuels by methane reforming, hydrogen production by electrolysis and its use as an energy vector in combination with a fuel cell also has strong potential.

AREVA's position

Through its subsidiary Hélon, AREVA has the necessary expertise to design, manufacture and market fuel cell-based electrical and thermal generators. Most notably, AREVA developed a world first: an emergency generator based on a 30 kWe fuel cell.

Backed by its technical successes, AREVA is working with other stakeholders to find the best way to contribute to the sustainability of these new technologies.

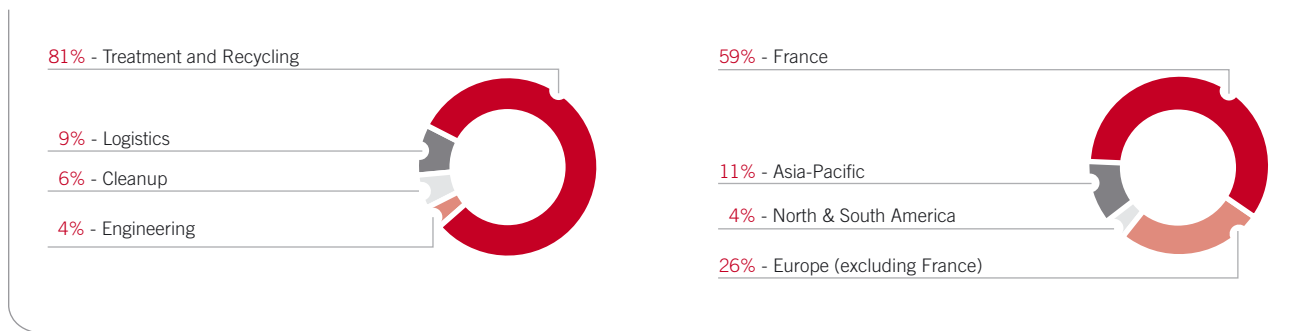
4.6. Back End division

KEY DATA

(in millions of euros)

	2006	2005
Sales revenue	1,908	1,921
Operating income	273	208
Workforce at year end	10,697 people	10,864 people

2006 sales revenue by business unit and region



OVERVIEW

The Back End division, which accounted for 18% of AREVA group sales, offers used fuel management solutions.

- The *Treatment and Recycling* business units recover reusable uranium and plutonium from used fuel so that they may be recycled in nuclear reactors as MOX or UO₂ fuel (see Glossary). In line with AREVA's commitment to sustainable development and environmental protection, AREVA has developed advanced technologies to treat used fuel so as to recycle 96% of reusable materials, reduce final waste volumes, and package the waste for final disposal.
- The *Logistics* business unit designs and manufactures casks to transport and/or store nuclear materials, and provides transportation services.
- The *Cleanup* business unit mainly provides nuclear cleanup services and site logistics.
- The *Engineering* business unit designs and builds facilities for the front end and back end of the fuel cycle.

The world's installed reactors generate approximately 6,500 metric tons of heavy metal (MTHM) of used fuel each year. This is equal to the amount of fresh fuel loaded in the reactors. The total worldwide inventory of used fuel was around 132,000 MTHM at the end of 2006.

The division also manages major treatment technology transfer programs, particularly for the Rokkasho Mura plant in Japan. Other programs to transfer MOX fuel recycling technology are also in progress with Japan and the United States.

4.6. Back End division

The group is the world leader in both the “open” (“once-through”) and the “closed” fuel cycle markets. Utilities may choose either option to manage their used fuel.

- In the open cycle, the used fuel is considered to be non-reusable. It is stored in pools or in dry storage systems at sites designated for that purpose. The storage solutions available on the market allow the utility to manage its own used fuel for several decades. The long-term challenge will be the final disposal of the utility's inventory of used fuel, often in connection with national nuclear waste disposal programs.
- In the closed cycle, the used fuel is considered to contain a large amount of reusable materials still capable of producing a large amount of energy. In this case, the used fuel is treated to separate the reusable uranium and plutonium from the final waste, which represents only about 4% by volume of the used fuel. The recovered uranium and plutonium are recycled into fuel for nuclear power plants in the form of MOX (a mixture of the two materials) or as reprocessed uranium.

There are major barriers to entry to both markets. Both fuel cycles require advanced technologies, and the closed fuel cycle is extremely capital-intensive.

A study conducted for AREVA by the Boston Consulting Group in 2006 confirmed the economic feasibility of the closed fuel cycle in the United States. Since then, the AREVA group has become a full

partner alongside the US Department of Energy in the Global Nuclear Energy Partnership, which is reexamining US doctrine on used fuel management to support the revival of nuclear power in the United States and around the world.

The treatment and recycling businesses have excellent visibility due to the duration of the used fuel treatment and recycling cycle, which lasts about 10 years, starting with the fuel's discharge from the reactor. The group has long-term relationships with its major customers, giving it a current backlog of approximately three years of sales revenue. Negotiations are in progress to renew EDF's contracts after 2007. The group has also forged long-term partnerships with foreign customers to promote the group's technologies.

The processes developed and implemented by the group in the “closed” cycle are fully demonstrated and have achieved production maturity. The group intends to promote this option to countries with nuclear power programs and to their nuclear power plant operators, and aims to achieve even better operating performance and cost-effectiveness with this solution.

AREVA's technological and industrial lead in treatment and recycling positions the company very favorably to take advantage of the development potential for this management option for the back end of the fuel cycle. The business units spend approximately 4% of their sales revenue on R&D to maintain their technological leadership and optimize their production facilities.

STRATEGY AND OUTLOOK

The Back End division's goal is to consolidate its world leadership position. Its strategy is four-pronged:

- **Reinforce the used fuel treatment and recycling business in France.** The group is working to strengthen and extend its backlog with French and foreign utilities.
- **Capitalize on its closed cycle technologies in markets worldwide.** AREVA plans to market its back-end technologies by working closely with the regulatory authorities in each country. This strategy has already produced two major projects:
 - In Japan, an important technology transfer program has been in place with the Back End division's Japanese partners since 1987. This program culminated in the construction of the used fuel treatment plant at Rokkasho Mura by Japan Nuclear Fuel Limited (JNFL). A sister plant of the La Hague plant in France, the 200 TWh/yr Japanese plant (the equivalent of 800 MTHM of used fuel per year) is scheduled to enter commercial service in 2007. AREVA's relationship with JNFL is continuing via start-up assistance for the Rokkasho Mura plant through the end of 2007. AREVA is also transferring technology for MOX fuel fabrication and proposes to assist JNFL during the design, construction and operation of its future MOX plant.

- In the United States, the AREVA group's treatment and recycling technologies form the basis of the “MOX for Peace” project, which involves building a MOX fuel fabrication facility in the United States to recycle US defense plutonium for the US Department of Energy (DOE). With regard to treatment, the US administration opted for the open (“once-through”) cycle in the 1970s as a response to the risk of proliferation. Following the enactment of the Energy Bill in August 2005, and concurrent with pressures on energy supplies, interest in the long-term development of nuclear power has revived. The DOE's Global Nuclear Energy Partnership (GNEP) launched in February 2006, for example, reopens the treatment and recycling option, seen as an opportunity for the United States to increase Yucca Mountain's disposal capacities, recover reusable materials in a controlled manner, and reduce the risk of proliferation. AREVA's objective is to participate actively in programs in the back end of the cycle in direct response to the US administration's proposals for international cooperation.

- **Strengthen the Back End division's leadership position in the used fuel storage market, particularly in the United States,** where the group is already the leader in storage systems, with a market share of more than 50%.
- **Market products and services related to the transportation of fuel and nuclear materials.**

4.6.1. TREATMENT AND RECYCLING BUSINESS UNITS

4.6.1.1. Key data

<i>(in millions of euros)</i>	2006	2005
Sales revenue	1,552	1,553
Workforce at year end	5,797 people	6,284 people

4.6.1.2. Businesses

AREVA is the world leader in the used fuel treatment and recycling market, with more than 30 years of experience in the back end of the fuel cycle.

After fuel has been used in the reactor, it can be treated to recover recyclable materials that can be used to fabricate fresh fuel.

Treatment consists of separating recyclable uranium and plutonium from waste, which will be processed into final form. Most of the radioactivity in used fuel is contained in this final waste. The waste is packaged into a form safe for storage and transportation. The final waste package is also designed for high integrity during disposal in terms of containment and durability.

About 96% of the materials in used fuel are recovered through treatment so that they may be recycled. Some of the uranium is recycled into fuel; the remainder is stored in stable form, constituting the equivalent of a uranium stockpile. The plutonium is used to fabricate another type of fuel: MOX, a mixture of uranium and plutonium oxides. AREVA is the world's leading producer of MOX.

Used fuel treatment and recycling helps:

- conserve natural resources by recycling materials, thus avoiding the use of new uranium resources;
- reduce the volume and radiotoxicity of waste, thus improving waste management.

In line with their commitment to sustainable development and environmental protection, the *Treatment* and *Recycling* business units also provide cleanup of equipment and facilities and dismantling of sites after closure. The goal is to eradicate residual pollution generated during past operations so that the site may ultimately be reused.

4.6.1.3. Manufacturing and human resources

Treatment

Most of the *Treatment* business unit's operations are conducted at two plant sites: the La Hague site in northern France and the Marcoule site in southern France.

The La Hague site

The world's most advanced treatment technologies are in use at AREVA's La Hague site, which treats used fuel from French and foreign power plants and from research reactors.

The La Hague plant has two production lines, UP2 and UP3, which currently have a combined treatment capacity corresponding to the generation of 450 TWh/yr of electricity, i.e. 1,700 metric tons of used fuel per year.

The Marcoule site

The Marcoule site ceased production operations in 1997; cleanup and dismantling of the shut-down facilities have been in progress since 1998. These operations will continue until 2035.

Ownership and nuclear operator status were transferred to the CEA, which signed a series of agreements in 2006 under which AREVA will operate and dismantle the Marcoule facilities through 2010.

Recycling

The *Recycling* business unit has two production sites in France and a subcontractor in Belgium, Belgonucléaire. That company ceased operations in mid-2006.

Melox S.A.

The Melox plant is the world leader in the MOX fuel fabrication market.

AREVA filed a license application in 2004 to increase production to 195 metric tons of heavy metal per year to meet growing demand and consolidate all of AREVA's MOX fuel production at the Melox plant. A public inquiry was held from April 18 to June 17, 2006 concerning this application, which was accepted by the Prefect. Following a review of safety documentation, the last milestone is issuance of the license in early 2007.

The Cadarache site

The AREVA Cadarache plant ceased commercial production on July 16, 2003 and is now packaging the scrap from previous fabrication operations. In addition, since mid 2003, the site has been developing methods for equipment dismantling and cleaning in preparation for ramp-up of facility cleanup and dismantling operations. Large-scale dismantling operations are expected to start officially in 2008.

4.6. Back End division

Belgonucléaire – Dessel plant

To supplement production from Melox and Cadarache, AREVA had reserved a portion of Belgonucléaire's production capacity at the latter's plant in Dessel, Belgium under a commercial contract that expired at the end of 2006.

4.6.1.4. Market and competitive position

The world market for used fuel treatment and recycling is extremely concentrated and highly regulated by technical and administrative requirements. The market's main features are:

- a concentrated industry with a limited number of suppliers of treatment and recycling facilities;

- a very high level of technological expertise;
- extremely high development costs for substitute technologies;
- capital-intensive operations;
- stringent emissions and environmental impact requirements;
- a limited number of customers, for whom services are performed under long-term contracts.

The installed capacity of the La Hague plant and AREVA's vast experience rank the group number one worldwide in treatment. Britain's BNG and Russia's FAE (Rosatom) are the next largest producers.

Worldwide treatment and production capacities in 2006

	Installed capacity		2006 production (MTIHM/year)	Cumulative production (MTIHM/year)
	(MTIHM/year)*	TWh**		
La Hague (France)	1,700	450	1,015	22,700
Sellafield-Thorp (United Kingdom)	900	250	0	4,000
Chelyabinsk (Russia)	400	100	100	4,000
Subtotal for 2006	3,000	800	1,115	30,700
Rokkasho Mura (Japan) beginning in 2007	800	200	0	0
Total beginning in 2007	3,800	1,000	-	-

* MTIHM/year = metric tons initial heavy metal / year.

** TWh = 109 KWh.

Sources: AREVA, World Nuclear Association, IAEA, BNFL, JNFL.

In the recycling field, the AREVA group is now the world's leading producer of MOX fuel, with licensed annual production of 145 metric tons of heavy metal.

In 2006, about 170 metric tons of MOX containing 12 metric tons of plutonium were produced worldwide, including 145 metric tons at the Melox plant. This corresponds to a market share for the AREVA group of approximately 85%.

Worldwide recycling and production capacities in 2006

(in metric tons/yr)	Installed capacity	2005 production	2006 production	Cumulative production
AREVA-Cadarache (France)	shut down	0 ^(a)	0	345
AREVA-Melox (b) (France)	145 MTHM	145	145	1,175
Belgonucléaire-Dessel (Belgium) (e)	40 MTHM	35	19	664
BNFL/Sellafield (United Kingdom)	120 MTHM	2 ^(c)	3 ^(c)	25 ^(c)
Total in 2006	305 MTHM	182	167	2,209
J-MOX (Japan)	100 MTHM ^(d)	-	-	-
Total	405 MTHM	-	-	-

(a) Commercial production shut down in July 2003.

(b) Melox plant: licensed capacity of 145 MTHM per year since September 2003.

(c) AREVA estimates based on data published by the Nuclear Decommissioning Authority (NDA).

(d) Plant in the design stage.

(e) Production shut down in mid 2006.

4.6.1.5. Relations with customers and suppliers

Customers

Utilities as well as operators, organizations and institutes in charge of managing the back end of the fuel cycle are the *Treatment* and *Recycling* business units' leading customers, particularly in France, Germany, Japan, Switzerland, Belgium, the United Kingdom and the Netherlands.

EDF is the largest customer in terms of volume for both business units. Together with the group's other business units – particularly the *Logistics*, *Chemistry* and *Fuel* business units – the *Treatment* and *Recycling* business units offer their customers integrated services covering transportation, treatment, and the fabrication and sale of MOX fuel.

The United States, Japan and the United Kingdom are also interested in the *Treatment* and *Recycling* business units' technologies for their fuel treatment and/or fabrication facility construction projects.

Suppliers

AREVA NC's La Hague and Melox plants call on a large number of suppliers for operations that are not part of the AREVA group's core business. These companies undergo a very demanding selection process and are closely supervised, particularly in areas requiring technical expertise and concerning health, security, safety and environmental requirements.

4.6.1.6. Operations and highlights

Treatment

Operations

La Hague plant operations were in line with forecasts, with production of 1,015 metric tons. The fabrication facilities performed well overall, particularly the vitrification facility and compaction facility for hulls and end-fittings, despite heavy remedial maintenance performed on the shearing facility in the first half of 2006.

At Marcoule:

- Site ownership and the corresponding operating license were transferred from AREVA to the CEA. Under the umbrella of their oversight agencies, the CEA and AREVA had simplified their commercial relationships in 2004 for sites where they have shared commitments, i.e. La Hague, Marcoule, Cadarache and Pierrelatte.

- The transfer included the reassignment of some 300 people to the CEA.
- As the CEA's leading industrial partner, AREVA serves as prime contractor and is in charge of cleanup operations under a multi-year agreement for the 2005-2010 period valued at more than one billion euros.

The French law of June 28, 2006 on the sustainable management of radioactive materials and waste was promulgated following the national debate on radioactive waste management, conducted from September 2005 to January 2006. This legislation clarifies and strengthens the framework for AREVA's activities, thereby giving greater visibility to the group's exports of services for at least the next decade.

Marketing and sales

AREVA is working with EDF to develop a contract for the future treatment and recycling of EDF's used fuel and for the retrieval and packaging of legacy waste.

The contract is expected to cover aspects related to the final shutdown and dismantling of the La Hague plants, for which EDF bears part of the cost, in exchange for a lump sum payment.

Elsewhere in the world, AREVA was the successful bidder to Sogin of Italy for the treatment of 235 metric tons of used fuel stored in two reactor buildings in Italy. France and Italy signed a bilateral agreement in connection with this project in November 2006.

Following a technology transfer agreement signed in 1987 with AREVA, the Japanese company JNFL built a treatment plant at the Rokkasho Mura site in northern Japan patterned after AREVA La Hague's UP3 plant.

In December 2005, JNFL and AREVA signed an agreement extending the technical assistance contract through commercial start-up of the Rokkasho Mura treatment plant, scheduled for mid-2007. The plant entered the active testing phase in 2006 during the term of this assistance.

AREVA also signed a technical support contract with British Nuclear Group (BNG) related to performance improvement of the waste vitrification plant at the latter's Sellafield plant. Under the terms of this contract, AREVA agrees to provide start-up support services for the vitrification process over the next four years.

Recycling

Melox S.A.

In 2006, Melox confirmed its position as the world leader in the MOX fuel market. For the second year in a row, Melox produced 145 metric tons of heavy metal (the licensed capacity), bringing the total since start-up to 1,175 metric tons. This high level of performance is indicative of customer confidence in the group's production of their fuel.

4.6. Back End division

An important milestone in restarting the Japanese MOX program was reached in 2006 with AREVA's signature of three MOX fuel supply contracts for deliveries over the 2007 to 2020 period.

The Cadarache site

The MOX fuel assemblies fabricated for the Eurofab program, which called for fabrication of four lead MOX assemblies using US defense plutonium, were loaded in the reactor in mid 2005, completed their first irradiation cycle in 2006, and were reloaded for a second cycle.

Technology transfer

Under mutual disarmament accords, the United States and the Russian Federation each agreed to eliminate 34 metric tons of surplus defense plutonium by using it to fuel civilian nuclear reactors.

The United States chose AREVA's plutonium recycling and MOX fabrication technology and skills. The US government plans to build a MOX fabrication plant in Savannah River, South Carolina. AREVA is involved in the project as part of the Duke-Cogema-Stone & Webster team, which became SHAW AREVA MOX Services in 2006. Site excavation and site utilities construction were carried out in 2006.

4.6.1.7. Research and development

Treatment

The agreement signed with the CEA to allocate research and development funding based on the type of development was implemented for the first time in 2006:

- industrial development is funded 80% by AREVA and 20% by the CEA;
- advanced research is funded 80% by the CEA and 20% by AREVA.

Recycling

The *Recycling* business unit's research and development programs focus mainly on the development of new products and processes.

In the new products field, the *Recycling* business unit is supporting programs carried out under the tripartite agreement between the CEA, EDF and AREVA aimed at achieving a MOX assembly burn-up rate comparable to that of uranium assemblies. As part of this program, Melox will fabricate lead fuel rods that will be subjected to several irradiation cycles in one of EDF's PWRs.

In the process field, the *Recycling* business unit's programs center on preparations for adapting Melox processes, primarily to accommodate new MOX fuel designs.

4.6.1.8. Sustainable Development

Treatment

At La Hague, the Orcade project involving the dismantling of the UP2 400 plant and retrieval of legacy waste continued to ramp up. Also in 2006, preparations were made for modifications to the water catchment and release permit, which occurred in January 2007.

With the transfer of responsibility for the Marcoule site to the CEA, AREVA NC Marcoule is now the industrial operator for rehabilitation of the Marcoule site, the first project in the world for a nuclear site of this size. The change in responsibility is part of the "Marcoule 2010/2015" industrial plant project, which secures AREVA's continued involvement as Lead Industrial Partner to the CEA for the Marcoule site and aims to demonstrate control over the end of the back-end's lifecycle to nuclear industry stakeholders.

Against this backdrop, the sustainable development initiative continued at the Marcoule site, in particular through:

- implementation of the Project Organization Committees, which enable employees to get actively involved in organizational changes affecting them;
- deployment of the Integrated Management System, which seeks to secure the trio of ISO 14001, ISO 9001 and OHSAS 18001 certifications in March 2007;
- establishment of an employee suggestions system aimed at stimulating individual and collective creativity to introduce new ideas and contribute to sustainable performance.

Recycling

Following through on its Continuous Improvement initiative, the *Recycling* business unit received OHSAS 18001 certification for both the Melox site and the AREVA Cadarache site in 2006. This is the international reference in occupational health and safety management systems.

Both entities are engaged in an integrated effort to secure the trio of health and safety, quality, and environmental certifications, of which the OHSAS 18001 certification is a part.

4.6.1.9. Outlook and development goals

In 2006, the United States modified its policy on treatment and recycling considerably.

During its February 6, 2006 budget presentations, the US Department of Energy (DOE) took a strong stand in favor of sustainable energy development through its Global Nuclear Energy Partnership initiative (GNEP).

The GNEP aims for a system of industrial services and supply guarantees to support fully controlled expansion of nuclear power across the globe which complies with non-proliferation requirements.

The two thrusts of the partnership are to:

- institute an international system to increase fuel services supply guarantees to countries without a nuclear fuel cycle industry seeking to develop nuclear power;
- rely on used fuel recycling to take advantage of the fuel's energy content and minimize final waste volumes.

Through this initiative, the US administration confirms that nuclear power must play a major role in meeting growing demand for energy around the world. It also constitutes recognition of treatment and recycling, which aim to recover the energy content of used fuels and minimize final waste, as a solution for the sustainable development of nuclear power.

In a broad sense, the closed cycle's rehabilitation by the United States opens up new used fuel treatment and recycling prospects for AREVA's industrial platform.

The GNEP also opens up the prospect of treatment and recycling development in the United States. AREVA's unrivaled expertise in these fields can make a contribution to efforts that may be made in this direction in the United States.

For example, AREVA responded to an expression of interest (preliminary request for proposals) issued by the DOE in September 2006 on development and deployment of an integrated used fuel treatment and recycling center and of a prototype fast neutron reactor.

More generally, the *Treatment* and *Recycling* business units plan to continue technology transfer programs in the United States and Japan. In particular, Japan plans to establish MOX fuel fabrication capacity as part of the J-MOX program.

4.6. Back End division

4.6.2. LOGISTICS BUSINESS UNIT

4.6.2.1. Key data

(in millions of euros)	2006	2005
Sales revenue	180	181
Workforce at year end	802 people	834 people

4.6.2.2. Businesses

The *Logistics* business unit operates in two main areas:

- the design and management of the fabrication of casks and other specialized equipment to transport and/or store nuclear materials from the front end and back end of the fuel cycle as well as from research reactors;
- the organization and execution of nuclear materials transportation, including management of the related transportation fleet.

4.6.2.3. Manufacturing and human resources

Given the international nature of its business, the *Logistics* business unit has offices in three of the world's major regions:

- in Europe, where the business unit's leading entity, TN International, has expertise in every aspect of logistics, possesses a large fleet of shipping casks, and carries out nuclear materials transportation, in particular through its subsidiaries LMC and Mainco;
- in the United States, home of its subsidiaries Transnuclear Inc. and PacTec, which specialize in the design and sale of storage and transportation casks;
- in Japan, where its subsidiary Transnuclear Ltd specializes in engineering, transportation management, maintenance and sales of casks at power plant sites.

4.6.2.4. Market and competitive position

The business of nuclear materials transportation and of the design of transportation and storage casks for nuclear materials is characterized by:

- the wide variety and large number of materials involved;
- the competitive and global nature of the market;
- the existence of stringent, ever-changing regulations specific to each transportation mode and to each country;
- sensitivity to governmental, media and public opinion.

The business unit's sales revenue for 2006 was divided among North America (approximately 25%), France (34%), Asia (18%), Germany (11%) and other European countries (12%).

The market in which the *Logistics* business unit operates focuses on the needs of utilities with nuclear reactors and industries in the nuclear sector, such as mining or enrichment. To a lesser extent, it includes the special needs of nuclear research centers/laboratories and research/test reactors.

Storage capacity requirements and the type and volume of materials transported vary from one country to the next, depending on installed nuclear generating capacity, the availability of fuel cycle facilities, and the back-end option chosen by the utilities.

- In Europe, in addition to EDF in France, most nuclear utilities turn to the *Logistics* business unit to transport their nuclear materials, from natural uranium to final waste. In the back end of the cycle, EDF is the leading shipper of used fuel, which it ships to the La Hague treatment plant. Other operators also ship fuel to La Hague (the Netherlands, some research reactors and, soon, in Italy). Political decisions concerning the back end of the fuel cycle (open cycle or postponement of decision) have created a large market for used fuel storage. The *Logistics* business unit is well positioned in this market, particularly in Belgium, Switzerland and Germany.
- In the United States, utilities do not presently recycle used fuel from their power plants. The government had committed to taking title to the fuel beginning in 1998 at a final repository (Yucca Mountain). The start-up date for the repository has been continually postponed, but it should occur towards the end of the coming decade. In the meantime, the utilities have a growing need for dry storage capacity at their power plant sites. Transnuclear Inc., the US entity of the *Logistics* business unit, is a leader in this market. Later, when the final repository becomes available, there will be substantial demand to ship used fuel to that facility. At the same time, the United States may lean towards a closed cycle policy, which would also create opportunities in transportation.

- In Asia, the group's strongest presence is in Japan, which has opted for the treatment and recycling of its used fuel. That country's used fuel is currently treated in France and in the United Kingdom. The MOX fuel from recycling and waste from used fuel treatment must be shipped from Europe to Japan. To supplement treatment and recycling capacities currently being brought on line in Japan, used fuel storage capacities will be needed after 2010. This creates a market in which the *Logistics* business unit is aiming for a significant share.

The *Logistics* business unit is the world leader in both of its businesses and the only commercial entity to operate in every segment of the nuclear cycle on an international level. It has a score of key competitors in the various segments of the market – transportation, brokerage, transportation systems, casks and equipment, licensing – in the three leading regions of Europe, the United States and Japan.

4.6.2.5. Relations with customers and suppliers

Customers

The *Logistics* business unit's customers are nuclear operators seeking solutions for radioactive materials transportation in both the front end and the back end of the fuel cycle, as well as for materials storage.

Through its subsidiaries, the business unit counts as its customers the majority of the world's utilities, research reactor operators, fuel cycle companies and institutes, and nuclear research centers and laboratories.

Suppliers

The *Logistics* business unit conducts three types of procurement: cask fabrication, maintenance and transportation services. For cask fabrication, the *Logistics* business unit selects suppliers in the steel-making, boilermaking and machining industries. Strong and continually rising demand for mechanical construction makes it necessary to monitor worldwide production capacities closely. The equipment is maintained almost exclusively in AREVA NC's facilities at La Hague and Marcoule. The *Logistics* business unit uses suppliers of all modes of transportation (rail, road, sea, air).

4.6.2.6. Operations and highlights

Business was generally stable in the transportation segment. Fabrication was launched for several casks to be used for MOX fuel shipments to Japan. A new record of 203 fuel removals from EDF plants was set in 2006.

The business unit also won a major contract to supply storage casks for compacted waste to be shipped to Germany.

In the vitrified waste storage segment, the TN85 transportation cask was licensed in 2006. This cask will be used to ship and store vitrified waste to and in Germany and is currently the only cask in its category to be licensed in that country. Fabrication of 12 casks began. In addition, Switzerland ordered six TN81 casks to store this type of waste.

The business unit is strengthening its leadership position in the United States, where it signed three major contracts to supply dry storage systems. Via PacTec, the *Logistics* business unit is participating in the group's expression of interest to the DOE in the treatment and recycling field (see section 4.6.1., *Treatment and Recycling* business units).

The *Logistics* business unit was also asked in 2006 to strengthen the security of the group's shipments, making it a key player in the transportation field for the entire AREVA group.

4.6.2.7. Outlook and development goals

The *Logistics* business unit is pursuing three major objectives:

- to support the closed fuel cycle development strategy of AREVA's Back End division;
- to increase the security of the AREVA group's shipments;
- to bolster its world leadership position in transportation and storage for the front end and back end of the nuclear fuel cycle in Europe, North America and Asia.

In Europe, this means strengthening its already solid position in the storage market and expanding its shipping services for the front end of the cycle and for research/test reactors.

In North America, the business unit plans to maintain its leadership position in storage and to capture a significant share of the transportation market.

In Asia, the objectives are to conquer market share in storage and to expand to the intercontinental transportation market for the front end.

4.6. Back End division

4.6.3. CLEANUP BUSINESS UNIT

4.6.3.1. Key data

(in millions of euros, IFRS)	2006	2005
Sales revenue	107	119
Workforce at year end	2,592 people	2,613 people

4.6.3.2. Businesses

The *Cleanup* business unit provides global services to nuclear facility operators in the following areas:

- outsourced operation of waste treatment facilities for nuclear operators, particularly for low- and medium-level waste;
- cleanup and dismantling of shut-down facilities in association with other AREVA business units;
- management and execution of jobsite logistics and/or support services at nuclear facilities and sites so that contractors can perform their work in compliance with all applicable nuclear safety, industrial safety and radiation protection regulations;
- special maintenance services, mechanical services, equipment handling, handling operations in nuclear facilities, and radioactive cleanup;
- consulting and/or project management services to nuclear operators concerning the selection of proven operations and maintenance solutions and for the design and execution of innovative operations;
- radiation protection and nuclear measurement services;
- training for operations in a nuclear environment and skills management support to contractors.

The *Cleanup* business unit operates primarily in France, providing services to EDF and other fuel cycle companies such as AREVA NC, Socodei, Andra and the CEA.

4.6.3.3. Manufacturing and human resources

The majority of the business unit's operations involve workers in France who are deployed to customer sites. It services practically all of the French nuclear sites.

The business unit invests heavily in employee training, with each employing receiving an average of 32 hours of training per year. In addition, a certification program leading to a Certificate of

Qualification delivered by the Metallurgical Union has been in place since 2004 for decommissioning and nuclear logistics jobs.

The *Cleanup* business unit has expertise in the vast majority of techniques for low- and medium-level effluent and waste processing, volume reduction and safe packaging. The business unit has patented two processes to decontaminate lead and mercury. Backed by its experience and its ability to innovate, the business unit is able to offer cost-effective, demonstrated solutions to its customers.

The *Cleanup* business unit operates the environmentally regulated Triade facility, where it maintains machinery and equipment used in controlled areas, recertifies equipment, and processes low-level waste for its own account or for its customers. The business unit also makes facilities available to customers so that they may maintain their equipment in a secure environment.

4.6.3.4. Market and competitive position

The *Cleanup* business unit operates almost exclusively in the French market, which amounts to about €500 million a year. Less than 2% of its sales come from the export market.

The *Cleanup* business unit is the leader in France, with a market share of more than 30%. Its main competitor is the Onet group, followed by the nuclear divisions of the Suez, Bouygues, Spie and Vinci groups.

Stiff competition and strong price pressures have prompted the *Cleanup* business unit to reconsider its commercial position, and it is now evolving towards global, high value-added services that capitalize on the experience and skills of its seven companies.

4.6.3.5. Operations and highlights

The *Cleanup* business unit expanded its scope of services in 2006, particularly through:

- a contract with EDF for global site support services at the Paluel site, where the customer expressed its satisfaction at the organization set up for the services;
- more complex facility dismantling contracts at the CEA's Cadarache and Fontenay-aux-Roses sites;
- additional in-house services for the group's operating sites (La Hague, Eurodif, SICN, etc.).

4.6.3.6. Relations with customers and suppliers

Customers

Most of the *Cleanup* business unit's customers are nuclear companies: utilities, nuclear fuel cycle companies, and companies that work with nuclear waste, such as Andra, the CEA and EDF. The latter company, which is the business unit's leading customer, has completely changed its contracting policy for maintenance and nuclear services and is turning more and more to global services. This one-stop approach to services has prompted service providers to enter into partnerships offering a wider range of skills and flexibility to the customer. The *Cleanup* business unit will be able to take advantage of this trend and meet customer expectations by drawing on the synergies and complementarity among its different entities.

Suppliers

In line with the AREVA group's master subcontracting policy, the *Cleanup* business unit now has strategic partnerships with Freyssinet, Ortec and Aris. The business unit also has preferred supplier relationships with its traditional suppliers, Endel, Fenwick, Normandie Manutention, OMS and Lahyer.

4.6.3.7. Sustainable development

In the area of industrial safety, the *Cleanup* business unit received ISO 9001 quality certification and OHSAS 18001 health and safety certification for all of its sites. The frequency rate for accidents with lost work time was reduced by half in two years, going from 19 to 9.

4.6.3.8. Outlook and development goals

The business unit has been experiencing 5% growth per year since 2004. This positive development is linked to new customer requirements and to the ramp-up of dismantling programs, which will continue over the next five years.

In the mid-term, the *Cleanup* business unit must expand its scope of services for continued development, potentially through joint ventures.

4.6. Back End division

4.6.4. ENGINEERING BUSINESS UNIT

4.6.4.1. Key data

(in millions of euros)	2006	2005
Sales revenue	69	69
Workforce at year end	1,252 people	1,133 people

4.6.4.2. Businesses

The *Engineering* business unit draws on the synergies between SGN and Mécachimie in:

- nuclear fuel cycle engineering, and
- mechanical systems integration.

The *Engineering* business unit provides new facility design and construction services to worldwide nuclear operators as well as plant modifications and optimization of existing facilities. It also provides operating support in areas such as safety analysis, modeling and equipment maintenance.

The business unit operates primarily in the front end and back end of the nuclear fuel cycle. Its engineering services encompass every stage in the plant life cycle:

- process development;
- design and installation of special equipment;
- project implementation, including project management, procurement, construction, testing and start-up;
- operating support;
- decommissioning of sites and facilities.

The *Engineering* business unit's almost 50 years of expertise and process development for nuclear fuel cycle facilities translate into unique added value and operating experience for its customers.

Via its operating units in France and the United States, the *Engineering* business unit conducts business in every country with a nuclear power program. The *Engineering* business unit is a partner to commercial nuclear facility operators, directly or indirectly, in France and abroad. In 2006, 50% of its sales outside the group came from the United States, 20% came from Europe (excluding France), and 20% came from France.

4.6.4.3. Manufacturing and human resources

The business unit's personnel provide:

- engineering services, including design, procurement, construction management and testing;
- fabrication and assembly services as a mechanical systems integrator;
- on-site construction management and start-up services, particularly in Rokkasho Mura, Japan.

The business unit also has a development and testing facility in northern France. The *Engineering* business unit conducts business in the United States via AREVA NC, Inc. /Engineering & Technology.

In France, the business unit has three regional offices in Saint-Quentin-en-Yvelines, in northwestern France near the La Hague plant, and in southeastern France near the Marcoule and Pierrelatte sites.

4.6.4.4. Market and competitive position

The *Engineering* business unit is a major player in nuclear fuel cycle engineering at the international level. The highly competitive market is spread out over several geographical areas and divided between the front end of the fuel cycle, involving uranium chemistry and enrichment, the back end of the fuel cycle, involving treatment and recycling, facility decommissioning, and waste management. The business unit is the world leader in engineering for uranium defluorination (front end) and treatment and recycling (back end).

The revival of nuclear power throughout the world has created an upsurge in demand for engineering services as new design and construction projects are launched, particularly in the front end of the cycle, with the construction of the Georges Besse II enrichment plant and new uranium chemistry construction for the group in France, and the defluorination plant in Russia. The market in the back end of the cycle, excluding projects for the group, primarily involves optimization of existing plants and extension of their service life, as in the case of British Nuclear Group's Waste Vitrification Plant at Sellafield, and waste management and decommissioning projects.

4.6.4.5. Relations with customers and suppliers

Customers

The *Engineering* business unit's major customers in France are:

- AREVA NC internally, and more specifically the La Hague, Pierrelatte and Cadarache sites, where the *Engineering* business unit provides a local presence to the nuclear operator for services and is involved in capital spending projects to improve production plant performance;
- the CEA and EDF for decommissioning and waste/effluent retrieval and processing, and Andra for waste management/disposal studies.

Internationally, the business unit's main customers are:

- the DOE in the United States for MOX fuel and waste management;
- the Nuclear Decommissioning Agency in Great Britain;
- JNFL in Japan for the supply of equipment and start-up assistance for the Rokkasho Mura used fuel treatment plant.

Suppliers

The *Engineering* business unit seeks out synergies with other AREVA group companies to satisfy the procurement requirements of its customers or for its own account. In France, outside the group, it uses a regularly audited selection panel set up for each specialty. Internationally, it searches for suppliers and partners locally based on project requirements.

4.6.4.6. Operations and highlights

The *Engineering* business unit supports the group's development internationally, particularly in connection with technology transfer contracts in Europe, Asia and North America.

Asia

South Korea: Supply of key equipment for a vitrification facility and related systems to process radioactive waste from South Korean nuclear power plants.

Japan: Successful performance of testing at the Rokkasho Mura plant by JNFL, with which the *Engineering* business unit was associated.

Europe

Russia: In association with the *Chemistry* business unit, the *Engineering* business unit continued to carry out preliminary design, process equipment procurement, installation supervision and testing connected with the construction of a depleted uranium defluorination plant.

Ukraine: The *Engineering* business unit completed its work for the European Bank for Reconstruction and Development (EBRD) and the operator of the Chernobyl power plant under a contract for the design and construction of radioactive liquid effluent treatment facilities.

United Kingdom: The *Engineering* business unit joined with the *Treatment* business unit to supply vitrification equipment, testing and personnel training to British Nuclear Group's Sellafield plant.

France:

For the AREVA group:

- The *Engineering* business unit is the prime contractor for construction of the Georges Besse II gas centrifuge uranium enrichment plant in Pierrelatte, for which work began in the summer of 2006.
- The business unit is providing design and project management services to the uranium chemistry facilities at Pierrelatte and Malvési.

Business in facility dismantling at treatment sites is also picking up in tandem with the program for final shut-down of the UP2 400 plant at La Hague and related waste retrieval operations and the establishment of an industrial organization consisting of AREVA NC, AREVA TA and SGN to carry out cleanup operations at the UP1 plant at Marcoule for the CEA.

North & South America

In the United States, the business unit continues design work for construction of the new US MOX fuel fabrication facility, which will recycle defense plutonium. The *Engineering* business unit also joined with other AREVA group entities to submit a proposal to the DOE in 2006 for construction and testing of that plant.

4.6.4.7. Outlook and development goals

The *Engineering* business unit's workload grew by 15% from 2005 to 2006. This growth stems chiefly from new construction, but also from life cycle extension and optimization of the AREVA group's production plants. This level of workload is expected to continue over the medium term.

At the same time, the *Engineering* business unit plans to pursue international business in support of AREVA's development and cooperation projects.

4.7. Transmission & Distribution division

4.7. Transmission & Distribution division

KEY DATA

(in millions of euros)	2006	2005 ⁽¹⁾
Sales revenue ⁽²⁾	3,724	3,212
Operating income	191	(61)
Workforce at year end	22,988 people	22,094 people

(1) Scope of consolidation with India and Pakistan, beginning in August. Disposal of service businesses in Australia and New Zealand in April and of the EBT low voltage business in December 2005.

(2) Contribution to consolidated sales.

2006 sales revenue by business unit⁽³⁾ and region

45% - Products

11% - Services

32% - Systems

12% - Automation



9% - France

19% - Africa and Middle-East

22% - Asia-Pacific

16% - North & South America

34% - Europe (excluding France)



(3) Sales by the Products, Services and Automation business units via the Systems business unit are recognized by the latter.

OVERVIEW

The Transmission & Distribution division, which represented 34% of AREVA's sales in 2006, manufactures, installs and maintains equipment and systems for the medium and high voltage markets. Its products are used to transmit and distribute electricity from the power plant to the final user. They also ensure distribution reliability, quality and safety, and efficient power supply system operations through real-time information management. The related services offer a high-quality resource supporting the division's products and systems throughout their lifecycle.

The Transmission & Distribution division is organized into four business units:

- The *Products* business unit designs and manufactures medium and high voltage products.
- The *Systems* business unit supplies turnkey transmission and distribution projects.

- The *Automation* business unit manufactures and installs solutions for real-time power grid control and operation.
- The *Service* product line provides maintenance services.

The Transmission & Distribution division was ranked third worldwide in its markets in 2006, based on sales revenue. The division's recognized expertise and the support it receives from the AREVA group bolster this position. The Transmission & Distribution division is one of the world's three global players, covering the full range of medium and high voltage products and services in every region of the world.

STRATEGY AND OUTLOOK

AREVA's Transmission & Distribution division possesses key technologies and know-how that enable it to consolidate its position and take advantage of growth opportunities. It has a solid manufacturing base and its expertise is well known to its customers. Demand is growing in the division's markets due to:

- Rapid grid development in emerging countries, including China, India and Middle Eastern countries;
- Capital spending on older grids in developed European countries and the United States;
- Demand for grid interconnection and management as a result of deregulation.

The Transmission & Distribution's business strategy focuses on three major areas, discussed below.

• Implementing the optimization plan for the 2004-2007 period

The plan, designed to raise the Transmission & Distribution division's profitability to the levels of its chief competitors, boosted income significantly in 2006. The gains are in line with initial estimates and cost reductions are expected to exceed the target set for 2007.

The plan is built around four key performance drivers:

- Procurement (reduction target: 30%): the division's objective is to set up optimized processes on a global scale, beginning with a unified global procurement strategy, defined in 2004.
- Business process improvement (reduction target: 30%): this involves improving the proposal selection process, strengthening project control processes and making better use of manufacturing capacities.
- Industrial redeployment (reduction target: 25%): market conditions prompted the division to reconfigure its manufacturing operations so as to bring capacities into line with the markets and improve plant efficiency over the longer term. Several of the division's largest European plants – in France, Germany and England – were reorganized and refocused on their core businesses. Capital spending programs were carried out to extend plant service life and make them centers of excellence. Some operations were shut down or sold, including the transformer plant in the United States, because it was too difficult to reestablish profitability. In taking these measures, care was taken to find new positions for every employee, preferably within the group, in accordance with the approach negotiated with our labor partners.
- Optimization of the business portfolio (reduction target: 15%): the Transmission & Distribution division conducted a systematic review of its entire portfolio, resulting in decisions to streamline product lines and launch new products, particularly in high voltage and automation. Operations that were no longer part of the division's core business, as defined in 2004, were sold, i.e. medium voltage instrument transformers.

• Accelerating profitable internal growth

The division plans to strengthen its marketing efforts to capture a large share of the investments to be made in this sector in the coming years. This means increasing production capacity in high-growth regions (including China and India), where major investments have already been identified. For example, more than €200 million were invested in new plants in the high and medium voltage businesses from 2004 to 2006. To ensure rising profitability, the expected increase in orders means greater selectivity must also be exercised concerning commercial proposals, service quality to the customer must be improved, and committed costs must be optimized.

• Assessing targeted external growth opportunities

The encouraging results of the ongoing optimization plan allow the division to pursue targeted acquisitions to strengthen its presence in certain market segments, particularly in high voltage and automation systems, and in certain regions, including China, India and the Middle East. For example, the Transmission & Distribution division purchased the high voltage instrument transformer business of German company Ritz, putting the division in first place worldwide in this business line.

4.7. Transmission & Distribution division

MARKET AND COMPETITIVE POSITION

Market segmentation

AREVA estimates the worldwide market for transmission and distribution in 2006 at €43 billion. Market size by segment is shown below (in billions of euros per year):

Products	27
Systems <i>(including 6 billion in sales of products used in turnkey systems projects)</i>	15
Services	3
Automation	4

The *Products* business unit's market represents more than half of the total transmission and distribution market. The market is growing, driven mainly by switchgear, and especially by high and medium voltage transformer (Power transformers and Distribution transformers product lines). The *Systems* business unit's market is fueled by growing demand for power electronics applications, including high voltage direct current links and interconnections. The Service product line's market is buoyed by rising demand for high value-added services to supplement the offerings of the *Products* and *Systems* business units.

Power transmission involves transporting electricity from the power plant over long distances at voltages ranging from 52 kV to 800 kV. The demand for transmission is almost entirely from integrated power generating companies and power transmission utilities. Some industrial sites that use large quantities of electricity, such as aluminum producers, may be connected directly to the transmission grid.

Distribution involves delivering electricity to local low voltage power distribution networks at voltages ranging from 1kV to 52 kV. In this market, customers include electric utilities, industrial users and the service sector. Other players include installers and integrators of medium voltage systems, which do not have manufacturing capabilities. Electric utilities account for 45% of the demand for distribution products and systems, while manufacturing and service sector customers account for 55%.

Customers

The Transmission & Distribution division serves some 30,000 customers in 160 countries. The division has a sales network in 100 countries, which maintains and coordinates customer relations for all of the division's products, systems and services. The sales force of 1,200 associates is divided among 11 regions.

The Transmission & Distribution division's customers belong to one of five main categories:

- Integrated power companies that manage the entire process of electricity generation, transmission and distribution, from the power plant to the final user;
- Transmission companies spawned by deregulation and the split between power generation, transmission and distribution operations in some countries;
- Distribution companies that deliver power to the end-user and which may be privately owned or controlled by local municipalities;
- Large industrial power users that need the Transmission & Distribution division's expertise to connect their sites (oil and gas, mining and metals, etc.);
- Infrastructure companies, such as airports and railway systems, which turn to the Transmission & Distribution division for their turnkey electrical distribution projects.

Growth engines

A combination of structural factors determines demand for power systems in the Transmission & Distribution division's market:

- Electricity consumption: to meet growing demand for electricity from the population as well as from industry and resolve emerging issues, such as urbanization, the following is required:
 - Power grid expansion: significant investment will be needed to transport increasing quantities of energy to meet user demand, particularly in China and India, where economic growth and demographics are fueling demand.
 - Interconnection development: large infrastructure projects will ensure the safety and reliability of power supply from the generating station to areas of demand. The development of electricity exchanges and efforts by governments to secure their energy supply means the creation of large, dense, completely secure power systems.

4.7. Transmission & Distribution division

• **Security of supply:**

- Renewables and Flexible Alternative Current Transmission Systems (FACTS): these technologies help electric systems cope with the increasing burden created by plans to optimize electric power supply transmission, distribution and quality.
- Conversion to digital: grid operations are increasingly automated to respond to electricity market growth, to meet supply quality and reliability requirements, and to integrate decentralized power generation from sources such as wind turbines or biomass.
- Infrastructure replacement: a significant proportion of capital investment requirements is dedicated to replacing aging infrastructure, particularly in Europe and the United States.

• **Changes in the power sector:**

- Deregulation: the development of competitive markets stimulates capital investment in power systems, as long as this investment can be covered by reasonably clear and stable rate regulations (which generally happens after a period of transition).

These factors combine to provide steady growth in investment in the transmission and distribution market.

Market trends

The transmission and distribution market experienced strong growth in 2006. After steady growth of around 7% in 2005, the sector benefited from the good health of the world economy, strong growth in emerging countries like China and India, Russia's comeback, and the large amount of capital investment in industry, for example by the oil and aluminum industries.

Group estimates put worldwide growth in the transmission and distribution market at 11% in 2006. Market growth should be sustained by growing investment requirements in North America, the European Union's commitment to developing reliable interconnected power systems, and steady demand for electrical infrastructure from emerging countries.

Three big players were able to take advantage of this growth and dominated the market in 2006: AREVA T&D, ABB and Siemens. Together, they have captured more than 50% of the total market today, as compared with 40% three years ago. Recent acquisitions are also a sign of the sector's vitality, which tends towards consolidation.

Geographically, the market was most dynamic in emerging countries in Asia, particularly China and India, in Africa, and in the Middle East in 2006.

- Europe represents 24% of the market. The need to strengthen and interconnect power grids and the development of renewable energies will have an impact on the transmission and distribution market in Western Europe. There is a potentially large market in Central Europe and Russia arising from the replacement of existing equipment and regional economic growth.
- North and South America represent 20% of the market. In the United States, a combination of factors should have a favorable impact on investment in transmission and distribution, most notably increased investment in generation, replacement of the aging installed base, and policy commitment to developing secure power systems.
- The Asia-Pacific region represents 39% of the market. China and India have the best potential for growth in all market segments.
- Africa and the Middle East represent 17% of the market. Major transmission projects (interconnections) will be a source of growth.

4.7. Transmission & Distribution division

4.7.1. PRODUCTS BUSINESS UNIT

4.7.1.1. Key data

(in millions of euros)	2006	2005
Sales revenue ⁽¹⁾	2,161	1,784
Workforce at year end	13,076 people	12,856 people

(1) Before inter-business unit sales eliminations.

4.7.1.2. Businesses

AREVA T&D's *Products* business unit designs, manufactures, markets and installs a complete range of high and medium voltage products to transport and distribute electricity, from the power plant to the end-user.

In general, electricity is generated at medium voltage (12 kV to 36 kV). Its voltage has to be stepped up to 132 kV to 800 kV to minimize energy losses during long-distance transmission. The voltage is then gradually decreased in the distribution networks as it gets closer to the end-user. The *Products* business unit's products are installed in every grid point and primarily serve to raise or lower voltage, insulate and connect circuits, and measure current and voltage in real time.

The *Products* business unit supplies equipment for:

- high voltage electricity transmission (52 kV-800 kV): conventional switchgear, shielded substations, instrument transformers and power transformers;
- primary and secondary medium voltage distribution (1 kV-52 kV): compact transformer substations, distribution transformers, disconnectors, circuit breakers, engine starting cells and lightning protection systems.

The *Products* business unit is organized into nine product lines:

- Power transformers
- Distribution transformers
- Circuit breakers
- Generator circuit breakers
- Gas-insulated switchgear (GIS)
- Instrument transformers
- Disconnectors
- Primary distribution
- Secondary distribution

4.7.1.3. Manufacturing and human resources

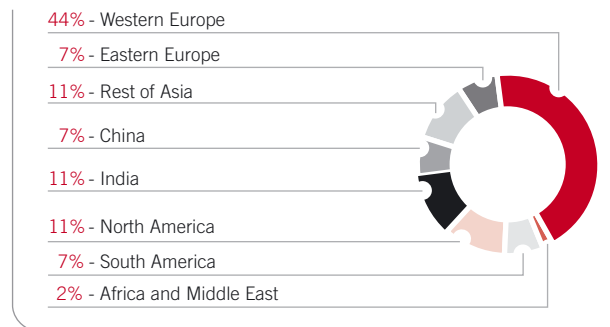
The *Products* business unit continued efforts carried out in 2005 to standardize product lines, renew its catalogue of products, and streamline and improve manufacturing processes.

The nine product lines manufacture at 54 sites around the world, including:

- large manufacturing and assembly sites strategically located near major electricity transmission and distribution markets;
- smaller sites dedicated to final product adaptation based on local customer requirements.

These plant sites are located in 24 countries, as shown in the following figure.

Manufacturing sites of the *Products* business unit at year-end 2006



The *Products* business unit has 13,076 employees worldwide, 44% of whom are in Europe. Skilled workers make up 55% of the workforce and engineers and technicians make up the remaining 45%.

4.7.1.4. Market and competitive position

The *Products* business unit is active in two market segments:

- the utilities segment, and
- the manufacturing and services segment.

4.7.1.5. Relations with customers and suppliers

Customers

Please refer to the “Customers” heading in the overview of the Transmission & Distribution division at the beginning of section 4.7.

Suppliers

Following through on efforts carried out in 2005, procurement programs were intensified in three strategic areas: increased procurement in low-cost areas, reduced number of suppliers and negotiation of master agreements with those suppliers, and involvement of the procurement department before the project is begun.

Almost 50% of production purchases are now covered by multi-plant master agreements. In 2006, all of these agreements were listed in a computer application to facilitate and monitor their deployment at each plant.

The decentralized procurement units deployed in India, China and Turkey in 2004 are now fully operational. Their responsibilities have been extended to component prequalification and tracking of flows to Europe. These units helped increase procurement in low-cost countries to 26% of the business unit's total procurement.

At the same time, supplier commitments to engage in sustainable development activities were secured, and identified activities were incorporated into the joint continuous improvement initiative set up with our largest suppliers. Starting in October 2007, global supplier selection processes will be managed electronically to ensure application of the procurement methodology and accelerate complex projects.

The program to secure requirements begun in 2005 bore fruit in 2006: the billing cycle was not interrupted for lack of a major component, even though business was up sharply in markets characterized by shortages of some commodities. By hedging copper and aluminum, the business unit was able to reduce the impact of commodity price hikes significantly. These market trends are expected to continue in 2007. Volumes have been secured contractually and copper and aluminum requirements have been hedged accordingly.

4.7.1.6. Operations and highlights

Acquisitions

As part of its development strategy, AREVA T&D acquired the high voltage operations of Ritz, the world leader in instrument transformers, on August 1, 2006. These operations, representing €50 million in sales revenue and a workforce of 500 people, round out the business unit's product catalogue and increase its global geographic coverage, especially in China, the United States and Germany, which added three new sites to the business unit.

Capital investment and reorganization

As part of the 2004-2007 optimization plan aimed at reengineering AREVA T&D's operations and refocusing them on its core markets, AREVA T&D sold the medium voltage instrument transformer business in Brazil and the distribution transformer business in the United States (Medford, Oregon). It also shut down its distribution transformer production operations in Kryoneri, Greece and its power transformer production operations in Saint-Ouen, France. In Germany, the medium voltage operations at Dresden were shut down and combined with those of the Regensburg site.

In France, operations at the Mâcon and Villeurbanne sites are being concentrated into smaller areas as part of ongoing efficiency improvement programs.

In medium voltage products, AREVA T&D completed construction of the Xiamen plant in China in furtherance of the strategy deployed in 2005. This plant manufactures vacuum interrupters and medium voltage circuit breakers that use these interrupters.

In high voltage products, AREVA T&D built a new gas insulated switchgear (GIS) assembly facility at the Suzhou site in China. GIS production will begin in the first quarter of 2007. A high voltage disconnecter assembly unit for the Disconnecter product line was also built and began operating inside existing facilities at Suzhou.

In addition, the *Products* business unit invested more than €70 million in 2006 to boost production capacities for all product lines and on all continents, with most investment concentrated in India, China and Turkey. The most significant capacity increases were in power transformers, distribution transformers, gas insulated switchgear and high voltage circuit breakers.

4.7. Transmission & Distribution division

Key contracts

The global transmission and distribution market rose by 11% in 2006 and was particularly favorable for power transformers. Orders were heavy in the Persian Gulf region (Saudi Arabia, United Arab Emirates and Qatar), totaling €53.5 million in 2006 for the GIS activity. In Europe, business was brisk in Great Britain, where National Grid awarded a contract to the *Products* business unit for power transformers valued at €27.8 million. The business unit was also successful in Russia, where it won a €57 million contract from FSK, Russia's power transmission system, for 500 and 220 kV gas insulated substations for the Chagino and Zapadnaya sites.

In this environment of growth, the *Products* business unit increased its market share considerably, with orders soaring by 31% for the same consolidation scope, with 40% in transmission and 18% in distribution.

4.7.1.7. Outlook and development goals

Russia, with its oil and gas revenues, will lead the recovery of the European markets, which will also see replacement of old infrastructure in Western Europe and projects to interconnect and strengthen power systems.

In the Persian Gulf countries, oil revenues will fuel continuing growth. The *Products* business unit will gain access to these markets mainly through the *Systems* business unit.

India and China will continue to see strong growth, especially in very high voltage long distance transmission.

Strategic priorities revolve around four major thrusts:

- increase production capacity to keep pace with market growth while reducing environmental impacts and accident frequency and severity rates;
- accelerate R&D spending to develop more new products and “redesign to cost” existing products so as to have a continuing stream of competitive products in response to customer expectations;
- continue cost reduction activities initiated under the three-year plan, particularly by acquiring new suppliers in India and China to cover local and European plant requirements;
- seek targeted acquisitions to round out the product portfolio and gain a presence on previously untargeted markets.

Increased R&D budgets and capital expenditure as well as a skills development and recruitment plan will support these strategic activities.

4.7.2. SYSTEMS BUSINESS UNIT

4.7.2.1. Key data

(in millions of euros)	2006 ⁽²⁾	2005
Sales revenue ⁽¹⁾	1,211	1,024
Workforce at year end	2,286 people	2,302 people

(1) Before inter-business unit sales eliminations.

(2) Excluding the Distributed Energy business.

4.7.2.2. Businesses

The *Systems* business unit designs turnkey projects and grid management systems for the electricity transmission and distribution market, from the point of generation to the final user.

Drawing on substation engineering expertise and project management know-how, the *Systems* business unit integrates transmission and distribution equipment – transformers, medium and high voltage equipment, protection and monitoring systems, telecommunications and services – and provides solutions tailored to the electric grid of each Transmission & Distribution division customer.

The *Systems* business unit offers:

- turnkey medium and high voltage substations;
- power electronics for:
 - high voltage direct current substations (HVDC),
 - systems to increase grid capacity and quality (FACTS: flexible alternating current transmission systems),
 - energy conversion and electrolysis.

To succeed, the *Systems* business unit draws on technology and applications expertise, on a keen understanding of the technical and economic challenges facing its customers, and on partnerships with suppliers.

4.7.2.3. Manufacturing and human resources

The *Systems* business unit has 25 sites in Europe, North America, Asia, Australia, the Middle East and Africa. Its staff consists of 1,000 engineers, two-thirds of whom provide project management,

The business unit also has a high voltage power electronics testing facility at the Glover Street site in Stafford (United Kingdom) and an energy conversion and electrolysis testing facility in Massy (France).

4.7.2.4. Market and competitive position

The systems market grew by an average of 10% in 2006. The leading customers were in the Persian Gulf, the Middle East, Brazil, Southeast Asia and India. In these fast-growing regions, customers want to buy complete systems to compensate for a lack of indigenous resources.

Demand for turnkey projects is on the rise and expanding rapidly. For some of the business unit's large customers, this takes the form of collaborative development of solutions to reduce the cost of complex projects. The market is dominated by projects that use gas insulated technologies (GIS).

ABB and Siemens are the leading competitors. These two companies together with AREVA T&D constitute the top three names for customers and systematically compete for their business.

There are also regional competitors consisting of local contractors, particularly in the low-tech substation field.

The *Systems* business unit is ranked second worldwide in the aluminum electrolysis business, a fast-expanding business, especially in Russia.

4.7.2.5. Relations with customers and suppliers

Customers

Please refer to the "Customers" heading in the overview of the Transmission & Distribution division at the beginning of section 4.7.

Suppliers

Procurement of products such as circuit breakers, transformers, disconnectors and grid protection products represents some 70% of the *Systems* business unit's sales revenue; 40% of the suppliers are in-house. Outside procurement includes cables, distribution cabinets, metal structures, civil engineering and assembly labor.

4.7. Transmission & Distribution division

4.7.2.6. Operations and highlights

Business was lively and orders were up very sharply in 2006, chiefly as the result of two major contracts in the Middle East and one in Indonesia:

- **Libya:** for interconnection of the country's different regions, GECOL awarded a major contract valued at more than €200 million to supply four 400 kV gas insulated substations on a turnkey basis, including civil engineering, installation and related services. This contract is a follow-on to a contract in a similar amount won in 2004 for three 400 kV gas insulated substations.
- **Saudi Arabia:** Saudi Electrical Company (SEC) awarded a contract valued at more than €50 million for a turnkey shielded substation at Al Kudmi, marking our return to this type of substation in Saudi Arabia.
- **Indonesia:** PLN awarded a contract valued at more than €60 million for three shielded 150 kV GIS substations, a good sign of recovery in that region.

In addition, National Grid of the United Kingdom selected the *Systems* business unit to renovate the southeastern network under a five-year alliance contract. AREVA T&D will receive some €150 million in orders per year under this arrangement.

As part of the business unit's optimization plan, major steps have been taken since 2005 and continued in 2006 to prevent the erosion of project margins, most notably:

- the management team was overhauled and the organization was changed to give greater operating control;
- greater selectivity in responding to requests for proposals was exercised, with emphasis on the transmission and distribution project organization;
- corrective action was taken to reduce cost slippage on orders;
- the role of procurement was strengthened.

These steps enabled successful completion of low-margin contracts in the backlog and raised new order quality appreciably, as measured by gross margin in backlog.

4.7.2.7. Outlook and development goals

The market has been expanding for three years. Growth should continue over the coming years to catch up with postponed capital investment and as facilities are overhauled. In addition, customers are leaning more and more towards turnkey solutions, particularly in the Persian Gulf and Asia.

Gas insulated substations (GIS) are gradually winning customers over for safety reasons, and their cost has dropped considerably as the design and technology have been simplified.

The business unit is also benefiting from renewed capital investment in parts of Europe, including England and Central Europe. A growing need for interconnection to facilitate energy exchange will continue to put pressure on demand for direct current transmission systems in Europe, India and China.

Development is expected to continue in the Gulf region, India and Southeast Asia in 2007. The demand for electricity and electrification is strong, and the business unit plans to locate more of its operations in these countries to carry out its projects and design work and take advantage of local growth.

Rising demand for power electronics solutions should also benefit the business unit in the mid term.

The *Systems* business unit's development priorities for the coming years follow four major lines of action:

- support growth by focusing on recruiting and training project managers and electrical engineers;
- increase the business unit's responsiveness to customer needs by deploying a regional organization with regional centers of competence supporting flexible local work centers, paying particular attention to Gulf countries;
- recapture market share in direct current, especially in China, now that Konti-Skan is in service;
- build up the business unit's presence in the manufacturing segment, particularly in electrolysis.

4.7.3. AUTOMATION BUSINESS UNIT

4.7.3.1. Key data

(in millions of euros)	2006	2005
Sales revenue ⁽¹⁾	530	475
Workforce at year end	3,404 people	3,290 people

(1) Before inter-business unit sales eliminations.

4.7.3.2. Businesses

The *Automation* business unit's three global product lines provide solutions for real-time digital automation of transmission and distribution systems:

- Digital products for automation, including protection equipment to detect transmission and distribution equipment failures and send protection commands, and equipment to measure the electrical signal and transmit information;
- Digital systems for automation of substations and energy management (SCADA), which operate transmission and distribution networks remotely and ensure efficient energy market management;
- Related support services to maintain digital infrastructure in working order, renovate automation systems and provide specialized operator training.

The *Automation* business unit's offer is built around onboard electronic technologies and real time information systems. These technologies are implemented through four major business lines:

- Development of software applications for power flow management,
- Design and fabrication of onboard automation modules,
- Real time information systems integration,
- Related support services.

4.7.3.3. Manufacturing and human resources

The *Automation* business unit operates three Research & Development centers of excellence, including one in the United States and two in Europe. It also has six automation product assembly centers, including a joint venture with a Chinese partner, and 18 engineering centers to integrate and manage automation and information system projects, including a back-office center in India.

The *Automation* business unit has more than 3,400 employees, close to 70% of whom are engineers and managers. More than 80% of its employees are based outside France. The business unit has a production and research center in India that employs some 1,000 people.

4.7.3.4. Market and competitive position

The market for transmission and distribution equipment and network automation and information systems averages €4.2 billion per year.

The growing phenomenon of electricity market deregulation is fueling market growth. In fact, about 60% of the world's power generation is located in countries that are either deregulated or undergoing deregulation.

The business unit's main competitors are the other two global transmission and distribution players: ABB and Siemens. These two competitors, plus AREVA T&D, control about 40% of the world market. The *Automation* business unit also competes with companies that are more specialized in a particular segment, such as Schweitzer for protection equipment in the United States, Telvent for power station automation systems, and Danaher for electric power quality measurements. There are also local and regional competitors, such as Nari in China or General Electric in the United States.

4.7. Transmission & Distribution division

4.7.3.5. Relations with customers and suppliers

Customers

The majority of end-users of automation products, systems and services are utilities that manage the world's leading power supply systems. The business unit serves these users directly as well as through integrators and resellers. A total of 80% of the *Automation* business unit's sales revenue came from 150 customers around the world.

Suppliers

The *Automation* business unit continues to pursue its strategy of increasing its volume of procurement in Asia (India, China), Eastern Europe (Romania, Poland) and North Africa (Tunisia).

4.7.3.6. Operations and highlights

Business in substation automation solutions climbed sharply in 2006. To give major customers a stronger local presence, the business unit built up its automation engineering centers in the United Arab Emirates (Dubai), Russia (Moscow) and Mexico, and created new ones. In addition, a software R&D center was created in India.

The business unit won several major contracts in 2006:

- Dispatching: Denmark, Lebanon, Switzerland, China;
- Energy market management systems: New Zealand, Switzerland, the United States, Canada.

In the area of technology, following the strategic partnership signed with Microsoft in 2004, the most important contracts signed in North America involve setting up or migrating towards Service Oriented Architectures (SOA).

In the area of manufacturing, electronic board fabrication was successfully outsourced. A lean manufacturing program was also launched in 2006 in the main production units.

4.7.3.7. Outlook and development goals

The interconnection of electricity markets will continue to represent an opportunity for the *Automation* business unit by multiplying the number of information systems and focusing major power companies' attention on system automation.

Growing data integration among substations, control systems and energy trading rooms is a new growth engine.

These advances are expected mainly in Europe. The Asian markets should continue to grow steadily, particularly that of India. In the Middle East, capital investment in the construction of new substations and for the rising number of grid interconnections should continue.

The *Automation* business unit's short term objectives are:

- Deployment of innovative solutions for optimum data integration among the different parts of the power system, and enhanced onboard electronic solutions for measurement;
- Continued geographic deployment for customer support, particularly in Eastern Europe, the Middle East and North America;
- Continued cost reductions through ongoing performance improvement plans.

Longer term, the business unit's growth will come from its ability to capture opportunities in China, Eastern Europe, the Middle East and the United States while consolidating its position in more mature Western European markets.

4.7.4. SERVICE PRODUCT LINE

4.7.4.1. Key data

<i>(in millions of euros)</i>	2006	2005
Sales revenue ⁽¹⁾	498	492
Workforce at year end	2,022 people	1,446 people

(1) Before inter-business unit sales eliminations.

4.7.4.2. Businesses

The *Service* product line provides services to support the Transmission & Distribution division's products and systems throughout their lifecycle. In addition to traditional maintenance, repair, training and equipment/substation revamping services, the product line offers more global solutions for long-term facility maintenance.

Resources close to the customer, knowledge of existing facilities, and technical expertise as a product manufacturer are key success factors for this business. Older transmission and distribution equipment, placed in service several decades ago, is now obsolete; the product line is ideally positioned to capitalize on this market, which represents a potentially large source of revenue.

4.7.4.3. Manufacturing and human resources

With offices in more than 20 countries, the product line operates out of 37 sites strategically located near its customers, with 25 sites in Europe, including 2 major sites in England, 8 in France and 4 in Germany; 7 sites in Asia-Pacific and the Middle East; and 5 sites in North America. A series of cross-cutting programs to capitalize on and transfer knowledge ensure that product line personnel maintain their technical expertise in the products and systems of the Transmission & Distribution division.

The *Service* organization has about 2,000 employees worldwide, 60% of whom are in Western Europe. Engineers and technicians make up 65% of the workforce, with craft personnel working directly on various contracts making up the remaining 35%.

4.7.4.4. Market and competitive position

In an increasingly competitive environment, the quality and continuity of electricity supply, and thus the maintenance of power system facilities, is a major concern for customers of the Transmission & Distribution division. The market is characterized by constant growth tied to the growth of the installed base coupled with the aging of that base, resulting in higher maintenance requirements.

The product line's main competitive advantages are in-depth technical knowledge as a product manufacturer and synergies with the divisions' three other business units (BU Products, Systems and Automation).

4.7.4.5. Relations with customers and suppliers

The *Service* product line's customers are the same as those of the Transmission & Distribution division's other business units.

4.7.4.6. Operations and highlights

A strong marketing push in 2006 delivered an 11.6% increase in orders, before inter-company eliminations. Significant orders in 2006 included a long-term contract in Hong Kong valued at €4.5 million for maintenance of 110 230-kV circuit breaker bays over a period of five years; a spare parts supply contract with Edelca of Venezuela valued at close to €4 million per year; and a €2.7 million contract with EnBW to rehabilitate 55 medium voltage panels, with an option for 45 more panels.

As part of the Transmission & Distribution division's three-year plan, the *Service* product line pursued the objectives set for 2006.

4.7. Transmission & Distribution division

4.7.4.7. Outlook and development goals

The services market for the installed based is expected to grow by around 6% per year. Market development is fueled by the need to renovate the aging installed based and growing interest in service solutions integrating the entire product lifecycle. However, these growth engines are partially thwarted by lower maintenance requirements for new products and by customers' continuing efforts to trim their facility maintenance budgets.

The *Service* product line's development priorities for the coming years follow three main lines of action:

- Exploit the potential of the installed base (estimated replacement value: €21 billion) by identifying opportunities by market segment, geography and product type and by adopting a proactive marketing and sales approach;
- Develop our regional presence to meet customer requirements more efficiently;
- Promote innovative services based on technical expertise:
 - support the product lines with an installation and start-up service combined with maintenance contracts by deploying resources in new markets;
 - deploy long-term performance-based service contracts in answer to customer expectations;
 - increase spare parts sales by setting up a logistics organization and streamlining the global supply chain.

4.8. Major contracts

In the normal conduct of its business, the group enters into numerous contracts of a special nature in terms of normal business operations due to their economic significance, strategic nature or the specific types of technologies deployed.

Pursuant to Appendix 1 of European Commission Regulation No.809/2004 dated April 29, 2004, the contracts viewed as important by the group are summarized hereunder. It should be noted that a confidentiality requirement attaches to all or part of these contracts.

4.8.1. FRONT END DIVISION

Sales contract for a depleted UF₆ defluorination unit in Russia

This contract was signed on March 25, 2005 and meets the requirements of the Zelenogorsk Combine for secure long-term storage of their depleted UF₆ in a chemically stable form. The contract will end in 2009.

BLEU contract

In the nuclear fuel field, AREVA NP supplied fuel assemblies filled with blended low enriched uranium (BLEU) fabricated at the group's Richland site with weapons-grade enriched uranium to Tennessee Valley Authority (TVA), a commercial power plant operator. This project includes several contracts totaling more than €200 million. The assemblies have been in use since 2004 at the TVA site.

4.8.2. REACTORS AND SERVICES DIVISION

EPR contract with TVO in Finland

In Finland, the contract signed with the AREVA NP / Siemens team in December 2003 for the turnkey supply of a complete EPR nuclear power plant (nuclear island and conventional island) to the Finnish customer TVO at the Olkiluoto site took effect on January 1, 2004.

AREVA NP is in charge of the nuclear island, safety instrumentation and control, operating instrumentation and control, and interfaces with the conventional island.

TVO estimates the total cost of the completed plant at €3 billion, including both the scope of work of AREVA NP / Siemens and other work, including site preparation work, for which TVO retains responsibility.

For this contract, see also sections 4.14.3.2. and Note 24 to the consolidated income financial statements.

EPR contract with EDF

In France, EDF decided in May 2006 to build the first of a series of EPR reactors at its Flamanville site (the FA3 project). The construction permit was published in early 2007. EDF has awarded major contracts as part of its project preparations. For example, forgings for the long-lead heavy components were ordered from

AREVA NP, which has also received an order for the plant's operating control system. AREVA and EDF also agreed on the terms of the main contract for construction of the nuclear steam supply system.

Contracts at the Ling Ao site in China

As part of the program to duplicate second generation reactors, AREVA is already involved in the construction of units 3 and 4 of the Ling Ao power plant (Ling Ao Phase II) via a contract to design and supply all of the components for the primary cooling system and, teamed with Siemens, a contract to supply the instrumentation and control systems.

Completion of the Belene nuclear power plant in Bulgaria

An agreement was concluded in late 2006 between customer Nationalna Elektricheska Kompania (NEK) and prime contractor AtomStroyexport (ASE) to complete two Russian technology reactors (VVER) in Belene, Bulgaria. AREVA NP, teamed with Siemens, will act as ASE's designated subcontractor for the supply of various systems, including the power plant's instrumentation and control, electrical and ventilation systems.

4.8. Major contracts

Contracts in Sweden

As part of its program to increase generating capacity at the Ringhals 4 power plant, Ringhals AB awarded a major contract to AREVA at the end of 2006 to design, supply and install three steam generators and a pressurizer.

Also at the end of 2006, AREVA won a contract to modernize the instrumentation and control and electrical systems for unit 2 of the Oskarshamn power plant operated by OKG (the "Plex" project).

Equipment supply contract with EDF

In France, AREVA signed a contract with EDF in 2006 to supply six replacement steam generators for the Blayais and Chinon power plants.

Equipment supply contracts in the United States

AREVA signed two major contracts concerning the US market in 2006. The first one concerns the supply of two steam generators to NSP's Prairie Island power plant, less than two years after delivering a steam generator for unit 1. The second contract concerns the supply and installation of two reactor vessel heads for the Diablo Canyon power plant operated by PG&E.

4.8.3. BACK END DIVISION

Vitrification assistance to BNGS

This contract was signed in March 2005. BNGS asked AREVA for assistance relating to the operating performance of its Sellafield facility in the UK, drawing on its La Hague experience. Assistance will be provided until 2009.

Universal canister capping agreements between AREVA NC and ORC of Japan

Two documents were signed in September 2005:

- the first document, a memorandum of understanding, defines the universal canister capping development program;
- the second is a contract for research and development to analyze the behavior of universal canisters when exposed to radiolysis, under a six-month study.

An amendment was signed to include support services not included in the base contract.

Balance of universal canisters to Germany

This contract was signed in November 2006. Under the contract, AREVA will perform operations to return certain waste (sludge and effluent units) to Germany in universal canisters for bituminous waste using a new process that reduces waste volumes and substantially lowers the number of shipments to Germany.

From Commax, a 60/40 AREVA / Belgonucléaire partnership, to Melox

The Commax economic interest group was liquidated at the end of December 2006 after shut-down of all MOX fuel fabrication operations by Belgonucléaire. The rights and obligations resulting from contracts signed by Commax were assigned to the Melox company, an AREVA NC subsidiary.

AREVA / DOE / SHAW

AREVA Inc. is participating in a consortium with the Shaw group to design, build and operate a plant to convert defense plutonium into MOX fuel. This project is funded by the US Department of Energy (DOE).

AREVA NC / CEA

Since its establishment in 1976, AREVA NC has operated the Marcoule and other company-owned facilities there. In 2006, the CEA became the owner/operator of the Marcoule site and acquired ownership of the licensed nuclear facility and its land holdings.

Considering AREVA NC's specific expertise, the CEA selected AREVA NC to serve as its new nuclear operator for the Marcoule site.

4.8.4. TRANSMISSION & DISTRIBUTION DIVISION

Libya

This major contract with Gecol valued at more than €200 million concerns grid interconnections between different regions of the country. The contract calls for the supply of four turnkey 400 kV shielded gas-insulated substations and for the related civil engineering, installation and services. It follows on the heels of a contract in a similar amount awarded in 2004 to supply three turnkey 400 kV shielded substations.

National Grid South East Area Alliance

AREVA T&D is the designated supplier for renovation of the South East network operated by National Grid in the United Kingdom. The five-year contract includes an option for five additional years. The minimum sales revenue for the first five years is £550 million (approximately €900 million).

4.9. The principal sites of the AREVA group

4.9. The principal sites of the AREVA group

Pursuant to appendix I, point 8 of European Commission Regulation No. 809/2004 of April 29, 2004, information is provided hereunder on the group's property, plants and equipment.

The group uses a certain number of premises and plant sites in connection with its operations, of which it is either owner or lessor.

The group's principal worldwide plant sites are listed below. The primary criterion for listing sites is the size of the operation conducted there.

The principal office sites are shown on the map below.

Regulations applicable to the group's nuclear operations likely to have an impact on the use of its sites are described in section 4.14.2.

The group operates at some 56 principle plant sites.

These 56 sites are distributed geographically as follows:

- 28 in France,
- 12 in European countries other than France,
- 7 in North and South America,
- 5 in Asia,
- 4 in Africa and the Middle East.

Several different operations are conducted at some of these sites.

4.9.1. OFFICES



4.9. The principal sites of the AREVA group

4.9.2. CORPORATE

The four corporate sites are located in France at rue Le Peletier (Paris 9^e), rue La Fayette (Paris 9^e), Tour AREVA (La Défense 92) and Vélizy (78).

4.9.3. FRONT END DIVISION

In all, 16 sites have been identified as principal sites and are listed below.
Of the 16 sites listed, 8 are located in France and 8 are abroad in 6 different countries.

4.9.3.1. Mining business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate (mortgage, etc.)	Surface area	Products manufactured
Arlit (Niger)	Offices and production and storage facilities	Long-term concession	no	721,000 m ²	Uranium concentrate
Akokan (Niger)	Offices and production and storage facilities	Long-term concession	no	499,000 m ²	Uranium concentrate
McClellan (Canada)	Plant and base camp	JV / 70%	no	42,140 m ²	Uranium concentrate
Muyunkum (Kazakhstan)	Offices and production and storage facilities	Full ownership	no	25,750 m ²	Eluates
Torkuduk (Kazakhstan)	Offices and production and storage facilities	Full ownership	no	36,975 m ²	Eluates and uranium concentrate

4.9.3.2. Chemistry business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Pierrelatte (26) (France) (licensed nuclear facility / licensed nuclear defense facility / environmentally regulated facility / defense confidential facility)	Plants and outlying areas	Full ownership	no	Land 220 ha	ERU denitration (TU ₅) Defluorination Denitration (TU ₂) Depleted UO ₂ Defense confidential Storage UF ₆
Miramas (13) (France) (licensed nuclear defense facility)	Plant	Full ownership	no	37 ha, unconstructed	Lithium
Malvési (11) (France)	Plant	Full ownership / lease on land Ownership of buildings	no	59.43 ha, unconstructed	UF ₄

4.9. The principal sites of the AREVA group

4.9.3.3. Enrichment business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Pierrelatte (26) St-Paul-Trois-Châteaux (26) Bollène (84) (France)	Plant	Full ownership	no	269.6 ha	Enrichment services Effluent treatment Equipment maintenance
Pierrelatte (26) St-Paul-Trois-Châteaux (26) Bollène (84) (France)	Plant under construction	Full ownership	no	63 ha	Enrichment services (in future)

4.9.3.4. Fuel business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Romans-sur-Isère (26) (France)	Plant	Full ownership	no	Buildings: 28,366 m ² Land: 320,648 m ²	Fuel assemblies for PWR reactors and various components Research reactor fuel and nuclear instrumentation
Paimboeuf (44) (France)	Plant	Full ownership	no	Land: 64,366 m ² Buildings: 17,201 m ²	Zirconium tubes for fuel assemblies
Jarrie (38) (France)	Plant	Lease	no	Land: 97,088 m ² Buildings: 32,502 m ²	Zirconium sponge
Rugles (27) (France)	Plant	Full ownership	no	Land: 73,491 m ² Buildings: 14,638 m ²	Flat products in zirconium
Ugine (73) (France)	Plant	Full ownership	no	Land: 56,764 m ² Buildings: 25,385 m ²	Intermediate products in zirconium and titanium Plug rods
Dessel (Belgium)	Plant	Full ownership	no	Land: 96,300 m ² Buildings: 15,600 m ²	PWR fuel assemblies (UO ₂ and MOX)
Richland Washington State (United States)	Plant	Full ownership	no	Buildings: 36,790 m ² Land: 1,344,204 m ²	Powder and pellets production (UO ₂ , Gad & BLEU), assemblies and various components
Lingen (Germany)	Plant	Full ownership	no	Land: 493,301 m ² Buildings: 17,600 m ²	PWR and BWR fuel assemblies

4.9. The principal sites of the AREVA group

4.9.4. REACTORS AND SERVICES DIVISION

In all, 18 sites have been identified as principal sites and are listed below.
Of the 18 sites listed, 9 are located in France and 9 are abroad in 6 different countries.

4.9.4.1. Equipment business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Saint-Marcel (71) (France)	Plant	Full ownership	no	Buildings: 39,000 m ² (workshops) + 7,300 m ² (offices) Land: 19 ha	Heavy components (reactor vessel, vessel head, steam generator, pressurizer)
Jeumont (59) (France)	Plant	Full ownership	no	Buildings: 30,000 m ² (constructed) Land: 5 ha	Reactor coolant pump sets, control rod drive mechanisms
Maubeuge (59) (France)	Plant	Full ownership	no	Buildings: 7,100 m ² workshops + 700 m ² offices Land: 4.5 ha	Services related to contaminated component maintenance: Reactor coolant pumps, etc.
Le Creusot (71) (France)	Plant	Full ownership / Lease	no	Land: 7.8 ha Buildings: 51,000 m ²	Large forgings for the nuclear and petrochemical industries Machining of large parts
Montchanin (71) (France)	Plant	Full ownership / Lease	no	Land: 7.6 ha Buildings: 29,700 m ²	Mechanized welding boilermaking
Montchanin (71) (France)	Plant	Lease	no	Land: 2.6 ha Buildings: 7,700 m ²	Machining of mechanical parts
Deyang Sichuan (China)	Plant	Co-ownership by 50/50 JSPM / Dongfang Electric Machinery joint venture	no	37,400 m ² (workshops) + 1,800 m ² (offices) Terrain: 4.6 ha	Reactor coolant pump sets

4.9. The principal sites of the AREVA group

4.9.4.2. Nuclear Services business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Constructed surface area	Products manufactured
Chalon-sur-Saône (71) (France)	Offices, Cedem development center, Cemo hot facility Cetic training center (50/50 JV with EDF)	Ownership	Information not available	Buildings: 59,192 m ² (hot facility: 400 m ² Cetic: 5,323 m ²)	Robotics / tooling / decontamination / storage of tooling (contaminated / decontaminated)
Lynchburg (United States)	Offices, facilities	Ownership	no	Buildings: 28,000 m ²	Decontamination Hot maintenance facility
Erlangen (Germany)	Offices, facilities	Lease	Information not available	Buildings: 43,000 m ² (total surface area, of which a percentage is used by the departments)	Robotics / tooling

4.9.4.3. AREVA TA business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Cadarache (13) (France)	Production plant / Offices	Full ownership	no	n.a.	n.a.

4.9.4.4. Nuclear Measurement business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Meriden CT (United States)	Production and services site	Full ownership	no	16,200 m ²	Standard Products / Systems
Albuquerque (United States)	Production and services site	Lease	n.a.	2,120 m ²	Standard products
Loches (37) (France)	Production and services site	Full ownership	no	4,800 m ²	Standard products
Olen (Belgium)	Production and services site	Full ownership	no	1,500 m ²	Standard detectors
Lingolsheim (67) (France)	Production and services site	Lease	n.a.	2,053 m ²	Specialty detectors
Oak Ridge Tennessee (United States)	Production and services site	Full ownership	no	3,160 m ²	Crystal growth
Concord Ontario (Canada)	Production and services site	Lease	no	2,746 m ²	Standard products
Harwell (United Kingdom)	Production and services site	Lease		1,880 m ²	Standard Products / Systems

4.9.5. BACK END DIVISION

In all, 9 sites have been identified as principal sites and are listed below.
All of the 9 sites listed are located in France

4.9.5.1. Treatment business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
La Hague (50) (France)	Plant site	Full ownership	no	Plant land: 205 ha 48 a 34 ca	Used fuel treatment
7 licensed nuclear facilities	Off site: Land reserve			Land excluding site: 98 ha 23 a 13 ca	

4.9.5.2. Recycling business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Melox Marcoule (30) (France)	Plants and offices	Full ownership	no	Land: about 5 ha	MOX fuel fabrication + packaging of scrap and waste Mechanical facility (fabrication of parts for Melox) Transportation logistics
Cadarache (13) (France)	Plants and offices	Lease	no	27,100 m ²	MOX fuel production shut down in July 2003 (Eurofab production in 2004) Site undergoing dismantling

4.9.5.3. Logistics business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Valognes (50) (France)	Rail / road terminal	Full ownership	no	7 ha	n.a.
Tourlaville (50) (France)	Warehouse	Full ownership	no	9,800 m ²	n.a.
Pont-St-Esprit (50) (France)	Warehouse	Full ownership	no	2,000 m ²	n.a.

4.9. The principal sites of the AREVA group

4.9.5.4. Cleanup business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Bollène (84) (France)	Plant	Lease	no	9,644 m ²	Machine maintenance, waste processing, equipment recertification

4.9.5.5. Engineering business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Beaumont Hague (50) (France)	Testing and integration facility	Full ownership	no	4,860 m ²	Applied R&D, equipment assembly and testing before installation at customer sites

4.9. The principal sites of the AREVA group

4.9.6. TRANSMISSION & DISTRIBUTION DIVISION

Transmission & Distribution division operations are carried out at some 260 sites (plants, offices or combination) in 100 countries around the world. In all, 13 sites have been identified as principal sites and are listed below. Of the 13 sites listed, 3 are located in France and 10 are abroad in 6 different countries.

4.9.6.1. Products business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Aix-les-Bains (73) (France)	Plant	Ownership	no	33,900 m ²	High voltage product
Mâcon (71) (France)	Plant	Ownership	no	41,500 m ²	Medium voltage interrupters (circuit breakers)
Villeurbanne (69) (France)	Plant	Ownership	no	56,000 m ²	High voltage product
Kassel (Germany)	Plant	Ownership	no	36,800 m ²	High voltage product
Monchengladbach (Germany)	Plant	Ownership	no	13,600 m ²	Power and distribution transformers
Regensburg (Germany)	Plant	Ownership	no	28,100 m ²	Medium voltage interrupters (circuit breakers)
Stafford (United Kingdom)	Plant	Lease	no	38,200 m ²	Power transformers
Suzhou (China)	Plant	Ownership	no	32,800 m ²	Medium and high voltage products
Naini (India)	Plant	Ownership	no	32,200 m ²	Power and distribution transformers
Gebze (Turkey)	Plant	Ownership	no	46,600 m ²	Power and distribution transformers

4.9. The principal sites of the AREVA group

4.9.6.2. Systems business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Stafford (United Kingdom)	High voltage testing platform for power electronics	Lease	no	1,496 m ²	n.a.

4.9.6.3. Service product line

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Stafford (United Kingdom)	Warehouse and offices	Lease	no	2,500 m ²	n.a.
Salford (United Kingdom)	Warehouse and offices	Lease	no	21,000 m ²	n.a.
Villeurbanne (69) (France)	Workshop, warehouse and offices	Ownership	no	5,200 m ²	Renovation of circuit breaker parts
Regensburg (Germany)	Workshop, warehouse and offices	Partly leased and partly owned	no	1,297 m ²	Circuit breaker repair and rehabilitation
Mâcon (71) (France)	Plant	Ownership	no	2,306 m ²	Medium voltage cells
Linz (Austria)	Warehouse and offices	Ownership	no	2,765 m ²	Circuit breaker and substation equipment

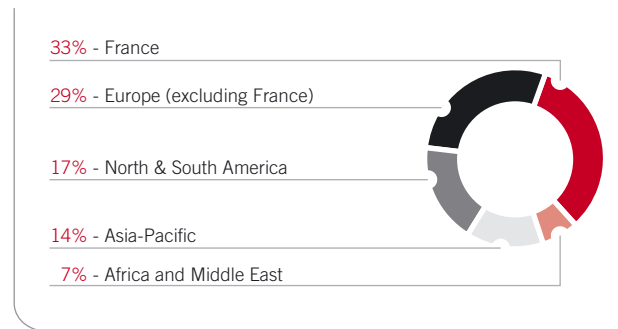
4.9.6.4. Automation business unit

Location	Type of asset	Lease / Full ownership	Existence of encumbrances on the real estate	Surface area	Products manufactured
Pallavaram (India)	Plant	Lease	no	22,000 m ²	MiCOM relays
Shanghai (China)	Plant (50% offices / 50% production)	Lease	no	4,000 m ²	MiCOM relays
Stafford (United Kingdom)	Plant (80% offices / 20% production)	Lease	no	10,200 m ²	MiCOM relays

4.10. AREVA's customers and suppliers

4.10.1. AREVA'S CUSTOMERS

2006 consolidated sales revenue by region



Source: AREVA.

The majority of AREVA's customers are large electric utilities, public entities such as publicly-owned electric power supply systems or agencies in charge of the back end of the nuclear fuel cycle, and major industries.

Geographically, the majority of its customers are located in Europe, the United States and Japan. The group is also active in developing markets, particularly in China, Indonesia, India, Brazil, South Africa and, for the Transmission & Distribution division, the Persian Gulf countries of Saudi Arabia, Kuwait and the United Arab Emirates.

The group is dependent on a key customer, EDF, which represents approximately 21% of its consolidated sales revenue. The group's ten largest customers, including EDF, represented approximately 38% of its consolidated sales revenue in 2006, while its five largest customers represented approximately 33%.

Organizationally, the business units have their own sales teams and are responsible for their own commercial commitments. The sales teams are extremely qualified in their respective businesses and ensure rapid responses to changes in their markets.

AREVA has set up a group-level International & Marketing department responsible for recommending a commercial strategy to AREVA's Executive Board. This department is supported by an international sales network, the AREVA group marketing staff, and the key account managers. The key account managers are tasked with fostering long-term relationships with the group's main customers as part of the "customer action plan" approved by the Executive Committee, which covers all of the group's marketing and sales activities. Each key account manager heads up a cross-cutting team consisting of the main customer contacts within the group's business units.

Global offerings involving several of the group's business units are provided by project teams working under the supervision of the marketing and sales departments of the various subsidiaries and the International & Marketing Department.

Nuclear

The number of customers in the nuclear businesses is small, with the group's ten largest customers representing 58% of AREVA's sales revenue from nuclear operations. The scope of the transactions is usually large: contracts can amount to several hundred million euros. EDF is the single largest customer of the Nuclear divisions, accounting for approximately 30% of sales revenue. Sales are diversified geographically, with the European customer base representing approximately 70% of the nuclear business.

AREVA generally has firm commitments on its long-term contracts in the nuclear cycle with limited flexibility on quantities and with firm and/or escalated prices pegged to indices that may be general or specific to the nuclear industry. This is true for uranium sales, enrichment services and treatment/recycling services provided to major utilities.

For example, the treatment-recycling contract currently in progress with EDF for the 2001-2007 period is based on a fixed price that is revised monthly based on an escalation formula. On this basis, the contract should produce sales revenue of €4 billion over the 2001-2007 period.

In line with market practices, various warranties may be given to customers in areas such as performance, delivery schedules, liability for non-performance, etc. The risks associated with these warranties are described in sections 5.1.2.8.8. and 4.14.3.1.

Transmission & Distribution

In contrast to the businesses of the Nuclear divisions, the customer base for the businesses of the T&D division is very broad – T&D services 25,000 to 30,000 customers – while the size of the contracts can go up to several hundred million euros. The Transmission & Distribution division's ten largest customers represent approximately 10% of its sales revenue.

Marketing and sales for the Transmission & Distribution division are centralized through an international sales organization (ISO) in 100 countries, ensuring the continuity and coordination of commercial relations across the division's entire offering. The

4.10. AREVA's customers and suppliers

sales force is organized into 11 regions and has a headcount of about 1,200. In addition, the product lines of the Transmission & Distribution business units have their own sales support forces, which coordinate with the ISO.

A program was adopted in 2004 to coordinate key account management, enabling the division to develop preferred, long-term relationships with world-class customers that are leaders in their markets, such as EDF/RTE in France, National Grid Transco in the UK, Hydro Quebec in Canada, E.On in Germany, Endesa in Spain, AEP in the United States and Eskom in South Africa. The new approach is consistent with the group's overall business strategy and calls for the division to work with customers to anticipate future developments in electric power supply systems.

The division's main customers, by category, are:

- integrated electric utilities: Duke Energy in the United States, E.On in Germany, Endesa in Spain, Teas in Turkey, Steg in Tunisia, Dewa in Dubai, SEC in Saudi Arabia, Wapda in Pakistan, Egat in Thailand, PLN in Indonesia, Vattenfall in Sweden, CFE in Mexico, Eletrobras in Brazil and Gecol in Libya;
- transmission companies set up in the wake of deregulation: NG in the UK, PJM, Trans-Elect and ATC in the United States, RTE in France, Terna in Italy, REE in Spain, Transelectrica in Romania, State Grid Corporation in China, and PGCIL in India;
- large companies that are major consumers of electricity: Arcelor, Bao Steel, Chevron, Alcan, Alba, Volkswagen, French national railways SNCF, the Paris area transit authority RATP and Rusal.

4.10.2. AREVA'S SUPPLIERS

The group's Senior Vice President of Procurement is a member of AREVA's Executive Committee. The Procurement Directors of the first-tier subsidiaries report to him functionally and are members of the Executive Committees of their subsidiaries. The non-production procurement department coordinates and globalizes procurement worldwide for all AREVA subsidiaries via framework agreements.

Procurement programs are based on four key principles:

- Analyze markets and build a worldwide supplier list. This means systematically seeking out the best sources of supply worldwide, both in terms of quality and in terms of cost.
- Integrate the procurement function as far in advance as possible into decision-making mechanisms involving the suppliers.
- Encourage continuous improvement and stimulate supplier creativity via contracts specifying quality, cost and schedule objectives.
- Improve the efficiency of the procurement function by continually monitoring its performance.

AREVA has no particular dependence on any supplier, apart from EDF, which supplies electricity under contract for enrichment (see section 4.4.3.5.). For certain special operations, the group has a small number of suppliers. This subject is covered in the sections concerning the business units (sections 4.4. to 4.7.).

Several highlights of 2006 are worth noting here:

- A large number of suppliers, representing approximately 40% of AREVA's external procurement, signed the "Sustainable Development Declaration for Suppliers" in 2006.
- The guide to best practices in external procurement was distributed to all group buyers and to other AREVA personnel contributing to the process.
- The procurement function developed a professional procurement training program in 2006 that will be implemented throughout the group starting in 2007.

4.11. Sustainable Development and Continuous Improvement

Sustainable development means meeting the needs of the present without compromising the ability of future generations to meet their own needs. It is one of the keystones of AREVA's industrial strategy. It is implemented through a continuous improvement initiative aimed at achieving three key objectives: to sustain profitable growth, to be socially responsible and to respect the environment. Sustainable development is one of the group's core values, as specified in the Values Charter, inspired by the principles of the UN Global Compact and OECD guidelines.

These goals translate into ten commitments, implemented throughout the group as part of the AREVA Way continuous improvement process.

- **financial performance:** ensure the group's sustainability through long-term profitable growth;
- **innovation:** develop and harness best-in-breed technologies to anticipate our customers' needs and increase our cost-competitiveness while complying with nuclear safety, occupational safety and environmental protection requirements;
- **customer satisfaction:** listen to our customers, anticipate their needs, support their growth, and increase and measure their satisfaction;
- **commitment to employees:** promote our employees' professional development and provide good working conditions;
- **governance:** manage our operations responsibly in accordance with the group's values, and assess and truthfully report on our performance to shareholders and all stakeholders;
- **dialogue and consensus building:** establish stakeholder relations based on trust;
- **community involvement:** participate in the economic and social development of the communities in which the group operates;

- **environmental protection:** limit our environmental impacts by reducing our consumption of natural resources, controlling our releases and optimizing our waste management;
- **risk management and prevention:** establish and maintain the highest level of nuclear and occupational safety in all of the group's operations to preserve public and worker health, and to protect the environment;
- **continuous improvement:** implement a continuous improvement initiative based on practices shared throughout the group.

AREVA Way is an integral part of the group's management processes. It is based on a model that serves as a basis for self-assessments of entity performance with respect to the group's ten sustainable development commitments and is used to define the corresponding performance improvement plans. The results are reported to corporate management during strategy and budget meetings, at which time performance improvement objectives are set and resources allocated through the budget process.

The Sustainable Development and Continuous Improvement department provides leadership for this process within the group. It takes into account the group's policies and actions in risk prevention (see section 4.14.2.3.), labor relations (see Human Resources report, section 5.2.) and Environmental protection (see Environmental report, section 5.3.).

Note: A more complete description of sustainable development is provided in the publication "AREVA in 2006", which is available from the group upon request or may be read on the website at www.aveva.com.

4.12. Capital spending programs

4.12. Capital spending programs

The group's strategy has always been to invest heavily and consistently to ensure long-term growth. Sustainable development requirements, shareholder value and profitability are integral to this strategy. AREVA plans to grow, first through internal growth, but also through a selective approach to acquisitions.

In 2005, the group launched a major capital spending program to develop or replace some of its production capacities and to acquire strategic technologies and production facilities. The goal of this program is to ensure long-term security of supply for AREVA's customers and to achieve growth in all our businesses. With this program, the group expects to reach the market share and profitability objectives set for 2011.

4.12.1. 2006

Gross operating Capex rose sharply, from €554 million in 2005 to €1.325 billion in 2006 (€1.248 billion net of disposals). In 2006, the group made acquisitions totaling some €600 million, listed hereunder:

- acquisition of ETC and the uranium centrifuge enrichment technology, enabling AREVA to start construction of the Georges Besse II enrichment plant;
- acquisition of Sfarsteel, which specializes in the production of large forgings, to secure future procurement of these critical parts used in the primary cooling systems of reactors;
- acquisition of Ritz High Voltage to round out the range of products and technologies offered by the Transmission & Distribution division.

Capital expenditures were stepped up in uranium mining projects and EPR certification programs, particularly in the United States.

Net non-operating Capex represented net cash proceeds of around €295 million. In addition to net disposals connected with the portfolio of assets earmarked to cover end-of-life-cycle operations, the group sold its shares of Société Générale for €217 million and acquired additional shares of REpower, thus increasing its equity interest in that company from 21.2% at the end of 2005 to 29.9% at the end of 2006.

4.12.2. 2005

Gross investment in property, plant and equipment and in intangible assets before disposals went from €519 million in 2004 to €535 million in 2005.

Gross operating Capex had also risen sharply in 2005. In nuclear operations, the year had seen a substantial increase in capital spending, in line with the strategic objectives announced by the group. Gross operating Capex was €488 million in 2005, compared with €366 million in 2004. The increase was primarily due to development of mining projects and, to a lesser extent, preparation of the Georges Besse II plant construction project in the Front End division.

Disposals of property, plant and equipment and intangible assets went from €105 million in 2004 to €66 million in 2005.

Investment in long-term financial assets net of disposals represented approximately €300 million in 2005. More than €530 million in cash was used in 2005 to acquire securities for the portfolio earmarked for end-of-life-cycle obligations to compensate for the transfer of Suez securities to "available-for-sale securities". In 2005, the group had also subscribed to a Suez capital increase and acquired an initial 21.2% equity interest in REpower. On the other hand, AREVA had disposed of its equity interests in Brime Assystem of France and ERA, an Australian uranium company.

4.12.3. OUTLOOK

In the coming years, operating Capex should remain consistent with the level recorded in 2006.

More than €3 billion will be invested in the Front End division over the next five years (2007-2011). In the *Mining* business unit, the objective is still to double production by the end of that period, giving annual production of 10,000 MT to 12,000 MT of uranium. The *Enrichment* business unit started construction of the Georges Besse II plant. The group expects to devote approximately €2.5 billion to that project over the next 10 years, in constant 2001 euros.

The Reactors and Services division is planning to make a significant additional investment in connection with its EPR certification program, particularly in the United States.

In the Transmission & Distribution division, Capex should be the same as in 2006, i.e. about €100 million excluding acquisitions, to ensure the continued growth of the business.

4.13. Research and development programs, intellectual property and trademarks

4.13.1. RESEARCH AND DEVELOPMENT

4.13.1.1. Key data

<i>(in millions of euros, IFRS)</i>	2005	2006
Research and Development expenses	328	355
- Nuclear Power share	65%	68%
- T&D share	35%	32%
Number of patent applications	99	111

Research and development expenses represented 3.3% of the group's sales revenue in 2006 and increased by 8.2% compared with 2005.

Total R&D spending, taking into account all committed costs, was €669 million in 2006, i.e. 6.2% of consolidated sales revenue. This compares with €582 million in 2005.

These figures do not include the €352 million paid in 2006 for acquisition of the ultracentrifugation technology held by Enrichment Technology Company (ETC). That amount is counted in the group's industrial investments.

The increase in R&D spending is due to stepped-up mineral exploration activities and to industrial expansion relating to the first EPR reactor in Finland and to its licensing, particularly in the US (see section 5.1.2.5.3. for more information).

4.13.1.2. Overall organization of Research and Development

The AREVA group sets the pace for the global competition in terms of technology, with dynamic programs to harness advanced technologies and integrate them into our products and services. Ever since the first industrial applications of nuclear energy

were developed, we have worked continuously to build up major intellectual assets, maintain our strong technological lead and bolster our international positions. AREVA has pooled Research and Innovation functions as a group to tap into the synergies resulting from its establishment and to protect and multiply its technology assets. By functioning in integrated mode, the group is able to share best practices throughout the group and thus boost R&D effectiveness in areas as wide-ranging as technology management, knowledge and know-how management, intellectual asset protection, innovation, and leadership for a portfolio of research and development projects.

AREVA's Research and Innovation department establishes group-level programs such as research and development action plans, project portfolio management, management of technical expertise and technology excellence, and intellectual property management. The Research and Innovation department also promotes and drives innovation throughout the group.

In 2005, a program to stimulate innovation in all of the group's business units was launched and fully deployed in 2006. This program is structured around three main thrusts:

- Creation of a portfolio of innovations specific to each business unit, reviewed annually. The idea is to identify areas requiring innovation, such as a strategic objective or a technical issue that cannot be resolved using conventional methods.
- Development of EFICA guidelines: E for Explore, F for Formalize, I for Ideas, C for Construct a solution, and A for Action. The guidelines are supported by a variety of creativity methods and by an organizational process aimed at structuring initiatives to produce innovation.
- Recognition of innovators. The AREVA Innovation Awards, in its fourth year, are one way to give recognition.

4.13. Research and development programs, intellectual property and trademarks

4.13.1.3. Partnerships

Thirty years of technological achievement and commercial successes have positioned AREVA as a global leader in the nuclear industry. Today, the group has a solid base of operations on three continents. Scientific and technical partnerships reflecting our international dimension will be a cornerstone of our continued growth.

AREVA already has a broad network of partnerships with the world's leading research laboratories, including:

- France: the CEA at Saclay, Cadarache and Marcoule; EDF's Research and Design Laboratories; the French National Scientific Research Center (CNRS); and the *École de Chimie* of Paris.
- Germany: the University of Zittau and the Karlsruhe, Rossendorf and Julich research centers.
- United States: Massachusetts Institute of Technology (MIT) and the Universities of Florida, Texas and Idaho.
- China: Tsinghua-Beijing University.
- Russia: The Kurchatov research institute.

AREVA's involvement in the Generation IV initiative is indicative of this commitment. The multilateral agreement pertaining to this international initiative was signed in 2005, providing a framework for collaboration on key technologies for fourth generation nuclear reactors. AREVA is keenly interested in this initiative, alongside its French, European and international partners, especially as concerns high temperature reactors and fast spectrum reactors, in which it sees even greater sustainable development opportunities.

One of the most important partnerships, the tripartite agreement of 2002 between AREVA, the CEA and EDF, was being renegotiated in 2006 and has yet to be finalized. This agreement coordinates the three parties' R&D efforts and resources to improve the performance of existing reactors and fuels, and planning for long-range development of key technologies for future generations of reactors.

With regard to mid-range industrial applications (2015), AREVA's efforts focus on the high temperature gas-cooled reactor (HTR) through the Antares project, with the CEA and EDF participating via the tripartite agreement. European support is being provided through the Raphael program (6th R&D Framework Program) launched in April 2005.

AREVA and the CEA also signed a 10-year cooperative agreement on the nuclear fuel cycle, with work beginning January 1, 2004. This agreement has the same purpose and objectives as the tripartite agreement.

For partnerships with the CEA, the allocation of ownership and utilization rights (industrial and commercial use, or use exclusively for research) is a function of each party's financial share.

4.13.1.4. Future directions in technology

Partnerships in R&D also extend to the transmission and distribution businesses. In particular, the Transmission & Distribution division and the University of Tsinghua expanded their joint research activities in 2006.

Nuclear

The AREVA group's Research and Development programs are anchored in meeting customer requirements. They focus on increasing safety, reducing operating costs, minimizing final waste volumes, conserving natural resources and preparing future generations of nuclear systems.

Development and modernization of production tools in the front end of the fuel cycle

The long-term revival of nuclear programs in several countries around the world will generate increased demand for uranium, especially as high enriched uranium (HEU) inventories near depletion.

Mineral exploration spending was once again stepped up in 2006 for this reason, with exploration expenses tripling from 2004 to 2006. Besides studies on uranium geochemistry or to improve geophysical prospecting methods, efforts are concentrating on the exploration of new areas or "rediscoveries". The areas concerned include Athabasca (Canada), the Baltic Shield, Mongolia, and Australia.

In the field of conversion, studies are under way to modernize facilities and increase production capacity in response to growing demand. The studies will serve to validate investment decisions when the time comes.

Optimizing the economic performance of reactors and fuel**• Boosting nuclear fuel performance**

The Front End division is looking beyond the successful performance of its current products by conducting far-reaching research and innovation programs to boost thermo-hydraulic, mechanical and burnup performance while enhancing fuel reliability.

These programs involve:

- the development of new cladding materials (new alloys for better corrosion resistance and enhanced mechanical properties) and new fuel (advanced microstructures to reduce the release of fission gases at high burnup fractions); and
- the development of new fuel rod, spacer grid and assembly designs.

Two broad-based projects are currently in progress to develop the next generations of PWR and BWR fuel assemblies.

In this same area, but with a narrower focus on MOX fuel, the first test campaigns began at the Applied Development Center. Located at the AREVA Cadarache site, the center features full-scale replicas

4.13. Research and development programs, intellectual property and trademarks

of the majority of MOX process equipment, operated in a UO₂ environment to:

- develop and validate technology improvements to the MOX fabrication process on an industrial scale,
- certify new suppliers of strategic items,
- test mechanical equipment before industrial service, and
- help fabricators optimize operating costs and techniques.

- **Enhancing design tools for fuel and reactors**

AREVA puts considerable effort into its modeling tools and codes. Efforts focus on optimizing advanced physical models that take advantage of enhancements in computer modeling capability, expanding their validated domains, implementing modular application architectures, and developing ergonomic graphical interfaces. These developments are helping to improve code forecasting accuracy, reduce design schedules and improve design quality. With them, innovative fuel and reactor designs delivering even better performance are foreseeable.

- **Understanding and anticipating aging phenomena**

AREVA teams are conducting important research and development programs with the CEA and EDF with the goal of gaining a better understanding of and control over materials aging in the reactor environment (radiation, pressure, temperature, mechanical loads) so as to improve our ability to predict and demonstrate structural and equipment life spans and to offer solutions for extending the service life of reactors and their components. Every year gained translates into substantial savings for our utility customers.

- **Supplying modern digital instrumentation and control systems**

Instrumentation and control system products and programs offering a high level of safety are being integrated into the group's new reactors, such as the EPR, as well as into existing reactors to replace older systems.

These advanced instrumentation and control systems are helping to improve reactor operations and availability, lower their maintenance costs, and increase their power and ability to meet variations in demand.

Developing enhanced solutions for the back end of the fuel cycle

The 30 years of industrial research and development backing the La Hague plant site have made it the reference in used fuel treatment today. The research and operating experience from this plant are helping to guide our main research programs.

- **Production plant support**

This involves optimizing current plant operations over the long term and adapting to market trends so as to be able to treat new fuels (high burn-up UOX fuel, MOX fuel, research reactor fuel, etc.). In addition, programs to minimize the La Hague plant's environmental

impacts are in progress in anticipation of revised release permits, expected to be issued in early 2007.

- **Optimizing fuel treatment and reducing final waste volumes**

A far-reaching development program is under way to renovate the vitrification facility so as to increase productivity and capacity. The program involves installing the cold crucible technology developed jointly with the CEA, which is capable of processing a wider range of feed solutions, including effluent from the rinsing of facilities scheduled for dismantling. The process will be certified in a full-scale vitrification pilot plant at the CEA Marcoule site. These research programs should also enable AREVA to expand its offering to include the treatment of new products.

- **Improving used fuel transportation and storage**

The Back End division is developing new materials – resins, radiation shielding and impact limiters – for the design of innovative shipping casks and even more efficient integrated storage solutions that accommodate the changing and ever more demanding characteristics of used fuels.

Supporting deployment of a new generation of reactors, the EPR

A project team for EPR licensing in the United States was formed and an intensive program of topical report submittals and technical meetings with the US Nuclear Regulatory Commission (NRC) is scheduled until submission of the EPR design certification request at the end of 2007.

The R&D teams also actively support the OL3 project in Finland and the FA3 project at the Flamanville site in France, most notably for experimental validation of certain components.

Planning for next-generation reactors and related fuel cycle facilities

This involves long-term research – the key to maintaining technological leadership – that looks at the total reactor/fuel cycle system to optimize sustainable development criteria, i.e. an economic system that conserves natural resources and minimizes environmental impacts while addressing societal issues.

A discussion of some of the key areas for research follows.

- **Developing new gas-cooled reactors**

Beyond the existing portfolio of advanced products – the N4 and EPR pressurized water reactors and the SWR1000 boiling water reactor – AREVA and its partners EDF and the CEA are studying a new family of reactors that are potentially attractive for the cogeneration of electricity and industrial heat or hydrogen: high temperature helium-cooled reactors (HTR).

As a continuation of R&D efforts and preliminary designs of recent years, the preconceptual design phase launched in 2004 was completed in 2006.

In the meantime, the R&D program continues, particularly in the areas of fuel development and qualification, large component

4.13. Research and development programs, intellectual property and trademarks

design, high temperature materials, modeling tools and qualification loops. AREVA is also coordinating a new European project, Raphael (acronym for “reactor for process heat, hydrogen and electricity generation”), launched in 2005.

- **Restarting development of sodium-cooled fast neutron reactors**

In connection with the international Generation IV reactor initiative, and with sustainable development objectives in mind, AREVA initiated an innovation phase in 2006 designed to overcome the technological hurdles concerning sodium-cooled fast neutron reactors (SFR). The innovation phase is scheduled to last until 2010 and will focus initially on core safety issues and in-service inspection and repairs. It is being carried out as part of a cooperative program with the CEA and EDF.

- **Developing fourth-generation reactor systems**

The Reactors and Services division is also conducting long-range studies on other reactor types. Most of these reactor concepts are based on fast neutron spectra, which ensure the availability of energy resources for several centuries to come and pave the way to even greater reduction of final radioactive waste volumes. These concepts are effective, long-term responses to the energy and environmental challenges of the future and could be deployed in the 2040 time-frame.

- **Designing new generations of fuel cycle plants**

In this regard, AREVA worked with the CEA to develop the COEX process for co-extracting uranium and plutonium.

The individual steps in the process have been mastered.

In 2006, two important steps in mixed oxide co-conversion (U-Pu) were completed:

- the conditions for calcination of the co-precipitate were optimized to produce a solid solution, free of U_3O_8 and with nearly all carbon eliminated, and
- batches of co-converted powder containing rising Pu contents were produced at the Atalante facility.

The initial analyses appear to confirm the material's intrinsic quality. The powders will be used to fabricate test pellets.

AREVA will participate in the research component of the Law of June 28, 2006 on radioactive waste management, as it did with the previous law. In this area, the main goals for future programs will be to:

- reduce waste package volumes,
- define packaging solutions for waste from old nuclear facilities under the best possible safety conditions,
- help Andra draft or finalize waste package assessment documents for waste disposal design.

Emerging technologies

Héliion's research into proton exchange membrane fuel cells (PEM) enters into the AREVA group's CO₂-free energy strategy.

Harnessing pure hydrogen/oxygen technology made it possible to deliver a highly reliable 30 kWe fuel cell system to the CEA in the summer of 2006 to supply power to the Saclay emergency management center.

In accordance with its roadmap for public transportation applications, also a goal, Héliion produced a hydrogen/air fuel cell stack capable of delivering 50kWe of electric power.

Transmission & Distribution

With the short cycles typical of this sector compared with the nuclear business, research is crucial to the Transmission & Distribution division's competitive position. The division raised R&D spending by 20% in 2006, and it now represents 3.4% of its sales revenue. The main areas for research are discussed below.

- **Alternating current power systems and equipment**

Today, the market demands transformers with greater overload capacity that can deal with transitional operating conditions caused by short circuits and overvoltage. They must also provide reliable service and represent the best trade-off between technical performance and cost. In the field of current limitation, the key to success lies in using a single interruption technology platform to streamline products. Good progress has already been made on developing products and solutions for new markets. Commercial expansion in the United States requires compliance with ANSI standards, while in China and other fast-growing markets like India and Russia, compliance with local technical and climatic specifications is required.

- **Direct-current power electronics**

This is certainly the most promising technology for the future of transmission and distribution applications. The technology is evolving rapidly in terms of technical performance and economics.

Optimizing existing power supply systems by increasing their capacity and improving power allocation potential are two new applications for FACTS (Flexible Alternating Current Transmission Systems) in many existing configurations.

Interest has grown in recent years in extending high voltage direct current technologies (HVDC) to voltages of ± 800 kV. This is technically necessary to allow transmission of capacities now in the range of 6,400 MW requiring currents of 4,000 amp. Such combinations were initially considered in China and India, and there is a potential for projects in South Africa and Brazil.

In addition, AREVA T&D is involved in several European research programs on materials that will be used in future power electronics applications.

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- **Information systems and digital control**

Data processing has become an essential function in the quest to optimize the management and growth of the fast-paced electricity market. SCADA software (Supervisory Control And Data Acquisition) and software for energy assets and market management can process total and available generating and transmission capacities in real time as well as the delivery and pricing of energy transactions on spot markets at times of peak demand. Integrated information and telecommunication systems must be able to manage these functions as well as new developments down the line.

The considerable changes in electronic technologies over the past 10 years have led to the widespread use of digitalization for intelligent electronic devices (IED) and data exchange. A pilot facility incorporating a variety of IEDs already exists and is providing a full-scale demonstration of the complete integration of all automated equipment in a substation and of communications between them via the IEC 61 850 standard.

Significant developments in 2006

- **Ultra High Voltage**

As the world's urban and industrial centers develop, the need for long distance electric power transmission is increasing. One solution is to increase the transmission voltage. Transmission at ultra high voltages of 1,100 kV is a tremendous technological challenge, however. The substation equipment must be reliable, cost-effective, environmentally friendly and easy to service.

Air-insulated substation technology (AIS) is what meets these demanding criteria best. Dielectric tests on the switchgear – circuit-breaker and disconnecter – were successfully carried out in Canadian and German laboratories.

All these investigations and technological choices were prepared in advance to meet demand in this booming market. Use of the latest-generation composite insulating materials has considerably improved the safety of air-insulated circuit breakers. All the constituent elements for 1,100 kV air-insulated substations (AIS) are now ready for the Chinese market.

- **Vegetable-oil-filled transformers**

In two of our projects, one in the United Kingdom and one in Brazil, our teams substituted vegetable oil for the mineral oil used as insulating liquid around power transformers, the objective being to provide our customers with an innovative solution in terms of sustainable development.

The EDF Energy Network in the UK ordered two 132 kV 90 MVA transformers from AREVA T&D. One of the transformers will be filled with natural ester-based vegetable oil. The researchers conducted a series of experiments comparing the ester-based oils with mineral oils. The tests established comparisons between material characteristics and performance during the treatment and manufacturing phases, and facilitated feasibility assessment of the technical diagnostics. The results made it possible to build the two identically designed transformers satisfactorily and to test them in 2006. They will be installed on site in 2007 and monitored continuously during operation to obtain data for comparison.

- **Monitoring the grid in real time**

Power outages blacked out parts of the US, Canada, Italy, the UK, and southern Scandinavia in 2003. Germany, Belgium, France, Spain and Austria experienced outages in 2006. Today, it is recognized that a major cause of those events was the lack of a big picture of grid conditions. AREVA T&D developed e-terravision™, a set of software tools to help monitor electricity grids in real time. The software's intuitive interface, ease of use and simplified procedures help operators by:

- providing a global view of the grid,
- assessing grid reliability based on past and present conditions,
- carrying out predictive analyses,
- ranking corrective actions.

For this project, AREVA T&D worked with Microsoft to develop the software, which considerably improves the view of grid conditions from the control room.

4.13. Research and development programs, intellectual property and trademarks

4.13.2. INTELLECTUAL PROPERTY AND BRAND NAMES

Intellectual property, licenses, patents, trademarks and technical expertise in general play an important part in the group's daily operations and thus in the production and protection of AREVA products, services and technology. Protecting our knowledge and unique know-how requires a comprehensive system for developing and managing AREVA's intellectual assets in each business unit. This is also the key to negotiating successful technology transfer and process license agreements, now standard practice for large-scale international projects.

Building a unified technology culture and asset base also means laying down principles that can be accepted by all group entities. This involves defining, simply and transparently, a set of rules governing the transfer of innovative and mature technologies between group entities, with the goal being to ensure optimum use and valuation while establishing equitable compensation mechanisms.

Aware that adequate protection of intellectual assets is a strategic issue, the AREVA group now has an organization to pool our combined resources and strengthen the intellectual property role of our entities. The AREVA group has a very large portfolio of patents. In 2006, 111 patent applications were filed.

The group's intellectual property program covers every aspect of its intellectual assets, irrespective of their eligibility for patent protection. To meet the specific needs of each business unit, various methods are used to protect the group's know-how and technology. For example, with regard to the design of major systems such as nuclear reactors, the design and fabrication domain should be distinguished from the computational code domain. It is important to constitute a substantial portfolio of patents for design and fabrication, as this gives a competitive advantage and enables us to defend our rights if the occasion should arise. This is particularly true for new developments relating to the HTR, as well as for improvements concerning the EPR. Conversely, a significant body of knowledge is integral to the computational codes, which are fully usable only with the experimental databases that validate them. These aspects create barriers to entry for new competitors and minimize the value of protection through numerous patents that provide only a relatively modest increase in the level of protection. The secret nature of these codes is adequate protection in itself.

Engineering know-how is generally contained in process manuals delivered to customers at the same time as the facilities. Naturally, customers are not allowed to divulge the knowledge contained in these process manuals to third parties. However, some key elements of process and equipment may be patented. For example, more than 100 patents protect processes used at the

La Hague plant, many of whose numerous technologies have been exported to Japan.

Measurement and monitoring equipment, such as nuclear detection equipment, non-destructive testing equipment and control systems, use innovative technologies that are generally patented. In nuclear technology, inventions to improve radiation protection or to reduce radiation exposure during maintenance and repair operations contribute to AREVA's competitive advantage, particularly in the cleanup, logistics and decommissioning businesses.

The AREVA brand has been a world brand name for several years. Since AREVA T&D joined the group, it has been extended to new categories to expand the brand territory to AREVA T&D's operations.

The communications program undertaken to support and accompany the group's development is based on deployment of the AREVA brand name and its logo. Actions taken in this regard – advertising, participation in the America's Cup, websites, brochures – help strengthen the group's brand awareness in France and abroad and position AREVA as a leading brand in the energy sector.

AREVA's visual identity consists of two elements: the symbol "A" and the name "AREVA". These two elements may not be separated and should not be revised or reinterpreted under any circumstances.

Third parties may not infringe upon the registered AREVA brands ("A", "AREVA", "A AREVA", "AREVA Challenge"). In a dispute related to Greenpeace's communications campaign, which linked the "A" logo of AREVA with symbols of death, the Paris Court of Appeal issued an order on November 17, 2006 recognizing that the principle of freedom of expression is not absolute and is subject to the limits for which Article 1382 of the Civil Code provides the basis.

4.14. Risk and insurance

4.14.1. OVERALL ORGANIZATION OF RISK MANAGEMENT

4.14.1.1. Organization of Risk and Insurance department

AREVA's risk and insurance management policy, laid out by the Executive Board based on recommendations of the Risk and Insurance Department (DRA), aims to prevent and reduce the consequences of certain potential events on its earnings and the achievement of its strategic goals.

The policy is implemented by the Risk and Insurance department in cooperation with the business units. The department establishes methodologies to ensure consistent treatment of risk among the subsidiaries and promotes the use and exchange of best practices. It assesses the risk at the consolidated level. Financially, the Risk and Insurance Department arbitrates between retaining part of the risk and transferring the balance to the insurance and reinsurance markets through the global policies covering the group's operations worldwide.

4.14.1.2. Risk mapping

The group initiated risk mapping when it was established in 2001. This map is updated annually.

The goals are:

- to formalize the risk identification process for all operations;
- to characterize and rank these risks;
- to define and implement a comprehensive risk management program.

To implement this approach, the Risk and Insurance Department:

- establishes a common set of methodological tools and management criteria;
- coordinates a network of 120 risk specialists trained by AREVA University and assigned to the operating units;
- monitors action plans.

The risk maps are presented every year to the Management Committees of the business units and to the Executive Committees of the first-tier subsidiaries. This process applies to all AREVA group companies.

The group's multi-year audit plan builds on risk mapping results, which are updated annually. Ongoing follow-up is ensured by the Audit Department through regular audits of the group's entities and the Risk and Insurance Department.

4.14.1.3. Risk management

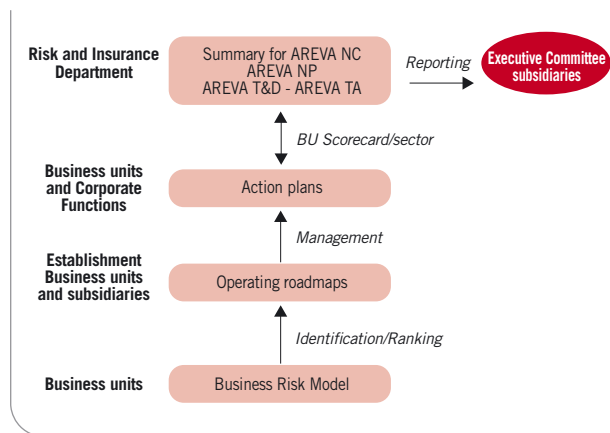
The notion of risk applies both to the operations of each of the group's entities (control of normal operating risks affecting performance, based on prior decisions, and of risks affecting specific situations) and to achievement of their goals and implementation of their business strategy (taking a risk from which a profit is expected).

In both cases, risk management arises from a shared methodology, starting with risk analysis. The objective is to manage the risk from cradle to grave. Consequently, the business units determine operational risk maps which serve as a basis for recommending and carrying out action plans.

Managing normal risk entails:

- an ongoing documented process of risk identification, analysis, ranking, optimization, funding and monitoring;
- a broad program covering all of the group's activities, both operational (manufacturing, sales, projects, services, etc.) and functional (finance, legal, contractual, organizational, human resources, etc.);
- contributing to resource optimization and cost reduction; and
- developing business continuity and crisis management plans.

Risk management process of the AREVA group



The first step in risk management is to identify and formulate the risk, as illustrated in the above flowchart. To this end, the group has drawn up a business risk model (BRM) to be used by its business units. Working from a limited number of typical risks or families of risk (BRM risk), the model indexes all of the foreseeable or unexpected situations or events that could have an impact on employee safety, the financial performance of the business unit, that of the subsidiary or even of the group, and its corporate image. Each BRM risk encompasses one set of issues.

The BRM can be enhanced based on best practices and lessons learned.

Using the BRM as a starting point, each business unit establishes an operational risk map that graphically illustrates the seriousness of its risks and its degree of management at any given moment. The risk map defines criteria for implementing appropriate action plans in order to optimize the management of each risk and render any residual risk acceptable to the group. The business units are thus responsible for analyzing, ranking and managing their risks by implementing action plans using appropriate means.

Each subsidiary's risk management department, each in its area of expertise, provides its management with a business unit-wide picture of risks and how the business unit is managing them. Each subsidiary's Executive Committee is then informed of the status of action plans and decides which risks affect the group's strategic objectives. This process is being rolled out throughout the group.

The group's risk management policy is based on principles of transparency and openness, including active participation in local information commissions established near all major sites handling hazardous materials, publication of environmental impact measurements, and implementation of AREVA's nuclear safety charter and sustainable development policy.

4.14.2. MANAGING RISK RELATED TO THE GROUP'S INDUSTRIAL OPERATIONS

By regulation, industrial facilities operated by AREVA are classified into various categories by level of risk and quantities of nuclear materials or chemicals.

In addition to preventing and countering malicious acts and implementing public safety measures in the event of an accident, ensuring facility safety means:

- protecting workers, members of the public and the environment from the harmful effects of radiation and chemicals; and
- defining and implementing measures to prevent accidents or limit their impacts.

4.14.2.1. Regulations applicable to the group's nuclear facilities in France and abroad

General regulations

Group operations are subject to constantly changing national and international regulations that are becoming increasingly stringent in the areas of nuclear and environmental safety. The licensed nuclear facilities of the AREVA group (INB - see Glossary) are presented in the table in section 4.14.2.2.

The International Atomic Energy Agency (IAEA) and the European Commission have each established their own international system for nuclear materials safeguards. Other international agreements adopted under the umbrella of the IAEA govern nuclear safety in the facilities. These agreements include the Convention on Nuclear Safety (CNS) and the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

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With respect to the European Union, the provisions of the Euratom Treaty adopted fifty years ago on March 27, 1957 and its implementing regulations have reinforced the aspects relating to nuclear materials safeguards and to the establishment of unified rules for radiation protection of the public and workers and for the transportation of radioactive waste.

In France, the licensed nuclear facilities (INB) operated by the group are regulated under Law No. 2006-686 of June 13, 2006 on transparency and security in the nuclear field. This legal framework strictly regulates the construction, start-up and operation, safety inspection, shutdown, dismantling and decommissioning of the group's nuclear facilities through the issuance of specific licenses, and governs in particular rules for nuclear safety, protection of public health and of the environment, and the monitoring of radioactive and non-radioactive releases. Violations of the Law of June 13, 2006 entail administrative and criminal penalties. Every year, each licensed nuclear facility operator must submit a report on measures taken in respect of nuclear safety and radiation protection.

The law on transparency and security in the nuclear field will be supplemented by a series of implementing decrees currently under development.

Licensed nuclear facilities are monitored closely by the French nuclear safety authority ASN. Restructured under the law of June 13, 2006 on transparency and security in the nuclear field, ASN is now an independent administrative authority managed by five directors. It enforces nuclear safety and radiation protection regulations to protect workers, patients, the general public and the environment from risks related to the use of nuclear technology. ASN also provides information to the public.

Similar provisions govern licensed nuclear defense facilities in France (INBS) operated by the group (see Decree No. 2001-592 of July 5, 2001 regarding safety and radiation protection for defense facilities and operations). However, the laws and regulations governing those facilities have been adapted to protect classified national defense information. Except for its first two articles, the law on transparency and security in the nuclear field does not apply to French licensed nuclear defense facilities. These facilities are monitored by the DSND, a nuclear safety and radiation protection office for defense-related operations and facilities, which reports to the ministers of Defense and Industry.

Operations abroad are subject to the same type of stringent inspection procedures (for example, by the Nuclear Regulatory Commission in the United States).

In France, some facilities operated by the group are subject to regulations pertaining to environmentally regulated facilities (ICPE), based on operations performed or materials used. Group facilities that may represent a risk or constitute drawbacks for public health, safety, hygiene, or the protection of nature or the environment are subject either to prior declaration to the Prefecture or to a permitting process, as required by Article L. 511-1 *et seq.* of the Environmental Code and its implementing Decree No. 77-1133 of September 21, 1977, as amended, implementing Law No. 76-663 of July 19, 1976

on environmentally regulated facilities. When permitting is required, the operating permit is issued by the Prefect after completion of a public inquiry and consultation of various organizations. The Prefect's order includes all necessary restrictions and specifications.

The group is also subject to regulations pertaining to exposure to radiation protection of employees, subcontractors and the public, which are enforced through a system of exposure limits. In France, radiation protection regulations are governed by the provisions of the Labor Code and the Public Health Code. The maximum exposure allowed by the Public Health Code for members of the general public is 1mSv per year. The maximum exposure allowed by the Labor Code for workers in nuclear facilities is 20 mSv per year.

Other international and national legislation and regulations govern nuclear materials safeguards and controls, in particular the October 28, 1979 Convention on the Physical Protection of Nuclear Material, Articles L. 1333-1 through L. 1333-14 of the French Defense Code, and Decree 81-512 of May 12, 1981 pertaining to the protection and monitoring of nuclear materials; regulations on the transportation of radioactive materials, including ADR, RID and ADN (see Glossary); and Council Directive 92/3/Euratom of February 3, 1992 on the supervision and control of shipments of radioactive waste between member States and into and out of the Community. This directive will be superseded by Council Directive 2006/117/Euratom of November 20, 2006 on the supervision and control of shipments of radioactive waste and spent fuel when the latter comes into force on December 25, 2008 (see also the section on "Regulations governing radioactive waste" below).

Similar regulations provide for strict oversight of facilities and facility operations by the competent authorities in countries in which the group operates nuclear facilities, including Belgium, Germany and the United States.

Regulations governing end-of-life-cycle operations

In this reference document, end-of-life cycle obligations include any obligations connected with the shutdown and dismantling of nuclear facilities and the management of the related nuclear waste (see Glossary).

The accounting treatment of end-of-life cycle obligations is explained in Note 13 to the consolidated financial statements.

Regulations governing dismantling

The legal framework governing dismantling operations performed in France is largely the product of the Law No. 2006-686 of June 13, 2006 on transparency and security in the nuclear field. Also, the September 5, 1997 Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management, adopted under the auspices of the IAEA, contains provisions regarding the decommissioning of nuclear facilities.

As the operating license holder, the operator of a nuclear facility is the legal entity in charge of facility operations and, therefore, of decommissioning procedures. The operator is in charge of the decommissioning schedule and process for the facilities it operates, subject to inspection by the French nuclear safety authority ASN, which validates each stage of the decommissioning process.

The decree authorizing dismantling specifies the methods to be used, the nature of the operations, the dismantling schedule, and the type of monitoring to be performed by the operator after completion of dismantling. The procedure applicable to dismantling operations will be clarified in an implementing decree for the law on transparency and security in the nuclear field.

The decommissioning process may take several decades, depending on the facility, and includes work stages as well as monitoring stages when there are practically no operations. Decommissioning involves a series of operations, from the shut-down of the nuclear facility to the administrative decision to release the site, at which time it can generally be put to new industrial use.

The level of decommissioning depends, in particular, on how the site will be subsequently used. In the United States, Germany and Belgium, where the group operates four nuclear facilities, decommissioning regulations are based on principles that are largely similar to those of France.

Regulations governing radioactive waste

Waste generated by nuclear operations or by the dismantling of licensed nuclear facilities is regulated in France by the Program Law 2006-739 of June 28, 2006 on the sustainable management of radioactive materials and waste. Article L. 542-1-1 of the Environmental Code defines concepts of radioactive waste and materials. At the international level, waste is primarily regulated by the September 5, 1997 Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

The producer or holder of waste generated by nuclear power operations or dismantling operations has an obligation to process and dispose of such waste (Article L. 541-1, paragraph 3 of the French Environmental Code). Furthermore, radioactive waste in licensed nuclear facilities is subject to the provisions of the order of December 31, 1999 establishing general technical regulations to prevent and limit the external hazards and risks resulting from the operation of licensed nuclear facilities.

Article L. 542-2-1 of the French Environmental Code allows the treatment in France of foreign used fuel and radioactive waste under certain conditions, in particular the signature of multilateral agreements indicating a specific schedule to receive and treat these substances. Every year, the site operator must submit a report with an inventory of these substances to the Minister of Energy.

Article 20 of the Law of June 28, 2006 on the sustainable management of radioactive materials and waste provides that operators of licensed nuclear facilities must establish provisions to

cover the cost of dismantling the facilities and managing used fuel and radioactive waste, and allocate the necessary assets to cover these provisions exclusively. In this regard, the law specifies that the operator must account for these assets separately and that they must be sufficiently secure and liquid to meet their purpose. Their realizable value must be at least equal to amount of the provisions. These assets are earmarked for this sole purpose and cannot be taken by creditors, except the State when it enforces compliance with regulations pertaining to nuclear operations. All of these items are verified by several administrative authorities, including the French national commission on evaluation of funding for dismantling expenses. Moreover, Article 23 of this law provides for financial penalties in the event of a failure to comply with all of the obligations regarding dismantling expenses. This mechanism was supplemented by Decree 2007-243 of February 23, 2007 on securitization of funding for nuclear expenses.

Draft decrees are being prepared to implement the Program Law 2006-739 of June 28, 2006 on the sustainable management of radioactive materials and waste.

4.14.2.2. Nuclear safety in the group's nuclear facilities

Definition

Nuclear safety encompasses all of the technical provisions and organizational measures pertinent to the design, construction, operation, shut-down and dismantling of licensed nuclear facilities and to the transportation of radioactive materials, and designed to prevent accidents and limit their consequences.

Nuclear safety is based on technical design bases and on organizational procedures for operations and is founded on the defense in depth concept. This concept consists of systematically analyzing potential technical, human or organizational failures and defining and implementing a series of independent lines of defense to protect against the consequences of these failures.

These lines of defense are designed to:

- prevent accidents and incidents, in particular by means of facility design and configuration;
- monitor facilities so as to detect and correct malfunctions;
- assume that accidents may happen despite all precautions, and design and implement measures to limit their consequences.

The primary objective of any nuclear facility safety measure is to prevent the dissemination of radioactive substances under all circumstances and to minimize the impacts of radiation on the public and the environment.

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Policy

Nuclear safety is an absolute priority for AREVA. The group adopted a Nuclear Safety Charter formalizing its commitment to nuclear safety and radiation protection (the charter may be downloaded from AREVA's Internet site). AREVA is committed to maintaining the highest level of nuclear safety for the entire life of its facilities.

The charter is built on:

Organizational principles

The general management of each subsidiary, and particularly each nuclear operating subsidiary holding an operating license (see table), sets up an organization consistent with the laws of the country in which it operates based on the principle of the operator's prime responsibility for nuclear safety. Each site manager is responsible for nuclear safety and radiation protection at that site. He or she sets up an appropriate organization to ensure that all legal and regulatory requirements for every aspect of nuclear safety and radiation protection are applied at every affected unit and facility. He or she delegates authority as regards nuclear safety, independently of operating personnel, and has the resources to verify implementation of this delegation. A corps of inspectors in the group's Safety, Health and Security Department implements the annual nuclear facility inspection program drawn up by the Executive Board (see below).

Action principles

Nuclear safety applies to every stage in the plant life cycle, from design to decommissioning. It builds on a nuclear safety culture shared by all personnel and maintained by regular training. The group is committed to adhering to the ALARA principle (as low as reasonably achievable), which holds that action will be taken to reduce exposure of workers and the public to radiation. AREVA undertook a program to reduce the maximum dose received by all workers in its facilities or by group employees working at customer sites to 20 mSv per year by 2006 in countries where regulations are less strict. A similar continuous improvement initiative applies to the reduction of impacts from liquid and gaseous effluents (see section 5.3.).

Reporting system

AREVA endeavors to provide reliable and relevant information enabling an objective assessment of the status of nuclear safety in its facilities. Nuclear events are evaluated according to the International Nuclear Event Scale (INES), including in countries where no such requirement

exists (see section 5.3.2.). Level 1 or higher events shall be put on record. As it had committed to doing, the group published the General Inspectorate's 2005 annual report on its website in 2006. This report presents the status of nuclear safety and radiation protection at the AREVA group's nuclear facilities in France and abroad, as indicated by inspections and analyses performed by nuclear safety inspectors and specialists in 2005.

Organization

The Safety, Health and Security Department defines, coordinates and provides leadership for nuclear safety and radiation protection throughout the group. It recommends and implements an annual nuclear facility inspection program. It also coordinates regulatory intelligence in the fields of nuclear safety and radiation protection and provides leadership for the network of related experts.

The Senior Vice President of Safety, Health and Security submits an annual inspection program to the Executive Board for approval. This program ensures that the Nuclear Safety Charter is implemented correctly and detects any signs of a potential deterioration in nuclear safety performance, with a view towards recommending necessary improvements to ensure they are completely controlled.

General Inspectorate and Nuclear Safety department

A General Inspectorate and Nuclear Safety Department reporting to the Executive Board was created in 2001, headed by a General Inspector. Its mission is twofold:

- Inspection: six inspectors with previous operating responsibilities monitor the facilities independently of the operator. They can require a facility to be shut down. They report to the Executive Board;
- Technical expertise: eight nuclear safety specialists coordinate a network of on-site experts regarding specific issues such as waste, fire hazards, radiation protection, etc.

Nuclear facilities where an AREVA entity is the licensed operator⁽¹⁾

AREVA's main licensed nuclear facilities in France and elsewhere are:

Location	Business unit	Licensed operator	Description
Front End division			
Miramas, France	Chemistry	AREVA NC	Storage of depleted uranium (undergoing decommissioning)
Tricastin, France	Chemistry	Comurhex	Preparation of UF ₆
Tricastin, France	Chemistry	AREVA NC	Conversion of uranyl nitrate into uranyl sesquioxide
Tricastin, France	Chemistry	AREVA NC	Conversion of enriched uranium-bearing materials
Tricastin, France	Enrichment	Eurodif Production	Georges Besse gaseous diffusion enrichment plant
Tricastin, France	Enrichment	Socatri	Plant for uranium decontamination and recovery
Romans, France	Fuel	FBFC SNC	Fuel fabrication for research reactors
Romans, France	Fuel	FBFC SNC	Fuel fabrication for power reactors
Dessel, Belgium	Fuel	FBFC International SA	Fabrication of uranium and MOX fuel
Lingen, Germany	Fuel	FBFC International SA	Fuel fabrication
Richland, United States	Fuel	AREVA NP Inc.	Fuel fabrication
Lynchburg, United States	Fuel	AREVA NP Inc.	Fuel fabrication
Reactors and Services division			
Maubeuge, France	Equipment	Somanu	Nuclear maintenance workshop
Back End division			
Veurey, France	Treatment	SICN	Fuel fabrication plant (undergoing dismantling)
La Hague, France	Treatment	AREVA NC	Used fuel treatment plants and liquid effluent/solid waste treatment facilities (7 licensed nuclear facilities)
Marcoule, France	Recycling	AREVA NC	Melox MOX fuel fabrication plant

(1) The nuclear operating license of the Marcoule fuel treatment facility was transferred to the CEA in 2006.

AREVA does not operate any nuclear power plants. Its operations consist of supplying, converting and treating nuclear materials.

4.14.2.3. Nuclear risk management and prevention

Several types of nuclear safety-related risks are distinguished and their consequences are systematically analyzed and evaluated as part of the licensing procedure for facility operations, based in particular on the items presented below.

Nuclear risk

Nuclear risk corresponds to events that are characteristic of radioactive materials.

Radioactive materials dispersion that can result in contamination

Uncontained radioactive materials can disperse and lead to human and environmental contamination.

To control this risk, the first priority is to prevent the dispersion of radioactive materials in any form (solid, liquid, gaseous) and under all operating conditions (normal or accidental).

Facilities are designed with containment systems that prevent the dispersion of radioactive materials. For example, the radioactive materials are surrounded by a series of barriers at varying levels of negative pressure which channel air from the outside towards the secondary containment system and then the primary containment system. The air is cleaned in each containment system. Contaminating elements are filtered from the air before it is released from the facilities.

The efficacy of these containment systems is verified before facility startup and they are periodically checked to keep them in working order.

Considerable effort went into the design so that maintenance operations could be performed while maintaining the integrity of the

4.14. Risk and insurance

containment system. The facility design includes special systems to facilitate replacement operations.

Ionizing radiation

When a person is in the path of ionizing radiation emitted by radioactive materials, there is a risk of external exposure.

The effect of radiation on the human body is expressed in millisieverts (mSv). The maximum allowed doses are as follows: in the European Union, the maximum annual dose authorized by regulations is 1 mSv per year for the general public and 20 mSv per year for nuclear workers; in the United States, the limit is 1 mSv per year for the general public and 50 mSv per year for nuclear workers.

The group's objective is to follow the European Union standard of 20 mSv per year for all workers, including subcontractors, at all of its facilities, including facilities outside the EU.

The main protection measures are:

- For fixed radiation sources, standard workstations are defined with corresponding maximum exposures. The maximum acceptable exposure decreases in inverse proportion to the estimated duration of the work performed. Shielding is installed to limit radiation and to comply with authorized dose limits.
- For mobile radiation sources, the shielding for casks allowed on public roadways is defined in the transportation regulations. Workstations are designed to minimize the time spent by personnel or the presence of the source and include additional shielding.

The group also follows the ALARA principle (as low as reasonably achievable), which holds that any reasonable technical, financial, social or organizational action will be taken to reduce exposure to radiation. The radiation protection departments continually verify compliance with this principle.

Every nuclear worker and operator is monitored closely, both medically and radiologically. Their knowledge is maintained at the requisite level through regular training programs.

The results recorded (see section 5.2.2.) demonstrate that the group practices mentioned above promote excellence in radiation protection.

Criticality

Criticality risk is the risk of an uncontrolled chain reaction with a brief and intense emission of neutrons. This risk, should it materialize, would result in irradiation of workers or individuals located near the event, causing lesions proportional in seriousness to the intensity of the radiation received.

This risk is addressed in any facility likely to receive fissile materials.

Prevention of this risk is based on limiting the factors leading to uncontrolled chain reactions or "criticality control modes".

The control mode most suited to the process is used: limitation of mass or volume, or geometry of equipment containing the materials.

In the facility's most radioactive areas, shielding is installed for normal operations and drastically reduces the impacts of a potential criticality accident on workers. Preventive measures are sometimes supplemented by the installation of a network and alarm system for detection and measurement of criticality accidents.

For transportation, nuclear safety and criticality are monitored under both normal and accidental operating conditions.

Regulations set forth rules for storage during transit, particularly in terms of the criticality risk.

Radiolysis

Radiolysis is to the radiation-induced decomposition of a chemical compound into hydrogen.

Measures are taken to prevent a potential explosion of the hydrogen that could result in the dispersion of radioactive materials.

In normal operating mode, facilities are designed to limit hydrogen concentrations to half of the lower limit of flammability by flushing the equipment with air. If there is a loss of normal flushing capacity, causing concentrations to rise to the limit value in a few hours or tens of hours, a backup system comes on line.

Thermal releases

Matter absorbs the energy corresponding to intense radiation, which can lead to temperature increase. The energy is removed to control the temperature rise and prevent the dispersion of radioactive materials. Cooling is provided by redundant cooling systems with heat exchangers and ventilation systems.

Non-nuclear risks of internal origin

Events associated with facility operations and the presence of personnel give rise to non-nuclear risk. These events are common to any industrial operation.

Since such incidents could affect equipment important for managing nuclear risk, strong prevention measures are taken in the nuclear industry. The causes of these events can thus be controlled and their consequences minimized.

Handling

Handling equipment consists of lifting, transport and positioning equipment.

The main failures include the breakdown of lifting equipment, poorly secured loads, collision with an obstacle and derailment of a transfer mechanism. The consequences may be direct, such as the loss of load integrity, or indirect, and cause the destruction of equipment containing radioactive materials or a containment failure.

Risk management involves analyzing failure modes for process equipment used to transfer loads containing radioactive materials and for maintenance handling equipment. It also means establishing stringent rules to prevent risk (equipment design, preventive maintenance, inspections, operator certification, etc.).

Limiting the consequences of a handling failure involves limiting transport height, designing objects that withstand a fall, strengthening loads and dissipating energy.

Fire

Fire can cause the loss of certain process or shielding functions, with potential radiological consequences. The potential consequences include contamination due to failure of the containment barriers, irradiation due to destruction of radiation shielding, and a criticality accident.

Risk prevention consists of preventing the presence of flammable materials, fuel and a source of ignition in the same location. In the event of a fire, safety functions are protected by compartmentalizing work areas to limit fire propagation, using fire-retardant materials, insulating ventilation systems, and installing a remotely-operable fire extinction system in each sector. In addition, firefighters must be able to intervene within a short interval of time to prevent radiological impacts outside the buildings.

Internal explosion

The risk of explosion is due either to the use of reagents or to the occurrence of chemical reactions. An explosion could result in the deterioration of the primary containment system, causing the dispersion of radioactive products. The secondary containment system is designed to collect any products that may have been released.

Prevention is based on measures to prevent conditions conducive to an explosive reaction, including: limiting the temperature of flammable products used in the process, limiting the concentration of products that may cause an explosive reaction through proper ventilation, eliminating traces of reagents before any new processing step is undertaken, and controlling the quantity of reagents present in each facility.

Use of chemical reagents

To take into account potential impacts on plant personnel and the environment, prevention and monitoring are based on principles already applied to other types of risk (e.g. explosion and fire), combined with principles relating to external explosion and radioactive materials dispersion.

The use of reagents in a process can create additional risk by bringing incompatible products into contact with each other. A chemical product can be hazardous, either through direct contact or by inhaling its fumes. These characteristics must be taken into account in the packaging, storage and use of reagents and in worker protection.

Characteristics of UF₆

Uranium is handled in the chemical form of UF₆, which is a solid at normal temperatures and pressures, and gaseous when heated. UF₆ can react when it comes into contact with water vapor in the air, forming uranium oxide and hydrofluoric acid, a highly toxic element for humans and animals.

In consideration of the quantities handled at the production sites, the risks inherent in UF₆ were factored into the design of the facilities (double containment barrier, automated monitoring of high-risk areas, etc.).

Use of electricity

Risk prevention related to the use of electricity is based on facility compliance with prescribed industry standards, compliance with maintenance instructions and procedures, and periodic facility inspections.

Use of pressure vessels

The prevention of pressure spikes is based on compliance with industry regulations for accessible equipment and by imposing additional requirements for inaccessible equipment. The impacts are minimized through leak detection, feed interruption and personnel evacuation.

Internal flooding

The internal flooding risk derives from the presence of fluids inside the facilities. Leak rates are limited by design. The deterioration of seals, corrosion and overflows are potential sources of leaks.

The main radiological risk following flooding is criticality. For areas in which it can occur, this risk is factored into the design and operation of the facilities.

Non-nuclear risks of external origin

Non-nuclear risk of external origin derives from the facility's environment. Unlike risk of internal origin, it is not always possible to act on the causes of these events; safety is based primarily on controlling the consequences.

A non-nuclear event of external origin may have direct or indirect radiological consequences.

Earthquake

Earthquakes can cause damage that could disable nuclear safety systems.

The risk of an earthquake affecting facilities that handle nuclear materials is incorporated into the design of the equipment, systems and facilities based on the "design basis earthquake". The analysis consists of demonstrating that damage affecting the nuclear safety of the facility is unlikely to occur. The design basis and analyses are included in the safety analysis report for the facility, which is approved by the competent safety authorities.

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An assessment of the impacts of an earthquake has been performed for all of AREVA's nuclear facilities, in accordance with applicable standards and regulations.

Airplane crash

This risk concerns the crash of an airplane, or part of an airplane, on a facility. It is a function of the type and number of aircraft that could reach the site without being detected and of the surface of sensitive areas in each facility.

The key features of the sites are as follows:

- they are located away from controlled airspace,
- they are located away from airspace used by military aircraft, and
- there is no nearby airport.

Safety studies factoring in airspace use, type of flights, known crash statistics, and even deliberate attack, are carried out to prevent this risk and limit its consequences.

Special measures are taken to protect the nuclear facilities from terrorism; these measures have been strengthened under the French national security plan known as *Vigipirate*.

For security reasons, these measures may not be disclosed to the public.

Adverse meteorological conditions

This risk is taken into consideration in the design of the facilities based on local weather conditions. The methodology is similar to that used for earthquakes.

Advance warning is given for any threatening weather conditions, and there are instructions for each facility concerning additional measures to be taken, such as increased monitoring or specific action.

External flooding

The possible causes of external flooding e.g. rain, breach of levies or floods are taken into consideration in the design of the facilities. Sites are located in areas where the flood risk does not exceed the one thousand year flood level. The unusual flooding of the fall of 2002 in the Rhone Valley had a limited impact on the Group's French facilities. Nonetheless, an action plan was implemented in 2002 to reduce residual risk even further.

Other aspects of nuclear safety

In addition to the various types of risk identified above, nuclear safety also applies to nuclear materials transportation and to the non-proliferation of these materials.

Nuclear materials transportation

Radioactive materials are transported on public thoroughfares. Like other nuclear operations, these shipments are subject to the "defense in depth" concept to protect the general public and the

environment from radiation hazards during transportation. This concept consists of establishing a series of barriers between the radioactive materials and the environment, including physical safety systems, but also procedures, technical and administrative controls, and other measures. The transportation cask's design is the main feature of this safety system. As with any nuclear process, these operations are governed by stringent international regulations.

According to the regulations, the cask must ensure nuclear materials containment and provide radiation shielding under both normal and accidental operating conditions. When fissile materials are transported, the cask must also maintain sub-critical conditions. The regulatory requirements for casks cover design, manufacturing and inspections during operations and maintenance. The larger the amount of radioactivity it contains, the stronger the cask must be.

AREVA's objective is to ensure the highest level of nuclear and industrial safety during transportation. We cover our civil liability through insurance, as described in section 4.14.6.1.

Non-proliferation and protection of nuclear materials

Proliferation is the diversion of nuclear materials by third parties for non-peaceful purposes.

Non-proliferation is a shared objective of all of the signatory countries of international agreements in this area, in particular the Treaty on the Non-Proliferation of Nuclear Weapons of July 1, 1968. Non-proliferation requirements relate to the physical protection of nuclear materials per the Convention on the Physical Protection of Nuclear Material; to safeguards controls per the Euratom treaty, which established a nuclear material accounting system; and to inspection by the IAEA and Euratom. Compliance with these requirements is regularly verified, primarily by inspectors from the IAEA and Euratom.

In this regard, AREVA has taken measures designed to know, at all times, the amount, quality, use and location of the materials held at any given time by the group's entities.

AREVA prepares reports requested by the European Commission and/or the IAEA, whose purpose is to verify the origin and quantity of nuclear materials in the nuclear operator's possession. The record shows that these reports have always been approved by the competent national and international organizations with which they are filed.

4.14.2.4. Prevention and management of chemical hazards

Seveso regulations

The group operates nine sites subject to Seveso regulations, which implement European Directive 96/82/EC of December 9, 1996 on the control of major accident hazards involving dangerous substances, as amended. The regulations apply to facilities that may present a significant risk to public health and safety or to the

environment. All of these facilities are located in France. Four of them are considered “high threshold” sites: AREVA NC’s W plant at Pierrelatte, Comurhex’s Malvési and Pierrelatte sites, and Cezus’s Jarrie site.

Site	Detail of regulated operation	Regulation/ threshold
AREVA NC Pierrelatte	Storage of 320 MT of HF	1111.2.a / 20 MT
Comurhex Malvési	Storage of 180 MT of HF	1111.2.a / 20 MT
Comurhex Pierrelatte	Storage of 310 MT of potassium bifluoride	1111.2.a / 20 MT
	Storage of 101 MT of HF	1111.2.a / 20 MT
Cezus Jarrie	Storage of 2,950 MT of substances hazardous to the environment	1173.1 / 500 MT

In accordance with regulatory requirements, these four sites have set up a plan to prevent major accidents of this type and limit their impacts on individuals and the environment. A safety management system governing the organization, procedures, products and other resources was set up to improve risk management.

Similarly, hazards studies are updated on a regular basis. They are the foundation of processes to minimize risk from the outset, control urban development, establish emergency management plans and inform the public. Hazards studies must include an analysis of site-related risks in the event of deviation from operating parameters and must demonstrate measures to reduce the potential occurrence and impacts of an accident to the lowest achievable level based on current technologies and practices, taking into account the facility’s vulnerability. The administration generally requests clarifications and additional information concerning these studies, and reputable independent experts can be asked to give an opinion on all or part of a document.

As part of a continuous improvement process, the relevance, reliability and “stand-alone” quality of safety barriers are reviewed on a regular basis. This review applies to prevention barriers (intended to reduce the probability of an unscheduled event) and to protection barriers (intended to limit the consequences of an unscheduled event). Performance improvement indicators are regularly monitored to prevent deviations. In addition, AREVA kicked off a program at the end of 2004 to harmonize procedures throughout the group, capitalize on lessons learned and improve information on best practices.

With respect to insurance, AREVA NC, Comurhex and Cezus are covered by the civil liability insurance program taken out by the group (see section 4.14.6.). The level of coverage is based on quantification of reasonably expected risk and guarantees available in the insurance market.

Implementation of REACH regulations

On December 18, 2006, the European Parliament adopted the REACH regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), EC 1907/2006. REACH establishes a

new policy for managing chemical substances in the European Union, whether separate, in formulations or contained in products. The long-term objective is to eliminate the substances that are most hazardous to health and the environment.

The regulation will help improve knowledge on the properties of chemical substances and the risks associated with their use. Approximately 30,000 substances will be regulated. For example, the regulation requires an evaluation of all chemical substances produced or imported in quantities of more than one metric ton per year. These evaluations will be used to acquire the knowledge necessary for suitable management of the risks associated with the use of each substance. The costs of the evaluations will be borne by the producers and importers. In addition, each user of a substance must ensure that its use is covered by risk management procedures developed by the supplier.

The producer or importer must document its approach to replacing the most hazardous substances and submit it to the European Chemicals Agency for approval.

The REACH regulation will come into force on June 1, 2007. It includes a detailed schedule for procedure implementation, including pre-registration, registration, authorization, etc.

AREVA is affected by this regulation as a producer and importer of substances used in certain operations, in particular in the *Chemistry* and *Fuel* business units, and more generally as a downstream user of substances and formulas.

Information required on toxicity, eco-toxicity and risk assessment may prove costly to produce. Any delay in implementing these procedures could jeopardize the marketing of substances produced by the group’s entities.

The group also needs to ensure the continuity of supply of chemical substances used in its production processes and to study alternatives.

Several steps are being taken to limit the legal, financial and technical consequences of the REACH regulation and to ensure that all AREVA group entities are in compliance. In October 2006, an awareness program was set up to inform group functions affected by these regulations and will continue in 2007. A procedure entitled “Action Plan to Comply with European REACH Regulations” is in the final stage of preparation. This procedure will help group entities comply with REACH, starting with an impact study prepared by each entity, among other things. A corporate level organization was set up, including a REACH steering committee with representatives from the Safety, Health and Security, Environment, Procurement, Legal and R&D departments, technical reference documents on the various issues raised by REACH, and a network of REACH coordinators in the business units and at the sites. This organization will implement and monitor the program in each legal entity.

4.14. Risk and insurance

4.14.3. RISK FACTORS

The group may be exposed to risks other than those described below. Unidentified risks or risks that the group considers to be insignificant could also affect its business. The advent of any of these risks could have a significant detrimental impact on the group's business or financial position.

4.14.3.1. Risk related to the group's overall business

The loss of one of the group's main customers, or a reduction in their purchases, or an erosion of contract terms or conditions could have a significant negative impact on its financial position.

The group is dependant on a key customer, EDF, which represents approximately 21% of its consolidated sales revenue. The group's ten largest customers, including EDF, represented approximately 38% of its consolidated sales revenue in 2006, while the five largest customers represented approximately 33%. The loss of any of these customers, and the corresponding decrease in sales, could have a negative impact on the group's operations and financial position.

The contract concluded between the Back End division and EDF expires in 2007. Though it has been established in principle that the contract will be renewed through 2015, commercial terms for renewal of the contract are still being negotiated and could be less favorable than the current terms. Other contracts to be negotiated in the years to come could be less favorable than contracts currently in place. Since 2002, EDF has gradually opened its procurement program to other suppliers, with which contracts have already been signed, particularly in the nuclear fuel business. This trend could force the group to adjust its production capacities, considering EDF's importance as a customer, and have a significant negative impact on the group's financial position.

Some of the group's operations are sensitive to policy decisions in certain countries, especially as regards energy.

The risk of energy policy changes cannot be ruled out in certain countries, influenced in particular by pressure groups or as an aftermath to events that give the nuclear industry a negative public image (incidents or accidents, violations of non-proliferation rules, diplomatic tensions), and could have a significant negative impact on the group's financial position. For example, laws to phase out nuclear power were adopted in Germany in 2002 and in Belgium

in 2003. The Belgian law contemplates the end of nuclear power generation in the country by 2025. In Germany, nuclear power production would cease by 2020, based on an average reactor life of 32 years. Other countries are discussing the future of their nuclear power programs. Although recent developments have generally been positive, termination of nuclear power programs in more countries could have a significant negative impact on the group's operations over the long term.

The group also operates in countries, such as France, where a policy decision could delay or at least have a negative impact on certain projects, particularly those for defense programs. Either of these events could have a significant negative impact on the group's financial position.

Deregulation of the electricity market and competition from other energy sources could hinder the development of nuclear power and result in a concomitant decrease in demand for the group's product and services.

Ongoing deregulation of the electric power market could impact the group's nuclear businesses. Deregulation may lead to lower prices for electricity and for products and services related to the generation, transmission and distribution of electricity and/or to lower investment in the nuclear power sector. Additionally, nuclear power is competing with other energy sources, such as oil, natural gas, coal, hydropower and wind power. These energy sources could become more attractive and cause demand for nuclear generated electricity to drop. The risks identified above, should they materialize, could have a significant negative impact on the group's financial position.

The group supplies complex and standardized products and services that sometimes require special guarantees and additional work that could lead to unexpected costs.

The group provides services; designs, manufactures and markets a broad range of products with a high unit value used in major projects, including design and construction of nuclear reactors and heavy equipment; maintains reactors and extends their service life; and designs and manufactures electricity transmission and distribution equipment, particularly transformers. Occasionally, final adjustments may be required, products may need to be modified after manufacturing has begun or after customers have placed them in service, or services to be provided may have to be adapted. These adjustments, modifications and additional services could trigger unexpected costs for the group. Though AREVA has set up a rigorous management control system and a system to control product and service quality and standards, these

unanticipated expenses could have a significant negative impact on the group's business or financial position. When the group sells certain products, such as nuclear steam supply systems, or concludes service contracts, customers sometimes demand schedule or performance guarantees, or penalties for not meeting them. Pursuant to such commitments, the group may have to repair products delivered or correct services provided in the event of faulty design or performance. The risk is increased if the repairs or services concern a standardized series of products.

In most instances, the guarantees provided in the group's contracts are limited in duration and capped in value, and do not provide for consequential or indirect damages. However, the group could occasionally give guarantees exceeding those limits, particularly in competitive markets. The group's contracts sometimes include clauses allowing a customer to terminate a contract or reject the equipment if contract clauses concerning schedule or performance have not been met. Difficulties concerning products or services delivered by the group and covered under such clauses could thus trigger unanticipated expenses.

Contract performance difficulties, and the financial consequences outlined above, could also affect the group's reputation with existing or potential customers, particularly in the nuclear business, resulting in a significant negative impact on the group's operations.

An industrial breakdown or a work stoppage in the group's manufacturing units could delay or stop the flow of AREVA products or services.

AREVA, as a plant operator, is exposed to the risk of an industrial breakdown that could cause a delay or interrupt the flow of supplies or services. In each business, the group's plants are highly interdependent and interconnected. A breakdown or production stoppage in one plant could affect the entire nuclear fuel production cycle and stop the flow of supplies or services. Contracts between the group and its customers include a certain number of warranties that can trigger penalties for delays. These warranties could enter into play as a result of an industrial breakdown or work stoppage. Although the group has implemented measures to limit the impact of a potential breakdown and has covered its exposure through business interruption insurance, as described in section 4.14.6.1., it is nonetheless still possible that a major event could have a significant negative impact on the group's financial position.

The group enters into long-term contracts that could limit its opportunity to take advantage of improving conditions in certain markets, or result in lower profitability than anticipated.

The group sometimes concludes long-term contracts in which prices are adjusted based on general indices rather than current

market prices for certain raw materials or services. This type of contract could prevent the group from taking advantage of price increases for those products or services; this is the case for certain natural uranium sales contracts, in particular, or for conversion or enrichment services.

In addition, the profitability of certain long-term contracts in which the group commits to providing deliverables at a fixed price, adjusted based only on general indices, could be affected by certain factors that cannot be charged to customers, including unanticipated increases for certain types of costs, technical difficulties, subcontractor default or systemic failures within the group. The performance of this type of contract could, therefore, reduce the group's anticipated earnings, or even cause an overall operating loss, with a significant negative impact on the group's financial position.

The group is exposed to a payment collection risk for products and services.

The group is exposed to a risk of default by customers for the payment of its products and services. Except when customers deposit funds to cover the group's expenses during the contract implementation phase, the group is exposed to the risk of a customer's inability to accept delivery or to the risk of default on payments during delivery. In such instances, the group may not be able to recover expenses incurred for the project or attain the operating margins contemplated when the contract was concluded.

The group controls this risk by verifying customer solvency and requesting a prepayment or other forms of secured payments from customers presenting a certain level of credit risk. Though the group endeavors to control credit risk, it is impossible to guarantee that all risk has been eliminated.

The group cannot ensure that it will be successful in integrating or achieving the expected synergies and cost reductions from its strategic alliances, restructuring, asset disposals, and mergers and acquisitions.

The group is involved in a variety of acquisitions, strategic alliances and joint ventures. Although AREVA anticipates that its acquisitions, strategic alliances and joint ventures strengthen or will strengthen its position, a certain level of risk is inherent in these transactions, particularly the risk of overvalued acquisitions; insufficient vendor warranties; underestimated operating costs and other costs; disagreements with partners (particularly in joint ventures); potential integration difficulties with personnel, operations, technologies or products; lack of performance on initial objectives; or third-party challenges to these strategic alliances or mergers and acquisitions, based on their impact on those parties' competitive positions.

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Such a risk, should it materialize, could have a significant negative impact on the group's financial position.

On November 3, 2005, the group sold its connectors subsidiary, FCI, to Bain Capital. In the FCI purchase agreement dated September 19, 2005, AREVA provided warranties to the buyer covering certain risks originating before the date of sale. These warranties are limited in terms of both amount and duration. They expire principally in May 2007, are subject to a €10 million deductible with a threshold of €150,000 per claim and are capped at 20% of the sale price. The warranties cover the financial consequences that might arise from misrepresentation by AREVA, on a net basis after insurance, provisions and tax.

In addition, minority shareholders in certain AREVA subsidiaries, such as AREVA NP, Eurodif or AREVA TA (see section 3.7.2.), could restrict the group's decision-making ability.

The group's businesses are active on international markets where intense competition could affect its financial position.

The group's products and services are sold on international markets characterized by intense competition on price, financial terms, product/service quality and the capacity for innovation. In some energy businesses, the group has powerful competitors that are larger than the group or have access to more resources. Moreover, AREVA's competitors may sometimes make decisions that are influenced by extraneous, non market-driven considerations, or may have access to financing at advantageous terms, all of which could have a negative impact on the group's operations or financial position.

The group is exposed to a risk of claims or investigations for anticompetitive practices based on its position on certain markets or its links with French government-owned entities.

The group is exposed to a risk of claims or investigations for anticompetitive practices based on its position on certain markets or its links with French government-owned entities. Such claims or investigations could have a negative impact on the group's development capacity.

A decrease in the supply of certain strategic components or an increase in the cost of electricity could have a negative impact on the group's production costs.

Some of the group's nuclear operations, such as uranium conversion, enrichment and fuel fabrication, require large supplies of specific commodities and semi-finished products, including

base products and zircon ore. Some operations also use large quantities of electricity.

For instance, electricity represents 60% of the cost of enrichment. That electricity is supplied in large part by the group's largest customer, EDF, either to cover its own requirements for the enrichment services it procures from the group (see section 4.4.3.3.), or in connection with the electricity supply contract for enrichment services that the group exports (which expired at the end of 2005). The group has taken measures to ensure the performance of enrichment services for export during negotiations of a new power supply contract.

AREVA T&D has a large requirement for certain types of supplies, particularly magnetic sheet metal. The number of potential suppliers is limited and the division could experience procurement difficulties. In addition, the Transmission & Distribution division is sensitive to raw material price fluctuations. A significant increase in prices would have a significant negative impact on the division's financial position.

For all of these businesses, a shortage of raw materials or semi-finished products could translate into a production slowdown or even, in certain circumstances, in shutdown, which would have a significant negative impact on these operations and on the group's financial position.

Political risk specific to certain countries in which the group does business could affect its operations and financial position.

AREVA is an international group with energy operations around the globe, including politically sensitive countries. The group's mining operations, for example, are located in part in countries where political change could affect those operations. Political instability can lead to civil unrest, expropriation, nationalization, changes in the legal or tax system, monetary restrictions, and renegotiation or cancellation of contracts, leases, mining permits and other agreements.

Natural disasters prevalent in certain regions where the group does business could affect its operations and financial position.

The location of some of AREVA's sites in areas exposed to natural disasters, including but not limited to earthquakes or flooding, could weaken the group's production capacity and have a significant negative impact on AREVA's operations and financial position.

For instance, some of the Transmission & Distribution division's sites are located in areas of Turkey where earthquakes cannot be ruled out.

Occupational disease, in particular from exposure to asbestos or radiation, cannot be ruled out.

AREVA believes that it fundamentally complies with legal and regulatory provisions pertaining to health and safety in every country in which it operates and considers that it has taken measures designed to ensure the health and safety of its own personnel and subcontractor personnel (see Human Resources report in chapter 5.2. and information on nuclear risk prevention and management in section 4.14.2.3. However, by definition, the risk of occupational disease cannot be eliminated. Yet the occurrence of disease could result in legal action against the group or in claims for compensation, either from employees or former employees, or from buyers of the group's businesses, in the event that occupational disease as the result of a previous exposure should arise in employees transferred with the business. These actions could result in the payment of damages.

A limited number of claims for occupational disease due to asbestos exposure have been made to the group in France to date. In addition, a score of claims have been filed against the group in France for gross negligence on the part of an employer in connection with such exposure. Three claims have also been filed against the group in France for gross negligence on the part of an employer in connection with radiation exposure.

Sales revenue may fluctuate significantly from one period to the next due to the nature of the group's businesses.

The nature of the group's operations, particularly due to the irregularity of orders, can cause uneven distribution of sales revenue through the year and from one year to the next. While the group has a backlog of several years of orders for several of its businesses, the specific nature of the group's operations can complicate, or render moot, comparisons between periods.

The French State holds the majority of AREVA's share capital and voting rights, directly or indirectly. Like any majority shareholder, it has the power to control AREVA's strategy and to make most of the decisions in Annual General Meetings of the Shareholders.

The French State holds, directly or indirectly, around 94% of AREVA's issued shares and 98% of its voting rights.

Like any majority shareholder, the French State has the power to make most of the decisions falling under the purview of the General Meetings of Shareholders, including decisions regarding elections of members of the Supervisory Board and decisions regarding dividend distributions (see section 3.1.2. on the decree establishing AREVA).

4.14.3.2. Risks related to the nuclear divisions

Due to its nuclear operations, the group is exposed to substantial liability risk and to potentially significant operating cost overruns.

The group's nuclear operations cover every stage of the nuclear cycle, including (i) uranium supply and processing, (ii) uranium enrichment, (iii) fuel fabrication, (iv) reactor design, construction, maintenance and performance improvement, (v) treatment and recycling of used fuel and reusable materials, (vi) waste packaging and storage, and (vii) logistics and transportation associated with these operations.

Although the group has put in place strategies and procedures to control risk commensurate with the high standards for nuclear operations, the very nature of those operations involves risk. As a result, the group may have substantial liability as the result of, in particular, incidents and accidents, security breaches, acts of malice or terrorism, airplane crashes, natural disasters such as floods or earthquakes, equipment malfunctions, and malfunctions in the storage, handling, treatment or packaging of nuclear materials and substances (see section 4.14.2.3.). Such events could have serious consequences, particularly in case of radioactive contamination and/or irradiation of the environment, of individuals working for the group or of the general public, as well as a significant negative impact on the group's operations and financial position.

The group's operations also involve processes that use various toxic chemical compounds in significant quantities and radioactive materials such as uranium hexafluoride (UF₆). The transportation of nuclear materials by sea, train, road and air, which is handled by the group's *Logistics* business unit, also entails specific risks, including potential environmental contamination resulting from transportation accidents. Moreover, some of the plants of the *Chemistry* and *Enrichment* business units are located in areas subject to flooding, particularly the Rhone Valley. The group does not always have control over the factors influencing the severity of potential accidents that may affect a group facility or the transportation of materials. These factors include the type of radioactive materials released in the environment, weather conditions, and the speed of implementation of remedial actions.

Comurhex committed €20 million to a remediation program at its Malvési site in France. Work should be completed by the end of 2007. In late 2005 / early 2006, exceptionally heavy rains caused a partial breach in the dike of one of the site's lagoons, interrupting operations at the site for almost two months. An important project was launched in 2006 to strengthen the area against weather conditions. The main goal is to buttress the lagoon area, where the company processes effluents in decantation and evaporation

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ponds. Other studies were carried out to reclaim a pond at an old open pit mine, which will no longer be used after the end of 2007.

The “Comhurex 2” project to modernize all Comurhex facilities at Pierrelatte and Malvézi is being evaluated. Some of the goals of this project are to limit the quantities of chemicals used in the process, to reduce effluents, and to improve plant safety and security so as to ensure the sustainability of operations at both sites, under satisfactory conditions. However, the group cannot guarantee that this project will be implemented for the proposed budget or according to a schedule consistent with the sites’ operating requirements.

The occurrence of one or more of these events could have a significant negative impact on the group’s operations and financial position (see section 4.14.6. on risk coverage and insurance).

Changes in existing or future regulations, particularly environmental, health or nuclear safety regulations, and amendments to the group’s permits and licenses could result in new compliance obligations or operating conditions for the group, with a potential increase in costs or expenses.

The group conducts its operations in accordance with local laws under operating licenses and permits.

These operations require licenses relating in particular to production capacities and to releases from the facilities to the environment. The group must operate within the limits set in the operating permits and in applicable legislation and regulations, especially with respect to environmental protection, worker protection, health and nuclear safety. The group can be subject to sanctions, mainly administrative sanctions, in the event of an incident requiring an investigation, or of excessive deviation in actual facility conditions in relation to regulatory requirements or operating permits and licenses. Such sanctions include the temporary suspension of an operating permit or license, or orders to comply with regulations or to restore normal operating conditions. In addition, damage to the environment, to public health or to occupational safety, or nonconformities in operating conditions at group facilities could result in liabilities with regard to third parties and government agencies.

Moreover, new national or international standards, or a strengthening of or change in legislation or regulations, particularly in areas such as environmental protection, health and industrial safety or nuclear safety, as described notably in section 4.14.2.1. could in particular require that group facilities be brought into compliance, which could have a significant negative impact on the group’s operations or financial position.

In addition, the group’s current or future applications for permits or licenses to modify or expand industrial operations could be denied, thus limiting AREVA’s development, particularly with respect to MOX fuel fabrication at the Melox plant and licenses for Société

d’Enrichissement du Tricastin (SET), the legal entity in charge of implementing the Georges Besse II plant project.

The group must bear the full or partial cost of nuclear facility decommissioning, mine site reclamation and remediation of plant sites at the end of operations. Provisions have been recorded to cover the estimated costs, but actual costs could be significantly different.

As an operator of nuclear and industrial facilities covered by legislation on environmentally regulated sites, the group is legally obligated to secure, dismantle or remediate its facilities after shutdown, in whole or in part, and to manage waste resulting from these operations (see section 4.14.2.1). As a mine operator, it must also provide for closure, remediation or reclamation at the end of the operating period.

Future expenses relating to end-of-life-cycle obligations for its nuclear facilities and for reclamation of regulated industrial facilities and mines have been identified and special provisions have been established to cover them. Rules regarding provisions for end-of-life-cycle operations, representing €4.585 billion on a discounted basis, including €2.494 billion for AREVA’s share, are presented in Note 13 to the consolidated financial statements (see chapter 5).

As part of this program, the group considers that it has recorded all of the provisions required to cover all expenses relating to end-of-life-cycle operations at its nuclear facilities and for reclamation of its industrial sites as could reasonably be estimated as of December 31, 2006. These provisions are based on estimates of future costs developed by the group taking into account, by definition, a series of assumptions (see Note 13 to the consolidated financial statements, section 5.5.). However, it is not possible to affirm with certainty that the provisions currently recorded will be sufficient to cover the group’s obligations, since these are estimates of future costs. The actual costs borne by the group could be higher than initially estimated, especially considering changing legislation and regulations applicable to nuclear operations and environmental protection, their interpretation by the courts, and the growing body of scientific and technical knowledge. These costs also depend on regulatory decisions, in particular concerning dismantling methods, and on the choice and cost of solutions for the final disposal of certain types of radioactive waste (see Note 13 to the consolidated financial statements, section 5.5.). It is therefore possible that these future obligations and potential expenses or potential additional future liability of a nuclear or environmental nature could have a significant negative impact on the group’s financial position (see section 4.14.2.1. on changes in regulations applicable to nuclear operations).

Also, any reduction of the discount rate applicable to future expenses i.e. 5% at year-end 2006, including 2% for inflation, or any acceleration of actual end-of-life-cycle operations would require additional provisions, which would have a negative impact on the group’s net income and financial position.

In addition, third parties are responsible for a portion of the end-of-life-cycle costs. AREVA NC and EDF are currently negotiating to define the legal and financial terms of transfer to the group of EDF's share of end-of-life cycle obligations concerning facilities already shut down, such as the UP2 400 plant at La Hague, or in operation, such as the UP2 800 and UP3 plants.

Items concerning updates to the base estimate for dismantling costs and the share of those costs to be borne by each party were documented in a joint position statement accepted by both parties at the end of July 2003. These negotiations could conclude with a lump sum payment settling all of EDF's obligations. The negotiations also concern the retrieval and packaging of waste at the La Hague and Saint-Laurent-des-Eaux sites. Discussions continued in 2005 and 2006, but the terms of an overall agreement had not been finalized by the date this report was filed. It is difficult to predict the outcome of these negotiations. Though AREVA does not anticipate a significant impact on its financial statements or financial position, the cost ultimately to be borne by the group could exceed the amount currently contemplated in the provisions.

Used fuel treatment contracts call for the final waste and residues from those operations to be allocated to and retrieved by the original waste generator. However, as the holder of the nuclear waste generated by its customers, AREVA could remain liable if a customer defaults or files for bankruptcy.

For waste from the treatment of foreign used fuel stored at La Hague, Article L. 542-2-1 of the French Environmental Code stipulates that the import into France of foreign used fuel for purposes of its treatment shall be authorized by a bilateral agreement between France and the country of origin, governing in particular conditions for the return of waste generated by the used fuel's treatment to the country of origin.

The risks identified above, should they materialize, could have a significant negative impact on the group's financial position.

The group is exposed to a risk of decrease in the value of assets held to fund end-of-life-cycle obligations.

As of December 31, 2006, the group's assets earmarked for end-of-life-cycle obligations represented €2.986 billion, as compared with end-of-life-cycle obligations of €2.494 billion (see above).

At the end of 2006, the portfolio of financial assets consisted of 43% bonds and 57% equities. Considering the intrinsic volatility of financial markets, the value of the portfolio could decrease and/or provide an insufficient return to fund the group's end-of-life-cycle obligations. The group would have to use other financial resources to fund these obligations, which would result in a significant negative impact on its net income and financial position.

In addition, future implementing procedures for the program law on the sustainable management of radioactive materials and waste

(see section 4.14.2.1.) could have an impact on the management of assets earmarked to fund end-of-life-cycle obligations.

The sensitivity of the value of the group's portfolio to variations in the equity markets and/or interest rates is as follows:

Impact of changes in equity markets and interest rates on portfolio value

(in millions of euros)

Unfavorable scenario	
-10% on equities	(172)
+100 basis points on rates	(10)
Total	(182)
Base case (December 31, 2006)	
2,986	
Favorable scenario	
+10% on equities	+172
-100 basis points on rates	+10
Total	+182

The construction of a new first-of-a-kind reactor involves risks, as for any new project, relating to technical implementation and to start-up schedule compliance.

The construction of a new first-of-a-kind reactor presents risks associated with the difficulties encountered in technical implementation of a new process and the fabrication of new components. Such risks are likely to have a negative impact on the development prospects for this type of reactor and could have a significant negative impact on the group's business and financial position. In addition, it cannot be ruled out that the contractually binding schedule for start-up of a first-of-a-kind reactor might not be met and that a potential delay might cause negative financial consequences for the group.

The Olkiluoto 3 EPR (OL3) is the first Generation III+ reactor under construction anywhere in the world. This turnkey contract with customer TVO of Finland is currently experiencing construction problems related to:

- management of the specific process for approval of all technical documentation prior to manufacturing and prior to adjustments in response to specific requests;
- the "first-of-a-kind" nature of the reactor, resulting in technical challenges and difficulties in meeting ambitious deadlines;
- the need for subcontractor recertification.

The AREVA / Siemens consortium has entered into discussions with the customer to define measures to be taken to rectify the situation.

4.14. Risk and insurance

The consortium also reserved its rights to indemnification for additional expenses related to delays in implementation, which it considers attributable to TVO. TVO had not responded to this notification as of year-end and itself submitted certain claims regarding the Consortium. The group has rejected these claims.

The provision recognized by the group in 2006 reflects the increase in costs and risks related to the project. This increase takes into account performance difficulties and the extension of the construction period.

Remaining uncertainties linked to determination of the cost relate in particular to contract risks and compliance with the current schedule.

To limit these uncertainties for the EPR export program, the group bought an insurance policy in 2006 to cover losses to completion on sales of these EPRs. Coverage is capped and subject to a deductible.

The group cannot guarantee that the resources deployed will be sufficient to resolve all the difficulties encountered and limit the delays, or that negotiations between the parties will limit their financial consequences, which could have a significant negative impact on the group's business and financial position.

The group is exposed to the risk of non-renewal or termination of its mining concessions.

AREVA's mining operations involve concessions received or partnerships formed under legal systems specific to each country. For instance, the average term of a concession is approximately 20 years in Niger and Canada. Despite the relatively long terms of these concessions or contracts, the group is exposed to a risk of non-renewal or termination, which could have a significant negative impact on the group's operations and financial position.

Uranium reserves indicated by the group are estimates and there is no guarantee that mining operations will produce the same results.

The group's uranium reserves and resources are based on estimates developed by the group using geological and economic assumptions. The group could modify these estimates to reflect a change in evaluation methods or geological assumptions, and/or a change in economic conditions (see section 4.4.1.5.).

It is impossible to guarantee that the projected quantities of uranium will be produced or that AREVA will receive the expected price for these minerals. There is no assurance that other resources will be available. Moreover, uranium price fluctuations, production cost increases and declining mining rates and mill recovery rates can affect the profitability of reserves and require their adjustment.

The group committed to a significant investment to build its future uranium centrifuge enrichment plant, but the expected return on this investment cannot be guaranteed, especially if its implementation is delayed.

The total amount of the investment for the construction of the Georges Besse II plant is expected to cost approximately €3 billion. The plant will have a production capacity of 7.5 million SWU and is expected to be fully operational around 2017-2018. AREVA cannot be certain that revenue from the new plant's operations will be sufficient to cover operating expenses and depreciation, or that the anticipated rate of return will be achieved, particularly if the competitive environment of the enrichment market changes, in particular because of changes in the implementation of the Corfu Declaration by the Euratom Supply Agency (see section 4.4.3.4.).

While the group would gain access to already operational technology, the investment contemplated is subject to contingencies and AREVA cannot guarantee that the Georges Besse II plant will be available on the scheduled date, which could have a significant negative impact on the group's financial position. Also, the anticipated return on investment might not be achieved if the technology turns out to be obsolete or if the group overestimated its value.

The volatility of uranium, uranium conversion and uranium enrichment prices could have a significant negative impact on the group's financial position.

Although AREVA operates mostly as a provider of processing services for uranium that is usually owned by its customers, it remains exposed to price risk for uranium in its mining operations and to price risk for uranium conversion and enrichment services. Natural uranium and conversion and enrichment prices have fluctuated in the past. Price levels depend on factors that are beyond the group's control, including demand for nuclear power; economic and political conditions in countries that produce or purchase uranium, including Canada, the United States, Russia and other CIS republics as well as some African nations and Australia; nuclear materials and used fuel treatment; and sales of surplus civilian and defense inventories (including materials from surplus nuclear weapons).

A decrease in the price of various materials and services, including natural uranium and conversion and enrichment services, with price levels remaining below production costs on a long-term basis, could have a negative impact on AREVA's mining operations and uranium processing operations, including both conversion and enrichment.

Legal restrictions specific to certain group operations could have a significant negative impact on its financial position.

Some of the group's operations are subject to specific confidentiality restrictions or may be classified, such as defense programs involving the AREVA TA business unit or other defense

research programs. Those restrictions could limit or prevent the transfer of information to recipients not subject to the same restrictions. Furthermore, the restrictions could limit or even prevent the development of those operations. In addition, some operations, particularly those of Eurodif, are subject to special tax provisions whose modification could have a negative impact on the group's financial position.

4.14.4. MARKET RISKS

Within the Finance department, the department of Financial Operations and Treasury Management acts as a central desk to manage the group's financial exposure on behalf of the subsidiaries, except for a few companies operating under their own name due to specific agreements or regulatory constraints in some countries. This department is organized with a front, middle and back office and has access to all the human, technical, and information system resources necessary to accomplish its mission. Proprietary software is used to manage all treasury operations, including transactions initiated by the trading desk, transaction records, confirmations and accounting. Transactions cover foreign exchange and commodities trading, interest rates, centralized cash management, inter-company financing, borrowings and investments.

Currency risk: foreign exchange volatility, especially euro/US dollar parity, can affect the group's long-term financial performance.

The euro is the principal currency used by the group. Sales outside the euro zone represented around 50% of the group's sales revenue in 2006. The main foreign exchange risk concerns fluctuations between the euro and the dollar. The group generated 14% of its 2006 sales revenue in North America, primarily in US dollars. As a uranium producer in Canada, the group is also sensitive to fluctuations in the Canadian dollar against the US dollar, in which uranium prices are denominated. Exposure to other currencies (pound sterling, Swiss franc, Japanese yen and Southeast Asian and Middle Eastern currencies), mainly connected with the Transmission & Distribution business, is secondary in nature.

Due to the geographic diversity of its operations, the group is exposed to exchange rate risk when converting the financial statements of its foreign subsidiaries into euros.

The value of the euro vs. the US dollar increased by an average of 1% in 2006 compared with 2005. At the end of 2006, the increase in value of the euro vs. the US dollar was much more

dramatic, representing 6% year-on-year. In 2006, the impact of foreign exchange variations on the group's operating income was a loss of €3 million, compared with a loss of €2 million in 2005, or 1% and 0.3% of operating income respectively for those two years. Over the medium to long term, a further decrease in the value of the US dollar could have a negative impact on the group's operating income and consolidated net income.

The table below presents the sensitivity of the group's 2006 sales revenue and operating income to a \$0.10 increase in the value of the euro compared with the US dollar.

(In millions of euros)

Impact on sales revenue	% of group total	Impact on operating income	% of group total
(97)	-1%	(3)	-1%

The group's policy regarding foreign exchange risks is specific to each business. The objective is to hedge foreign exchange risk, whether certain or potential, during the proposal phase so as to minimize the impact of exchange rate fluctuations on consolidated net income. Risk is hedged using derivative financial instruments and special insurance contracts (see Note 31 to the consolidated financial statements). Balance sheet risk related to loans and advances to group companies in currencies other than the entity's accounting currency is also systematically hedged.

The main factors that may affect the group's divisions are:

- Front End division: For deliveries to be made in the next 12 to 18 months, this division is essentially covered for exposure to the US dollar, the world reference currency for natural uranium and for uranium conversion and enrichment services. The division automatically reduces its exposure through its mining operations in the Canadian dollar zone, but it still has to cover US dollar / Canadian dollar cross rates. At the end of 2006, the balance outstanding on these cross rate hedges was \$43 million.

4.14. Risk and insurance

- Reactors and Services division: This division is largely hedged against the US dollar risk. In services and engineering, most billings in US dollars also have a cost base in US dollars. Normally, the resulting margins are not specifically covered. Specific insurance coverage is usually acquired to hedge the risk associated with sales of heavy components (steam generators, reactor vessel heads), for which production costs are incurred in euros while sales are denominated in US dollars.
- Back End division: This division's exposure to foreign exchange risk is minimal. Most sales outside the euro zone are denominated in euros.
- Transmission & Distribution division: The division's exposure involves a number of currencies and positions are hedged on a case-by-case basis.

As indicated above, foreign exchange risk management and exposure on traded commodities are centralized by the parent company for most of the group's companies, or implemented in agreement with the parent company. Subsidiary hedges are initiated exclusively by the group's trading desk, except when operating or regulatory constraints dictate otherwise.

Group policy in this area, which is approved by the Executive Committee, is supplemented by procedures for implementing hedging operations with the trading desk. AREVA has also established procedures to control the risk and exposure of the trading desk, including trading limits applicable to exposure to each counterparty. Group management is informed of the positions and results on a weekly and monthly basis.

In transaction risk management, AREVA uses derivative instruments to hedge receivables and debt instruments, confirmed off-balance sheet commitments (customer orders and purchases from suppliers), highly probable future cash flows (sales and procurement budgets, forecast margins on contracts), and calls for bids in foreign currencies.

In general, as required under IAS 39, these financial instruments are documented and eligible for hedge accounting.

The table below presents the financial instruments used to hedge the group's foreign exchange exposure as of December 31, 2006.

	Nominal value of the contracts				Market value of the contracts				Total
	Nominal value of contracts	Cash flow hedges	Fair value hedges	Not formally documented (trading)	Cash flow hedges	Fair value hedges	Not formally documented (trading)		
<i>(in millions of euros)</i>									
Forward Forex contracts									
USD for EUR	(453)	(35)	(341)	(77)	3	15	3	21	
GBP for EUR	(62)	30	(67)	(25)	0	(1)	0	(2)	
CHF for EUR	60	4	43	13	0	(1)	(1)	(2)	
BRL for USD	(41)		(41)		-	1	-	1	
SGD for EUR	18		18		-	0	-	0	
Other	(176)	23	(208)	10	0	8	(1)	7	
Total	(654)	22	(597)	(80)	3	22	1	26	
Currency swaps									
USD for EUR	(549)	(16)	(336)	(197)	2	2	1	5	
MXN for EUR	(48)		(48)		-	0	-	0	
GBP for EUR	(27)		(22)	(6)	-	0	0	0	
CAD for EUR	(21)	(1)	(21)	0	0	1	0	1	
AUD for EUR	53		53		-	0	-	0	
Other	(53)		(61)	9	-	0	0	0	
Total	(645)	(17)	(434)	(193)	2	3	1	6	
Currency options									
EUR for USD	29	29			0	-	-	0	
Other currencies	(5)	(5)			0	-	-	0	
Total	25	25	0	0	0	-	-	0	
Currency swaps									
Variable rate swap borrower - USD	149		149		-	8	-	8	
Variable rate swap borrower - CAD	220		220		-	16	-	16	
Total	368	0	368	0	-	24	-	24	
Grand total	(906)	29	(663)	(273)	5	49	2	56	

4.14. Risk and insurance

Financial instruments transacted to hedge calls for tenders in foreign currency represent the bulk of the hedge position reported as "Trading" in accordance with IFRS.

Based on an instant variation of 1% in exchange rates, the impact on the group's income from derivatives not qualified as hedges is €3 million.

Interest rate risk: the group is potentially exposed to changes in interest rates on its debt and investments.

The group uses several types of financial instruments, as required by market conditions, to allocate its debt between fixed rate and floating rate obligations and to manage its investment portfolio. The group primarily uses swaps for debt management and cash management purposes. Rate futures are used to manage medium term investments (see Note 31 to the consolidated financial statements).

Interest rate risk management is entirely centralized in the parent company, which consolidates the subsidiaries' cash surpluses or requirements on a daily basis and arranges external or inter-company financing as appropriate, except as otherwise required by regulations or specific circumstances. The group's policy is subject to approval by the Executive Committee and includes procedures for transactions by the group's trading desk and procedures to control risk (instruments, counterparts, credit and positions). Off-balance sheet income is covered by framework French Bankers Association (FBF) or International Swaps and Derivatives Association (ISDA) agreements and is tracked separately. Group management is informed of positions and results on a monthly basis.

The following table summarizes the group's rate risk exposure before and after off-balance sheet hedging transactions. The group has little exposure to rate hikes overall. A 1% increase in long-term rates would cause a decrease in the market value of the portfolio of about €2 million. Inversely, if short-term rates were to increase by 1%, financial income would increase by about €2 million.

Maturities of financial assets and borrowings as of December 31, 2006

<i>(in millions of euros)</i>	Maturity < 1 year	1-2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Financial assets	1,063	136	33	0	0	23	1,254
including fixed rate assets	0	136	33	0	0	23	192
including variable rate assets	1,007	0	0	0	0	0	1,007
including non interest-bearing assets	56	0	0	0	0	0	56
(Borrowings)	(712)	(19)	(6)	(5)	(237)	(1,139)	(2,119)
including fixed rate borrowings	(126)	(19)	(6)	(5)	(5)	(17)	(178)
including variable rate borrowings	(584)	0	0	0	(232)	(5)	(821)
including non interest-bearing borrowings	(3)	0	0	0	0	(1,117)	(1,120)
Net exposure before hedging	351	117	27	(5)	(237)	(1,116)	(864)
share exposed to fixed rates	(126)	117	27	(5)	(5)	6	14
share exposed to variable rates	423	0	0	0	(232)	(5)	186
interest free share	53	0	0	0	0	0	53
including Siemens' minority put options	0	0	0	0	0	(1,117)	(1,117)
Off-balance sheet hedging	219	0	0	0	0	0	219
on borrowings: fixed rate swaps	0	0	0	0	0	0	0
on borrowings: variable rate swaps	0	0	0	0	0	0	0
on borrowings: futures on fixed rate exp.	219	0	0	0	0	0	219
Exposure after hedging	570	117	27	(5)	(237)	(1,116)	(644)
share exposed to fixed rates	94	117	27	(5)	(5)	6	234
share exposed to variable rates	423	0	0	0	(232)	(5)	186
interest free share	53	0	0	0	0	0	53
including Siemens' minority put options	0	0	0	0	0	(1,117)	(1,117)
Sensitivity of fixed rate exposure (impact on income statement of 1% rate increase, in millions of euros)		1	2	3	4	4	
Impact on financial income	immaterial	(1)	0	0	0	0	(2)
Impact of the variable share on financial income in the event of an increase in short-term rates	4	0	0	0	(2)	0	2

4.14. Risk and insurance

Risk on equities: the group has substantial investments in publicly traded shares and is exposed to financial market fluctuations.

AREVA holds publicly traded shares that are exposed to the volatility inherent in equity markets.

These include:

- investments in associates these consist mainly of STMicroelectronics and Eramet shares (see Note 14 to the consolidated financial statements);
- shares held in the portfolio of financial assets earmarked to fund future end-of-life-cycle operations (see Note 13 to the consolidated financial statements);
- other long-term investments: this concerns AREVA's 7.38% participating interest in Safran, a 2.17% equity interest in Suez, and equity interests in other publicly traded companies, including Total and Alcatel (see Note 15 to the consolidated financial statements).

<i>(in millions of euros)</i>	Market value December 31, 2006	Impact var. +/-10 %
Investments in associates		
STMicroelectronics	1,397	+/-140
Eramet	820	+/-82
REpower	190	+/-19
Long-term portfolio of securities earmarked for end-of-life-cycle expenses	1,812	+/-181
Other long-term investments	2,055	+/-205

The risks investments in associates or on other long-term investments is not hedged against price decrease.

The risk on shares held in the portfolio of assets earmarked to fund end-of-life-cycle expenses is an integral component of AREVA's asset management program, which includes equities to increase long-term returns as part of a program to allocate assets between bonds and equities. 58% of the exposure is managed through dedicated mutual funds invested in European equities, with management guidelines including the monitoring of tracking variances compared with an index.

The group has no liquidity risk.

AREVA's cash position net of borrowings is positive as of December 31, 2006 (see Notes 19 and 25 to the consolidated financial statements). Accordingly, AREVA had no liquidity risk as of the date of publication of this document.

Nonetheless, on February 7, 2007, the group secured a €2 billion syndicated line of credit to finance general needs over a seven-year period. This line of credit is not subject to any financial covenant.

The French State's majority shareholding in AREVA does not, in general, impact the loan terms and conditions granted to the group. However, certain loan agreements include change of control clauses stipulating that the group maintain control over the subsidiary that concluded the agreement, or that the French State maintain control over AREVA. The concept of control is understood either under the meaning of Article L. 233-3 of the French Commercial Code or in relation to the percentage of share capital ownership, which should remain higher than 51%. Under certain circumstances, the debt may become due immediately if AREVA ceases to control the subsidiary, or if the French State ceases to control AREVA.

In addition, some of the group's financial commitments included covenants requiring compliance with predetermined financial ratios. This was the case, until November 2006, for a CAD228 million loan (as of December 31, 2005) to AREVA NC Resources Inc. This financing matured in November 2006 and was replaced with a new line of credit for CAD350 million (see Note 25 to the consolidated financial statements). The loan documentation does not include covenants. Consequently, there were no significant financial commitments with financial covenants as of December 31, 2006.

The group is exposed to credit risk linked to its use of derivatives to manage certain types of exposure.

The group uses different types of financial instruments to manage its exposure to foreign exchange and interest rate risks, and its exposure to commodities and publicly traded shares. The group primarily uses forward buy/sell contracts and derivative products such as futures or options to cover these types of risk. These transactions involve exposure to counterparty risk when the contracts are concluded over the counter.

The group controls the counterparty risk associated with these instruments by centralizing commitments and annually reviewing procedures specifying the limits of the counterparty risk for each type of instrument.

To minimize the risk of default, the group's trading desk deals only with counterparties rated A1 / P1 or higher for short-term ratings or A / A2 for long-term ratings. The limits allowed for each counterparty are determined based on its rating and the maturity of the instrument traded. The limits are reviewed at least once a year.

4.14.5. DISPUTES AND LEGAL PROCEEDINGS

The group is involved in a number of disputes with a potentially significant negative impact on AREVA's business and financial position (see Note 33 to the consolidated financial statements). These disputes include:

- Claims submitted against the group in connection with discontinued operations that involve warranties provided by the group: Warranty claims have been submitted to the group on two accounts: disposal of the Connectors business (FCI) and the 2000 sale of Thermodyn to General Electric. To date, these claims were made in the ordinary course of business following reviews by tax or social security authorities. None of these claims is, at this point, sufficiently important to materially affect the group's financial performance. AREVA is negotiating with the buyers or sellers of these operations so as to minimize potential impacts.
- Investigations into alleged anti-competitive practices in the electric equipment sector (non-nuclear);
- Tort cases for alleged failures of certain products or equipment. The group may be held liable for the payment of direct and/or consequential damages and fines after trial, or may reach settlements, with a potentially significant negative impact on AREVA's business or financial position. These disputes can result in significant litigation expenses for the group.

Provisions are recorded to cover expenses that could result from these disputes, based on case-by-case analysis. As of December 31, 2006, the provisions for litigation, excluding other provisions for contingencies, totaled €55 million. Some disputes discussed in this section are not subject to formal litigation per se and the corresponding provisions are recognized in provisions for contract performance (see Note 24 to the consolidated financial statements).

In addition, some disputes concerning damages or injury are covered under group insurance policies or other forms of guarantee.

AREVA is not aware of any dispute, arbitration or exceptional event that had or may have a significant negative impact on its financial position and business in the recent past, except as disclosed below.

Usec (dispute involving AREVA NC)

Following complaints filed in December 2000 against Urenco and the group's subsidiary Eurodif by Usec, a competitor of the group in the uranium enrichment sector, the US Department of Commerce (DOC) ordered that countervailing duties be temporarily levied for alleged dumping and illegal subsidies

on uranium enriched in Europe and exported to the United States, beginning in mid-2001. To guarantee payment of these countervailing duties, Eurodif had deposited a total of \$186 million with the US customs administration as of December 31, 2006.

To defend the case, Eurodif filed an administrative appeal before the US Department of Commerce and judicial proceedings in the US Court of International Trade (CIT), with a subsequent appeal to the Court of Appeals for the Federal Circuit (CAFC).

The CAFC ruled in favor of Eurodif in March and September 2005. In January 2006, the CIT ordered the DOC to comply with the CAFC decision, which it did.

Usec appealed the decisions on subsidies by the Court and by the DOC, which led the CAFC to confirm its position on February 9, 2007.

Usec also appealed the decisions on alleged dumping; The CAFC decision in this respect is pending.

Administrative proceedings continue regarding the security deposits, the 2005 request for reconsideration and the establishment of revised countervailing duties pending completion of the judicial process.

Eurodif's deposits may be recovered only after all appeals have been adjudicated.

ISF2 (case involving AREVA NP)

The ISF2 contract covers the design and construction of Interim Storage Facility n°2 (ISF2), a packaging and dry storage facility for used fuel assemblies from the operation of reactors 1, 2 and 3 at the Chernobyl nuclear power plant. Approximately 22,000 fuel assemblies are stored at the site today. The contract was concluded on July 7, 1999 between a "Provider" comprised of a group of companies led by AREVA NP, and the State Special Enterprise Chernobyl (Ukraine) as "Owner-Operator", assisted by a Project Management Unit, or PMU. The contract is funded entirely by G8 donor countries through the European Bank for Reconstruction and Development (EBRD) in the framework of a treaty with Ukraine. The contract is not related to the serious accident that occurred at the site's unit 4 reactor in 1986.

This project has proven much more complex than initially foreseen due to the delayed notification of the inaccurate nature and unreliability of the initial technical data provided by the Owner-Operator. As a result, substantial changes to the design of the facility contemplated in the ISF2 contract are required, at a time when civil works are almost completed.

4.14. Risk and insurance

After several years of discussions and research on appropriate technical solutions, AREVA NP, the EBRD and the Ukraine reached an agreement to terminate the ISF2 contract amicably. This solution was approved by the donor countries during the annual general meeting of December 14, 2006. An amicable terminating agreement was signed to that effect on March 30, 2007. The agreement provides in particular for the transfer of the existing facility to the Owner-Operator.

The signature of this agreement thus terminates the contract completely, without any contentious proceedings having been undertaken.

AREVA NC / Environmental association (Used fuel shipping)

An environmental association has requested an emergency injunction against several used fuel shipments from abroad.

On March 3, 2006, the Presiding judge of the Tribunal de Grande Instance (Civil Court) of Cherbourg ordered AREVA NC to provide the association with certified copies of the fuel reprocessing agreements between AREVA NC and its customer, together with a detailed schedule for the return of the waste separated during fuel treatment.

AREVA NC appealed this decision. The environmental association has now filed suit on the merits. It requests €200,000 to compensate for alleged moral prejudice.

Challenges to licenses and permits

Third parties may file appeals with administrative courts to challenge the licenses and permits issued to the group. These challenges are routine and reflect the specific nature of the group's businesses. As of today, no significant challenge of this nature is pending.

Disputes involving AREVA T&D

In January 2004, under the acquisition contract for the T&D section, Alstom gave AREVA a vendor warranty comprising specific warranties, in particular for disputes listed in the Acquisition Contract and for environmental aspects. Subsequently, and based on this vendor warranty, AREVA notified Alstom of a certain number of claims.

The main event since the contract signature is the European Commission investigation into anti-competition practices in the Gas Insulated Switchgears (GIS) market. On January 24, 2007, the Commission ordered 11 companies to pay fines of more than €750 million for anti-competitive practices. Alstom and AREVA were fined jointly up to €54 million and appealed the decision before the European Commission. This investigation triggered other enquiries from competition authorities in Hungary, Brazil, New Zealand and the Czech Republic. The two companies were also held jointly liable in the Czech Republic: various group subsidiaries were ordered to pay fines totaling €5,588,500. AREVA appealed this decision.

In April 2007, Alstom and AREVA entered into an agreement related to warranty obligations and in particular to the assumption of the financial consequences of the inquiries into anti-competitive practices. This agreement also puts an end to certain warranty commitments and to a series of claims brought by AREVA against Alstom. At this stage, this agreement does not have a significant financial impact on the group. However, the warranties of the Acquisition Contract continue to apply in matters of the environment (for a period of 10 years from the date of the acquisition, with a cap of €250 million, a €12 million deductible and expenses split 80/20 between Alstom and AREVA), occupational disease (for a period of 20 years from the date of the acquisition, with no cap concerning asbestos-related diseases), and taxation.

In addition, administrative sanctions were taken against AREVA T&D SA de CV. This Mexican subsidiary of AREVA T&D had been barred from participating in government calls for tender in Mexico for a two-year period based on alleged anti-competitive practices originating in a contract signed several years ago by Alstom with a consultant, before AREVA acquired the Transmission & Distribution division. The Mexican courts ruled that this decision could not be enforced against the company under the statute of limitations. Nonetheless, AREVA T&D SA de CV was served with a second identical sanction notice, prompting it to file suit under the statute prohibiting double jeopardy. The Mexican courts have denied this motion, but an ultimate appeal is still pending. AREVA T&D's subsidiary in Mexico has taken measures to minimize the impact of such a decision, which is expected to have negative consequences on the business in any event.

4.14.6. RISK COVERAGE AND INSURANCE

Coverage concerning ongoing disputes is described in section 4.14.5.

No provisions have been recorded to cover other risk factors. They are subject to thorough review as provided by group risk management procedures and are examined during the “risk mapping” process carried out each year (see section 4.14.1.2.). Some of these risk factors, if they were to materialize, could be covered by one or several of the insurance policies take out by the group as part of its insurance programs.

To mitigate the consequences of potential events on its operations and financial position, AREVA transfers risk to reputable insurance and reinsurance companies worldwide. For example, AREVA has acquired insurance coverage relating to operating risk, civil liability and other risks and liabilities concerning its nuclear and non-nuclear operations, with coverage limits varying according to the type of risk.

AREVA's Risk and Insurance Department is in charge of insurance for the entire group. The Department:

- submits solutions to the Executive Board either to retain the risk and finance it internally or to transfer it to the insurance market;
- negotiates, sets up and manages global insurance programs for the group worldwide and reports to the Executive Board on actions carried out and costs incurred.
- settles claims for the subsidiaries involved.

4.14.6.1. Special coverage relating to nuclear facility operations

Nuclear liability insurance

Legal framework

International nuclear liability law is based on a series of principles that override general liability law. The operator of the nuclear facility that caused the damage is solely responsible. This is known as the liability channeling principle. Its liability is objective, i.e. no-fault, for which there are few exemptions. The operator of a nuclear facility is therefore required to compensate the victims for the bodily harm and property damage they have suffered. The operator is required to maintain a financial guarantee, which is generally insurance, on its liability. This principle of channeling liability to the operator includes, as a counterpart, a limitation of liability. It also provides for rapid payment of compensation to the victims, who do not have to prove that the operator is at fault.

This system is defined by international treaties, such as the Paris Convention on Third Party Liability in the Field of Nuclear Energy of July 29, 1960, as amended, and the Brussels Supplementary Convention of January 31, 1963, as amended. These conventions are transposed into the national law of the signatory countries (in France, Law No. 68-943 of October 30, 1968, as amended; in Germany, the law of December 23, 1959, as amended). In the United States, the Price Anderson Act establishes a similar rule of exception.

Every country in which AREVA operates nuclear facilities is subject to one of these legal constructions.

The principles of the conventions, which apply in the countries in which AREVA operates nuclear facilities, are described hereunder.

• The Paris and Brussels Conventions

The fundamental principles established by the Paris Convention may be summarized as follows:

- Nature of liability: strict and exclusive liability lies solely with the operator of the nuclear facility from which the substances causing the damage come or where they are held.
- Responsible party: the nuclear facility operator is the person designated or recognized as the facility operator by the public authority with jurisdiction. If the accident occurs during transport, the party responsible is the shipping operator and not the carrier, up to the point where the receiving operator assumes liability under the terms of a contract.
- Exemptions: the operator is not liable for damages caused by a nuclear accident if the accident is directly due to acts of armed conflict, hostilities, civil war, insurrection or a natural disaster of exceptional proportions.
- Limitation of liability: the operator's liability is limited both as to the total amount and the duration. For purposes of information, France has set a maximum liability amount of €91.5 million per nuclear accident in a facility and €22.9 million per accident during transport. The statute of limitations to submit a claim is three years from the time the victim became aware of the damage; however, a claim may not be submitted more than ten years after the date of the accident. The statute of limitations for claims is 10 years as of the date of the accident.
- Financial guarantee: funds must be available to indemnify the victims. Funds must be available to indemnify the victims. The operator must maintain an insurance policy or other financial guarantee approved by the State having jurisdiction over the facility, in the maximum amount of the liability. Insurance is the most commonly used form of financial guarantee.
- The oligopolistic position of insurers offering nuclear risk coverage translates into the relative stability of the premiums.

4.14. Risk and insurance

• The Brussels Supplementary Convention

This convention determines the contribution of the Signatory States when damages exceed the operator's limitation of liability. The additional compensation from public funds must first come from the country in which the facility is located, and then from all the countries that ratified the Supplementary Convention. For example, should an accident occur in a licensed nuclear facility in France, the French government would assume liability over €91.5 million and up to a limit of €228.6 million. Thereafter, the Signatory states to the Brussels Supplementary Convention would assume collective liability for the amount above €228.6 million, up to a limit of €381.1 million.

• Revisions to the Paris and Brussels Conventions

The protocols to amend the Paris Convention and the Brussels Supplementary Convention drafted in 2002 were signed on February 12, 2004 by representatives of the Signatory States. Nonetheless, the amended conventions are not yet in force, as the protocols must first be ratified by the different contracting parties (France, Great Britain, Belgium, Germany, etc.) and then transposed into national law in each Signatory State. In France, the Law of July 5, 2006 approves the ratification of the protocols of February 12, 2004. The Law of June 13, 2006 on transparency and security in the nuclear field includes provisions modifying the Law 68-943 of October 30, 1968.

The main amendments increase all three tiers of indemnity. Thus, the nuclear operator's liability would increase from €91.5 million to €700 million per nuclear accident in any given facility (€70 million in a reduced-risk facility). The limit of liability during transport would increase from €22.9 million to €80 million per accident.

The State in which the nuclear facility responsible for the damage is located would cover the €700 million to €1.2 billion tier. The other Signatory States would cover the €1.2 billion to €1.5 billion tier. A mechanism to increase these limits would apply as new States ratify the Conventions.

When these protocols enter into effect, the statute of limitations for claims will increase to 30 years as of the date of the accident for physical damages, and ten years for other damages. In all instances, the victim must submit a claim within three years of the date he or she became aware of the damage.

To prepare for these new requirements, the group partnered with other European operators to establish Elini (European Liability Insurance for the Nuclear Industry), a mutual insurance company that provides additional capacity in the insurance market.

• Price Anderson Act

In the United States, the Price Anderson Act (PAA) channels claims for indemnification towards the nuclear operators. Only facilities located in the United States regulated by the Nuclear Regulatory Commission (NRC) and facilities owned by the Department of Energy (DOE) are covered by the PAA. All other facilities are subject to ordinary law.

The nuclear operator bears financial responsibility for indemnifying the victims under the Price Anderson Act (liability channeling principle). Accordingly, two different types of situations may arise, depending on whether the party (1) operates a facility regulated by the NRC or (2) operates as a DOE contractor.

1. Facility regulated by the NRC: only nuclear power plants with a nominal capacity of 100 MWe or more and certain research and test reactors are required to have financial protection. The PAA indemnification process provides access to up to \$9.7 billion in protection under a two-tier system:

- The first tier corresponds to insurance (or similar financial protection) acquired by the nuclear power plant operator on the private nuclear insurance market for \$300 million in coverage.
- The second tier corresponds to a guarantee fund managed by the NRC, which provides \$95.8 million in coverage to each reactor on the operator's site if the first tier (\$300 million) is insufficient.

If the first two lines were to prove insufficient to cover third party damages, the US Congress would have to provide for additional indemnification.

Fuel fabrication plants and used fuel treatment facilities are not subject to the PAA system and have no legal obligation to acquire insurance. However, these facilities procure insurance on the market for the maximum amount allowed by the market at the time of the subscription.

2. DOE contractors: when DOE contractors are responsible for a nuclear accident, DOE indemnifies the victims up to the maximum legal limit per civilian nuclear power plant accident in the United States, i.e. \$9.7 billion, without calling on the private insurance market. If a nuclear accident occurs outside the United States, in particular during transportation, indemnification is limited to \$100 million and only covers accidents involving materials belonging to the US government.

Description of insurance acquired by the group

The group has acquired several insurance policies in France, Germany, Belgium and the United States to cover its licensed nuclear facilities in France and abroad, and its nuclear transportation operations. These special insurance policies comply with the conventions, including their liability limits. The insurance policies are reinsured by the nuclear insurance pools of various countries, including Assuratome in France, DKV in Germany, Syban in Belgium and ANI in the United States.

Property and business interruption insurance for nuclear operations

Due to the nature of the potential damage to the facilities, this type of insurance is available only through the pools mentioned above or through specialized mutual insurance companies capable of providing the necessary coverage. The limits of coverage for this type of insurance are based on the estimated replacement

value or on an estimate of the maximum possible loss (MPL). The coverage for some complex facilities can exceed €1 billion.

Mining operations and AREVA's US and Belgian sites are not covered by property and business interruption guarantees for the nuclear process and are covered by specific programs set up locally in agreement with AREVA's Risk and Insurance department.

4.14.6.2. Other AREVA insurance programs

Directors and Officers Liability

The purpose of D&O coverage is threefold: it provides liability coverage for financial risk incurred by group directors and officers due to damage suffered by third parties as a result of professional errors or misconduct in the course of business. Secondly, it reimburses group companies that are legally allowed to bear the cost of settling claims against directors and officers. Thirdly, it covers civil or criminal defense expenses incurred by directors and officers as a result of claims based on professional errors or misconduct.

The policies usually exclude coverage of claims based on intentional misconduct by a director or an officer, or on personal gain (financial or otherwise) to which a director or officer was not entitled. Fines and penalties levied against directors and officers are also excluded, as well as claims for losses due to pollution, asbestos or toxic mold.

Civil liability

The group is covered by a "worldwide" civil liability plan with limits appropriate to its size and operations. The plan covers:

- operator liability, covering company operations and services performed at customer sites;
- product liability, covering the post-delivery period; and
- professional liability ("Errors and Omissions"), covering financial consequences resulting from damages associated with intellectual services performed by the group for its own account or on behalf of a third party.

Liability insurance is also procured for environmental damage, damage to property held on behalf of third parties, and for product recall expenses.

This insurance covers the monetary consequences of any liability incurred by the operating entities for bodily harm, property damage and consequential damages suffered by third parties, excluding nuclear operator liability. Certain events not usually covered by insurance, such as landslides, damage from asbestos,

or damage caused by computer viruses, are also excluded. Liability insurance limits vary based on a reasonable assessment of the risks to which the group is exposed, as identified by the business units and the Risk and Insurance Department, in particular during the risk mapping process, and also based on capacities available on the insurance market.

AREVA Multiline

In 2006, the group maintained the comprehensive AREVA multiline policy acquired in 2005, combining "property and business interruption coverage" and "all-risk installation and testing" coverage. The policy covers all of the group's facilities worldwide, except for mines and nuclear sites.

The policy covers damage to production assets and business interruption, as well as risk associated with equipment installation and testing activities at customer sites. The policy limits vary from €50 million to €300 million, based on replacement values and the maximum possible loss. Business interruption coverage is limited to 12 to 24 months.

This policy automatically applies to projects of less than €50 million, with coverage limited to €50 million per event. Direct damages and business interruption are covered under two lines representing a total of €300 million per event.

Losses to completion on EPR contracts

In 2006, the group bought an insurance policy to cover the risk of losses to completion under sales contracts for the first five EPRs (including OL3 in Finland), beyond a certain deductible and within the limits of coverage.

4.14.6.3. Other insurance

The group is eligible for Coface type coverage for some large export contracts from France, such as the construction of a nuclear power plant. In addition, the group has insurance policies covering auto liability and workers' compensation that comply with the legal requirements of each of the countries in which AREVA subsidiaries are located.

4.14.6.4. Outlook and trends in 2007

The policies will be renewed in April 2007. AREVA anticipates stable premiums based on current market conditions. The cost of coverage for all non-nuclear operations should remain stable.

5

ASSETS FINANCIAL POSITION FINANCIAL PERFORMANCE

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5.1. Analysis of and comments on the group's financial position and performance

5.1.1. OVERVIEW

The following comments are based on financial information for fiscal years 2006 and 2005 and must be read in conjunction with AREVA's consolidation financial statements for the years ended December 31, 2006 and 2005. These comments have been drafted based on the group's consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union on December 31, 2006.

In accordance with IFRS 5, the Connectors division, which was sold on November 3, 2005, was deconsolidated retroactively to January 1, 2005. However, the division's net income up to the date of the sale and the net income from the sale appear on a separate line of the income statement for 2005.

5.1.1.1. Business trends

The AREVA group is a global leader in solutions for carbon-free power generation and electricity transmission and distribution. It is ranked first worldwide in nuclear power generation solutions and third worldwide for the supply of equipment and services for electricity transmission and distribution. It is the only group to be active in every stage of the nuclear cycle. The group's customers include some of the world's largest utilities, with which AREVA does a large share of its business under medium- and long-term contracts. As of year-end 2006, the group employs 61,111 people and has industrial operations in 41 countries.

The group reported 2006 sales revenue of €10.863 billion, up from €10.125 billion in 2005, representing 7.3% growth in terms of reported data. Like-for-like growth was 6.7% (comparable consolidation scope and foreign exchange rates). Energy operations accounted for 66% of sales in 2006, with 27% coming from the Front End division, 21% from the Reactors and Services division, and 18% from the Back End division. The Transmission & Distribution division represented 34% of sales in 2006.

The group is present in every region that offers attractive growth prospects, both for the development of nuclear power and for electricity transmission and distribution. The group earned 50% of its 2006 sales outside the euro zone, 29% of which came from North America, where the group is present in every aspect of the energy business.

Group contracts, and particularly those covering the nuclear sector, produced a large backlog totaling more than €25 billion at the end of 2006. Of this backlog, 86% came from the Nuclear businesses, with contracts averaging about four years. The high level of the backlog demonstrates the repeat nature of business and the visibility the group enjoys across these businesses.

Operating income for 2006, at €407 million, was down from that of 2005, marked in particular by:

- growth in operating income in the Front End and Back End divisions;
- a significant improvement in income in the Transmission & Distribution division, which returned to profitability after restructuring during the year;
- a substantial decrease in operating income in the Reactors and Services division, chiefly due to difficulties encountered on the OL3 project in Finland.

Net income attributable to equity holders of the parent company for 2006 stood at €649 million, up 43.9% on 2005 net income, adjusted for net after-tax income of €598 million relating to the sale of the Connectors division (FCI).

Pre-tax free operating cash flow generated by the group in 2006 was negative €356 million, compared with €783 million in 2005. This change reflects the expected downturn working capital requirement, which nonetheless still represents a source of cash and a significant increase in Capex, which more than offsets the increase in EBITDA.

- NetCapex in the nuclear businesses rose from €459 million in 2005 to €1.166 billion in 2006, with continuing major investments, especially in the Front End division (*Mining and Enrichment* business units, particularly with the acquisition of 50% of ETC, the acquisition of the ultracentrifugation technology and the beginning of construction of the Georges Besse II plant) and in the Reactors and Services division (most notably with the acquisition of Sfarsteel).

As a result of operating asset disposals, net Capex in the Transmission & Distribution division was a source of cash in 2005; it is negative €95 million in 2006, reflecting to a large extent the acquisition of the Ritz High Voltage business.

5.1. Analysis of and comments on the group's financial position and performance

The group has a solid financial structure, with more than €7.016 billion in equity, including minority interests, and a net debt position of €865 million at year-end 2006, giving a debt-equity ratio of 12.3%, compared with 4% as of December 31, 2005. Debt reported under IFRS includes the value of Siemens' put option for its 34% equity interest in AREVA NP, i.e. €1.117 billion. Disregarding this put option, the group had a net cash position of €251 million.

As an operator of nuclear facilities, the group has a legal obligation to decommission its facilities when they are shut down permanently. These end-of-life-cycle operations will generate annual expenditures through 2060, depending on facility shut-down dates, for which provisions are recorded in AREVA's balance sheet.

The group has earmarked a financial portfolio to cover these operations. Assets contained in this portfolio are sold each year based on expenditures associated with the group's end-of-life-cycle operations. The portfolio balance continues to produce a financial return. The hedging policy and changes in end-of-life-cycle operations are presented in section 5.1.2.8.6.

5.1.1.2. Key characteristics of AREVA's business model

AREVA's business model is characterized by the specific features of the different business units making up each stage of the nuclear cycle as well as those relating to the electricity transmission and distribution business.

The group's nuclear operations are carried out by three divisions: Front End, Reactors and Services, and Back End. The electricity transmission and distribution businesses are consolidated in the Transmission & Distribution division. Each of the four divisions consists of several business units.

The Front End division operates under long-term contracts equivalent to an average backlog of more than three years – and sometimes more than ten years for the *Mining* business unit – which contain standard price escalation clauses. Consequently, the business is only now beginning to benefit from upward pressures on natural uranium prices, given the structure of uranium supplies and a backlog still dominated by firm prices set prior to the price increases that began in 2003.

In addition, the Front End division's businesses have large capital requirements that demand heavy investment, but which support operations over very long periods of time. Investment in uranium exploration and development and in production plant replacement or upgrades is scheduled for the 2005-2015 period.

The Reactors and Services division typically has recurring business (services and engineering) carried out under long-term or regularly renewed contracts. In these businesses, the division conducts a significant share of its operations in North America and, as such, is sensitive to fluctuations in the euro / US dollar exchange rate. This is particularly true for the *Equipment* business unit, as its manufacturing plants are located in France and its costs are denominated in European currencies.

In addition, the division has attractive prospects with regard to non-recurring business, linked in particular to nuclear power plant upgrades and construction, with independent organizations such as the International Atomic Energy Agency (IAEA) and the World Nuclear Association (WNA) forecasting increases in installed capacity by 2030. The group gives significant warranties due to the type of goods and services sold by the main business units of the Reactors and Services division.

The Back End division operates under long-term contracts with a limited number of customers. The backlog represents more than three years of sales. The Back End division had negative working capital requirements (WCR), and thus a level of capital employed similar to that of a services business, due to customer advances received under old contracts to fund capital expenditures. The consumption of these advances impacts operating cash flows (in particular via changes in working capital requirements) as and when the corresponding sales are recognized.

The Transmission & Distribution division's contracts average a few months to 18 months in duration, and the division operates in more cyclical markets. Its business model is that of a manufacturing business with global geographic exposure and growth in developing countries (primarily China and India).

5.1.1.3. Highlights of the period

Information provided in this section concerns the AREVA group as a whole. Highlights concerning specific operations are presented in the review of the business divisions in section 5.1.2.6.

- On February 6, 2006, the US Department of Energy (DOE) introduces the Global Nuclear Energy Partnership, a major initiative for sustainable growth in the energy sector. The goals are to establish a production system and supply guarantees to ensure the stable growth of nuclear power around the globe that complies with non-proliferation requirements. The partnership also provides for reliance on used fuel recycling.
- On March 1, 2006: Spencer Abraham, former US Secretary of Energy, was named Chairman of the Board of AREVA Inc., the group's US subsidiary.
- On March 6, 2006: Jean-Pol Poncellet was named Adviser to the Chairman of the Executive Board and Director of Alternative Energy Strategy in the International and Marketing department. Mr. Poncellet was Vice Prime Minister, Defense Minister, and Minister of Energy in the Belgian government from 1995 to 1999.
- On April 5, 2006: AREVA announced its support of the "K-Challenge" team from France, thus becoming the official sponsor of the French Team for the 2007 America's Cup, to be held in Valencia, Spain in the summer of 2007. The boat and its crew will henceforth bear the name AREVA Challenge. This initiative is the continuation of AREVA's sponsorship of the previous America's Cup race and aims in particular to increase awareness of the group in the international arena.

5.1. Analysis of and comments on the group's financial position and performance

- On May 2, 2006, the Annual General Meeting of Shareholders renews the composition of the Supervisory Board. Frédéric Lemoine's duties as Chairman of the Supervisory Board are renewed for five years. Guylaine Saucier (a corporate director), Oscar Fanjul (Vice Chairman and CEO of Omega Capital), Philippe Faure (Secretary General of the French Ministry of Foreign Affairs) and Philippe Pradel (Director of Nuclear Energy at the CEA) are newly appointed as members of the Supervisory Board.
- On May 15, 2006, AREVA demonstrated its commitment to cultural and social diversity by signing the "Diversity in the Workplace" charter. This charter encourages the hiring of young people from disadvantaged neighborhoods and people with disabilities, and supports gender equity in the workplace.
- On May 17, 2006, AREVA publishes its contribution to the United Kingdom's energy debate. In this document, AREVA states that a new generation of nuclear reactors can be built in the UK without government subsidies and according to the rules of fair competition.
- On June 28, 2006, Christine Lagarde, Minister Delegate for Foreign Trade, inaugurates the Chalon Saint-Marcel plant expansion in the presence of Anne Lauvergeon. In 2004, the group launched a €30 million investment program at the plant, which specializes in manufacturing heavy components for nuclear power plants (reactor vessels, steam generators, pressurizers). Close to 250 new employees were hired as part of this program and the heavy component assembly building was expanded by 2,900 m² (31,215 ft²), increasing plant capacity by 10%.
- On June 29, 2006, the Supervisory Board renews the term of Mrs. Anne Lauvergeon as Chairman of the Executive Board and the terms of Messrs. Gérald Arbola, Didier Benedetti and Vincent Maurel as members of the Executive Board.
- On October 19, 2006, AREVA and Mitsubishi Heavy Industries (MHI) sign a Memorandum of Understanding that lays the foundations for a cooperation agreement in the field of nuclear energy. The Memorandum contemplates the joint development of a Generation III 1000 MWe reactor and other areas for cooperation, such as procurement, services, the fuel cycle and new reactor types.
- Finally, in October, the group establishes its new *Renewable Energies* business unit, whose strategy builds on the three pillars of wind power, biomass and fuel cells. The group believes that renewable energies and nuclear power complement each other in a balanced energy mix, which does not generate greenhouse gases.

5.1.2. KEY DATA

The group sold its Connectors subsidiary, FCI, on November 3, 2005. In accordance with IFRS 5, the Connectors division was deconsolidated retroactively to January 1, 2005. The division's net income up to the date of the sale and the net income from the sale appear on a separate line at the bottom of the income statement for 2005 entitled "Net income from discontinued operations". As a result, retroactively to January 1, 2005, data

from the Connectors division is no longer included in the income statement on any line above the "Net income from discontinued operations" line.

All amounts are expressed in millions of euros, unless otherwise indicated. Due to rounding adjustments, some totals may not be strictly accurate.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.1. Summary data

<i>(in millions of euros, except workforce)</i>	2006	2005	Change 2006 / 2005
Net income			
Contribution to consolidated sales ⁽¹⁾	10,863	10,125	7.3%
Gross margin	2,220	2,280	-2.6%
% of contribution to consolidated sales	20.4%	22.5%	-9.3%
EBITDA ⁽²⁾	1,293	1,217	6.2%
% of contribution to consolidated sales	11.9%	12.0%	-1.0%
Operating income	407	551	-26.1%
% of contribution to consolidated sales	3.7%	5.4%	-31.4%
Net financial income (expense)	97	-13	-846.1%
Share in net income of equity associates	220	153	43.8%
Net income from discontinued operations (after tax)	0	598	-100.0%
Net income attributable to equity holders of the parent	649	1,049	-38.1%
% of contribution to consolidated sales	6.0%	10.4%	-42.3%
Cash flow ⁽³⁾			
Net cash from operating activities	797	770	3.5%
Net cash used in investing activities	(953)	(739)	29.0%
Net cash used in financing activities	(364)	(392)	-7.1%
- including dividends paid	(429)	(421)	1.9%
Net cash flow from discontinued operations	0	853	-100.0%
Increase (decrease) in net cash	(518)	475	-209.1%
Other			
Backlog	25,627	20,569	24.6%
Net cash / (debt) (excluding Siemens' put)	251	808	-68.9%
Equity attributable to equity holders of the parent	6,722	6,362	5.6%
Capital employed ⁽⁴⁾	2,937	1,909	53.9%
Workforce at year end	61,111	58,760	3.4%

(1) The contribution to the group's consolidated sales is equal to gross sales net of inter-company sales.

(2) EBITDA excluding impact of cash flow relating to end-of-life-cycle operations, presented separately from operating cash flow.

(3) The components of cash flow are defined in paragraph 5.1.2.7.

(4) Capital employed is defined in paragraph 5.1.2.8.9.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.2. Summary data by division

2006

<i>(in millions of euros, except workforce)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate & other eliminations	Total
Net income						
Contribution to consolidated sales ⁽¹⁾	2,919	2,312	1,908	3,724	0	10,863
Operating income	456	(420)	273	191	(94)	407
<i>% of contribution to consolidated sales</i>	<i>15.6%</i>	<i>-18.2%</i>	<i>14.3%</i>	<i>5.1%</i>	<i>immaterial</i>	<i>3.7%</i>
Cash flow ⁽³⁾						
EBITDA ⁽²⁾	630	7	443	258	(46)	1,293
<i>% of contribution to consolidated sales</i>	<i>21.6%</i>	<i>0.3%</i>	<i>23.2%</i>	<i>6.9%</i>	<i>immaterial</i>	<i>11.9%</i>
Change in operating WCR	(28)	(21)	(205)	(67)	(29)	(351)
Net Capex	(750)	(341)	(77)	(95)	14	(1,248)
Free operating cash flow before tax	(186)	(350)	156	94	(72)	(358)
Other						
PP&E and intangible assets (including goodwill)	2,321	918	1,954	961	1,341	7,502
Capital employed ⁽³⁾	2,464	(67)	(719)	705	318	2,701
Workforce at year end	11,995	14,936	10,697	22,988	495	61,111

2005

<i>(in millions of euros, except workforce)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate & other eliminations	Total
Net income						
Contribution to consolidated sales ⁽¹⁾	2,631	2,348	1,921	3,212	14	10,125
Operating income	374	87	208	(61)	(58)	551
<i>% of contribution to consolidated sales</i>	<i>14.2%</i>	<i>3.7%</i>	<i>10.8%</i>	<i>-1.9%</i>	<i>immaterial</i>	<i>5.4%</i>
Cash flow ⁽³⁾						
EBITDA ⁽²⁾	508	173	483	106	(53)	1,217
<i>% of contribution to consolidated sales</i>	<i>19.3%</i>	<i>7.4%</i>	<i>25.1%</i>	<i>3.3%</i>	<i>immaterial</i>	<i>12.0%</i>
Change in operating WCR	(77)	226	(95)	(69)	(30)	(45)
Net Capex	(236)	(170)	(53)	68	(4)	(395)
Free operating cash flow before tax	197	228	332	116	(90)	783
Other						
PP&E and intangible assets (including goodwill)	1,554	606	2,079	950	1,210	6,399
Capital employed ⁽⁴⁾	1,761	24	(818)	617	344	1,928
Workforce at year end	11,047	14,323	10,864	22,094	432	58,760

(1) The contribution to the group's consolidated sales is equal to gross sales net of inter-company sales.

(2) EBITDA excluding impact of cash flow relating to end-of-life-cycle operations, presented separately from operating cash flow.

(3) The components of cash flow are defined in paragraph 5.1.2.7.

(4) Capital employed is defined in paragraph 5.1.2.8.9.

5.1. Analysis of and comments on the group's financial position and performance

Sales by region and business division

<i>(in millions of euros)</i>	2006	2005	Change 2006 / 2005
France	3,530	3,371	4.7%
Front End division	1,203	1,116	7.8%
Reactors and Services division	886	873	1.5%
Back End division	1,125	1,104	1.9%
Transmission & Distribution division	316	270	17.0%
Corporate and other operations	0	8	immaterial
Europe (excluding France)	3,164	3,022	4.7%
Front End division	708	603	17.4%
Reactors and Services division	687	702	-2.1%
Back End division	489	511	-4.3%
Transmission & Distribution division	1,279	1,204	6.2%
Corporate and other operations	1	1	immaterial
North and South America	1,846	1,861	-0.8%
Front End division	643	631	1.9%
Reactors and Services division	522	626	-16.6%
Back End division	78	118	-33.9%
Transmission & Distribution division	603	482	25.1%
Corporate and other operations	0	4	immaterial
Asia-Pacific	1,545	1,180	30.9%
Front End division	330	229	44.1%
Reactors and Services division	183	115	59.1%
Back End division	215	187	15.0%
Transmission & Distribution division	816	648	25.9%
Corporate and other operations	0	1	immaterial
Africa and Middle East	778	678	14.7%
Front End division	35	51	-31.4%
Reactors and Services division	34	31	9.7%
Back End division	1	0	immaterial
Transmission & Distribution division	708	596	18.8%
Corporate and other operations	0	0	immaterial
Other countries	0	12	immaterial
Total	10,863	10,125	7.3%

The breakdown of the group's workforce by geographical area is given in the 2006 Human Resources report, chapter 5.2.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.3. Comparability of financial statements

5.1.2.3.1. Comparable accounting data

General principles

In addition to the discussion and analysis of results reported in the consolidated financial statements, the group also presents sales information on a comparable basis over successive periods, excluding the impact of changes in:

- consolidation scope,
- exchange rates,
- accounting standards and methods.

The group provides this additional information to assess changes in the organic growth of its operations. However, this information does not constitute a method of assessing operations per IAS / IFRS. Excluding exceptions (e.g. material inability to reconstitute figures), changes in comparable sales figures are calculated as follows:

the consolidation scope, exchange rates and accounting methods and standards of the prior year are adjusted to reflect the consolidation scope, exchange rates and accounting methods and standards of the current year.

For example:

- To compare 2006 and 2005 sales, the group calculates what 2005 sales of the different businesses would have been when average exchange rates for 2006 are applied.
- The resulting sales figures are then adjusted for the consolidation effect. The group calculates what 2005 sales of the different businesses would have been based on the applicable consolidation scope at fiscal year-end 2006.

Estimated impact of changes in consolidation scope, exchange rate and accounting methods and standards on sales for fiscal years 2006 and 2005

The table below compares the estimated impact of changes in exchange rate, the group's consolidated scope, and valuation methods for 2006 with those of 2005.

The main impacts are discussed in section 5.1.2.3.2. below.

Comparison of the year ended December 31, 2006 with the year ended December 31, 2005

<i>(in millions of euros)</i>	2005 reported sales	Exchange rate impact	Consolidation scope impact	Changes in valuation method	Adjusted 2005 sales	2006 sales reported
Front End division	2,631	(5)	56	(67)	2,615	2,919
Reactors and Services division	2,348	(5)	65	0	2,408	2,312
Back End division	1,921	(1)	(13)	6	1,913	1,908
Nuclear	6,900	(11)	107	(61)	6,935	7,138
Transmission & Distribution division	3,212	17	5	0	3,233	3,724
Corporate and other operations	14	0	(4)	0	10	1
Group total	10,125	6	108	(61)	10,178	10,863

5.1.2.3.2. Factors potentially impacting the comparability of the financial statements

Changes in the consolidation scope

The group's consolidated financial statements for the years ended December 31, 2006 and December 31, 2005 were materially impacted by the acquisitions and divestments described below. All changes in the group's scope of consolidation are described in Note 2 to the consolidated financial statements.

• Nuclear

2006

On February 8, AREVA NP and France Essor signed an agreement to finalize AREVA's acquisition of Sfarsteel, one of the world's largest producers of very large forgings located in the Creusot area in

Burgundy, France. Sfarsteel was integrated into the *Equipment* business unit. This acquisition strengthens AREVA's offering in the market for new-generation reactors by allowing the group to secure delivery dates and ensure forging quality. Sfarsteel reported 2006 sales of approximately €100 million.

On July 3, AREVA acquired a 50% interest in the Enrichment Technology Company (ETC). The remaining 50% are held by Urenco. ETC develops, designs and manufactures uranium enrichment equipment. Through this acquisition, AREVA secures access to centrifuge equipment needed to build the new Georges Besse II uranium enrichment plant. ETC has approximately 1,000 employees. The company reported 2006 sales revenue of €200 million.

5.1. Analysis of and comments on the group's financial position and performance

2005

On June 14, AREVA finalized the acquisition of the Swedish company Uddcomb Engineering, which specializes in engineering and services for nuclear power plants.

Also in 2005, the group bought a business specializing in nuclear power plant instrumentation and control systems maintenance from Siemens.

Both acquisitions were integrated into the Reactors and Services division.

- **Transmission & Distribution**

2006

AREVA T&D acquired the high voltage business of German group Ritz on June 30, 2006. Ritz is a world leader in instrument transformers with close to 500 employees and sales of around €50 million.

2005*India and Pakistan*

The acquisition of Alstom's transmission and distribution operations was finalized on April 6, 2005, with the signature of an agreement with Alstom concerning its transmission and distribution operations in India. Altogether, the integration of these operations gave AREVA 66.65% of the share capital of the Indian entity. The balance corresponds to the company's float, which is listed on the Bombay Stock Exchange in India. The Transmission & Distribution division's operations in India and Pakistan are fully consolidated as of August 1, 2005.

Australia and New Zealand

Pursuant to an agreement concluded on December 22, 2004, AREVA T&D and Transfield Services signed a purchase agreement for AREVA T&D's electrical services and telecommunications operations in Australia and New Zealand. The transaction came into effect in April 2005, once the regulatory authorizations had been granted and normal conditions precedent lifted. These operations relate to outsourced engineering and maintenance services provided to major infrastructure owners and manufacturing companies operating in the electricity, heavy industry, telecommunications and related infrastructure sectors, which are not part of AREVA T&D's core business.

- **Connectors**

2005

On November 3, 2005, AREVA announced that it had finalized the sale of its connectors subsidiary, FCI, to Bain Capital. The sale was made following consent by the anti-trust authorities and the decree approved by the Holdings and Transfers Commission (Commission des Participations et Transferts). The sales price

for FCI shares puts the enterprise value of the company at €1.067 billion. The FCI divestment had a positive impact of €598 million on the AREVA group's consolidated net income for 2005 and represented a cash contribution of €853 million.

- **Corporate and other operations**

2006*REpower*

AREVA increased its equity interest in REpower by subscribing to a share capital increase for that company and by acquiring shares on the market. These transactions bring AREVA's holding to 29.99%.

2005*REpower*

On September 27, 2005, the AREVA group acquired a 21.2% equity interest in REpower, a manufacturer of wind turbines specializing in high capacity turbines particularly suited to offshore wind farms and one of the key players in the worldwide wind power sector. The company employs around 600 people and reported sales of €335 million in 2005. This interest was equity accounted.

STMicroelectronics

In August 2005, the holding company with a controlling interest in STMMicroelectronics bought back its own shares from France Télécom. Following this operation, AREVA's equity interest in FT1CI went from 79% to 100%, and its controlling interest in STMMicroelectronics went from 13.9% to 10.94%. The group's share was unchanged.

Movements in foreign exchange rates

The group's foreign exchange policy is presented in Chapter 4 of the 2006 Annual Report.

In 2006, 50% of the group's sales originated outside the euro zone, including a significant share in the United States as well as in South America, particularly Brazil. From 2005 to 2006, the average value of the euro increased by 0.9% compared with the US dollar, while the value of the euro decreased by 10% compared with the Brazilian real.

Exchange rate movements had a positive impact on the group's sales revenue of €6 million in 2006, despite the negative impact of the US dollar, compared with a positive impact of €51 million in 2005.

Exposure to other currencies (primarily the Swiss franc, pound sterling, Japanese yen and Southeast Asian and Middle Eastern currencies), mainly connected with the Transmission & Distribution business, is secondary in nature.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.4. Backlog

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change
Backlog	25,627	20,569	24.6%
Front End division	11,335	8,086	40.2%
Reactors and Services division	4,413	3,804	16.0%
Back End division	6,375	5,665	12.5%
Nuclear	22,123	17,555	26.0%
Transmission & Distribution division	3,514	3,015	16.2%
Corporate and other operations	1	0	-

The backlog is valued based on economic conditions at the end of the period. It includes firm orders and excludes unconfirmed options. Orders in hedged foreign currencies are valued at the hedge rate. Non-hedged orders are valued at the rate prevailing on the last day of the period.

The backlog reported for long-term contracts recorded under the percentage of completion method and partially performed as of the reporting date is equal to the difference between (a) the projected sales revenue from the contract at completion and (b) the sales revenue already recognized for this particular contract. Accordingly, the backlog takes into account escalation and price revision assumptions used by the group to determine the projected revenue at completion.

The group's backlog as of December 31, 2006 was €25.627 billion, or close to two years of 2006 sales revenue, up by 24.6% from the backlog of €20.569 billion as of December 31, 2005.

In Nuclear operations, the backlog as of December 31, 2006 was €22.123 billion, compared with €17.555 billion as of December 31, 2005, representing an increase of 26% for the period. This is about three years of sales at 2006 levels. New orders in Nuclear operations represented more than €11 billion in 2006. This total does not reflect the outcome of current discussions with EDF for the 2008-2025 delivery period.

In the Transmission & Distribution division, the backlog as of December 31, 2006, was €3.514 billion, compared with €3.015 billion as of December 31, 2005, representing an increase of 16%. This represents more than 11 months of sales at 2006 levels. Orders booked for the year were up by 16.6% like-for-like over 2005, with the increase driven by exceptional growth of 24.6% like-for-like in the fourth quarter of 2006, coming to more than €4.3 billion. In 2006, the division signed two sales contracts in Libya and Saudi Arabia valued at more than €100 million each and several sales contracts valued at several tens of million each in Indonesia, Russia, Spain and the United Kingdom.

5.1.2.5. Income statement

5.1.2.5.1. Sales revenue

The AREVA group's sales rose to €10.863 billion in 2006 from €10.125 billion in 2005, representing growth of 7.3% in terms of reported data. Organic growth was 6.7% in 2006. Exchange rate movements had a positive impact of €6 million for the group. Changes in consolidation scope had a negative impact of €108 million between the two accounting periods.

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change
Sales revenue	10,863	10,125	7.3%
Front End division	2,919	2,631	10.9%
Reactors and Services division	2,312	2,348	-1.5%
Back End division	1,908	1,921	-0.7%
Nuclear	7,138	6,900	3.5%
Transmission & Distribution division	3,724	3,212	15.9%
Corporate and other operations	1	14	immaterial

5.1. Analysis of and comments on the group's financial position and performance

The Nuclear divisions posted organic growth of 2.9%, marked by:

- 11.6% growth in the Front End division linked to the favorable price effect for uranium sales;
- a 4% drop in the Reactors and Services division, due to schedule changes affecting the OL3 EPR project and weak demand for services, in particular the lack of steam generator replacement operations.

- stable sales revenue in the Back End division (-0.3% like-for-like).

The Transmission & Distribution division recorded organic growth of 15.2%.

5.1.2.5.2. Gross margin

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change
Gross margin	2,220	2,280	-2.6%
% contribution to consolidated sales	20.4%	22.5%	

The group's gross margin for 2006 was €2.22 billion, or 20.4% of sales revenue, compared with €2.28 billion for 2005, or 22.5% of sales revenue, representing a total decrease of 2.6%, compared with a 7.3% increase in sales revenue for the period.

In Nuclear operations, gross margin was €1.329 billion in 2006 (18.6% of sales), against €1.555 billion in 2005 (22.5% of sales), representing a decrease of 14.5% or 3.9 points. This decrease is the net result of two opposing trends:

- a drop in gross margin in the Reactors and Services division reflecting significant provisions for the OL3 project in Finland;
- a jump in gross margin in the Front End division, chiefly due to favorable prices and reflecting in particular uranium price increases;
- higher margins on contracts performed by the Back End division, with a more favorable product mix.

Gross margin for the Transmission & Distribution division rose from €722 million in 2005 (22.5% of sales) to €882 million in 2006 (23.7% of sales), representing growth of 22.2% or 1.2 points.

The majority of this increase is due to the strong performance of the *Products* and *Systems* business units, which met volume and business targets rolled out as part of the optimization plan, particularly more profitable orders, generating considerably improved income.

5.1.2.5.3. Research and development

Research and development expenses are recorded in the balance sheet if they meet capitalization criteria established by IAS 38 and in research and development expenses if they do not. Research and development expenses not eligible for capitalization are recorded in the income statement after the gross margin if solely funded by the group; expenses for programs that are partially or fully funded by customers or for joint projects in which AREVA has the commercial rights to the results are recorded in cost of sales. All research and development costs, whether capitalized or expensed during the period, are combined to determine the group's R&D expenditure.

<i>(in millions of euros)</i>	2006	in % of sales	2005	in % of sales
Nuclear	237	3.3%	209	3.0%
Transmission & Distribution	114	3.1%	116	3.6%
Corporate and other operations	3	immaterial	3	19.3%
Total research and development expenses	355	3.3%	328	3.2%
R&D expenditure ⁽²⁾	669	6.2%	582	5.7%
- including costs capitalized in the balance sheet ⁽¹⁾	198	1.8%	143	1.4%
Number of patent applications	111	-	99	-

(1) Unlike French accounting standards, under which capitalization is optional when the costs meet the capitalization criteria, IAS 38 requires capitalization of research and development costs as soon as the criteria are met. In 2006, €196 million in R&D expenses were capitalized for the mining and plants businesses alone.

(2) Excluding acquisition of ultracentrifugation technology, which is included in net Capex.

5.1. Analysis of and comments on the group's financial position and performance

The group's R&D expenses represented €355 million in 2006, i.e. 3.3% of the contribution to sales for the period. This figure indicates relative stability in R&D expenses compared with 2005, when spending was €328 million and the ratio to sales was 3.3%.

Taking into account all costs incurred for research and development, the group's total R&D expenditure was €669 million in 2006, i.e. 6.2% of sales for the period, up by 14.9% on 2005.

R&D expenses for Nuclear operations totaled €237 million in 2006, i.e. 3.3% of sales, and €209 million in 2005, i.e. 3% of sales. The total R&D expenditure in Nuclear was €500 million in 2006, i.e. 7% of sales. The change in R&D expenditure between the two periods reflects the continued long-term increase in mineral exploration expenses and continued long-term projects, including:

- preliminary studies for a new natural uranium conversion plant;
- fuel performance improvement;
- support for deployment of EPRs, including certification in the United States;
- preliminary studies for a Generation III treatment-recycling plant for the international market.

In the Transmission & Distribution division, R&D expenses were stable in 2006, coming to €114 million or 3.1% of sales. As in 2005, the majority of spending was directed at improving the performance of electric power systems and Equipment and developing digital controls and information systems for power grid monitoring.

5.1.2.5.4. General and administrative, sales and marketing expenses

Group sales, marketing, general and administrative expenses totaled €1.271 billion in 2006, compared with €1.202 billion in 2005, representing an increase of 5.7% for the period. These expenses were down in relation to sales for the year, going from 11.9% in 2005 to 11.7% in 2006. This trend is indicative of efforts to control costs while boosting sales and marketing activities, leading to the significant increase in the backlog described above.

- Sales and marketing expenses totaled €493 million in 2006, compared with €478 million in 2005, representing an increase of 3.1% over the period. These expenses represented 4.5% of sales in 2006, compared with 4.7% in 2005. The absolute amount of the group's sales and marketing expenses is relatively stable across businesses, despite the commercial efforts being deployed in China.
- General and administrative expenses totaled €778 million in 2006, compared with €724 million in 2005, representing an increase of 7.5% over the period. They came to 7.2% of 2006 sales, i.e. stable compared with the 7.1% for 2005.

5.1.2.5.5. Operating income before restructuring expenses

Operating income before restructuring expenses was €538 million in 2006, compared with €689 million in 2005. This 22% decrease reflects for the most part the reduction in gross margin due to delays concerning the OL3 project.

5.1.2.5.6. Restructuring and early retirement costs

Restructuring and early retirement costs represented €131 million in 2006, compared with €138 million in 2005. This change reflects a decrease in restructuring expenses in the Transmission and Distribution division, partially offset by an increase in expenses in Nuclear operations.

5.1.2.5.7. Other operating income and expenses

Other operating income and expenses represent a net expense of €56 million compared with a net expense of €61 million in 2005.

5.1.2.5.8. Operating income

Operating income totaled €407 million in 2006, or 3.7% of sales, compared with €551 million in 2005, or 5.4% of sales, representing a decrease of 26.1% or 1.7 points.

- *Nuclear* operations contributed some €309 million, compared with €670 million in 2005, representing a decrease of 53.7%. Operating margin for Nuclear was thus 4.3% in 2006, compared with 9.7% in 2005. This decrease reflects the significant provisions constituted in connection with the OL3 project.
- The Transmission & Distribution division reported operating income of €191 million in 2006, a sharp improvement on the loss of €61 million recorded in 2005. Operating margin thus went from a negative 1.9% of sales in 2005 to a positive 1.5% of sales in 2006. The division's profitability still had to bear major restructuring expenses under the three-year plan launched in 2004, representing €61 million in 2006, down from €102 million of 2005. The Products business unit, which represents almost half of the division's sales, recorded the biggest improvement, with cost-reductions in purchasing and the redefinition of the industrial footprint producing the expected results.
- *Corporate* reported an operating loss of €93 million in 2006, compared with an operating loss of €58 million in 2005. The loss recognized in 2006 includes not only expenses related to the move to new corporate headquarters, which contributes to the group's integration by reducing the number of office locations for corporate functions by more than half, but also marketing expenses related to the group's sponsorship of the K-Challenge team at the America's Cup.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.5.9. Net financial income

<i>(in millions of euros)</i>	2006	2005
Net borrowing costs [(expenses) / income]	(29)	16
Other financial income and expenses	126	(29)
End-of-life-cycle operations	17	(32)
Income from the financial portfolio earmarked for end-of-life-cycle operations	132	64
Discounting reversals of provisions for end-of-life cycle operations	(115)	(96)
Other financial income	109	2
Foreign exchange gain (loss)	10	(5)
Income from disposals of securities and change in value of securities held for trading	118	92
Dividends received	73	29
Impairment of financial assets	8	5
Interest on prepayments	(41)	(42)
Financial income from pensions and other employee benefits	(56)	(59)
Other	(4)	(18)
Net financial income (expense)	97	(13)

Net financial income for 2006 totaled €97 million, compared with a net financial expense of €13 million in 2005.

- Net borrowing costs / income went from financial income of €17 million in 2005 to a financial expense of €29 million in 2006. This change reflects an increase in interest rates, which impacted the group negatively, and rising hedging costs.
- Financial income linked to end-of-life-cycle operations stood at €17 million in 2006, compared with an expense of €32 million in 2005. Expenses related to the reversal of discounting of provisions for end-of-life-cycle operations came to €115 million. They were more than offset by income from the portfolio of assets earmarked to cover end-of-life-cycle operations, which stood at €132 million in 2006, compared with €64 million in 2005. The group recorded large capital gains on the sale of securities held in the portfolio.
- Financial income not linked to end-of-life-cycle operations rose sharply, to €109 million in 2006, compared with income of €2 million in 2005. In particular, 2006 saw €112 million in gains on disposals of Société Générale shares.

5.1.2.5.10. Income tax

The income tax expense totaled €51 million in 2006, compared with €146 million in 2005. The group's effective tax rate in 2006 is 10.1%, down 17 points from the 2005 effective rate of 27.1% in 2005.

The change in the group's effective tax rate results from several items that lowered the tax rate: the recognition of a deferred tax asset connected with the sale of FCI, a reduced tax rate on certain financial transactions, and the recognition of an R&D tax credit, among other items.

5.1.2.5.11. Share in net income of equity associates

<i>(in millions of euros)</i>	2006	2005
STMicroelectronics	98	38
Eramet group	106	104
REpower	2	0
Other	13	11
Total	220	153

5.1. Analysis of and comments on the group's financial position and performance

STMicroelectronics and Eramet are the two main equity-accounted interests in the consolidated financial statements. The other equity-accounted interests are described in Note 14 to the consolidated financial statements.

The share in net income of equity associates rose by almost 43% to €220 million in 2006, compared with €153 million in 2005. The increased contribution from STMicroelectronics, tied to a sharp upturn in income, accounts for most of this change.

The group may record net income from STMicroelectronics and Eramet that differs from the income reported by those companies:

- STMicroelectronics financial statements are prepared according to US GAAP and are in US dollars. The group converts them into euros and adjusts them for IFRS. STMicroelectronics' IFRS financial statements are made available after AREVA publishes its own financial statements.
- With regard to Eramet, income is calculated based on preliminary results. Any differences between Eramet's preliminary and final financial statements are recorded in the following period.

5.1.2.5.12. Net income from discontinued operations

Net income from discontinued operations was non-existent in 2006, whereas it was €598 million as of December 31, 2005 due to the disposal of the Connectors division. In 2005, net income from discontinued operations consisted of:

- net income from the disposal of the Connectors division in the amount of €528 million, and
- net income of the discontinued operation for the period January 1 to October 31, 2005, when FCI was sold to Bain Capital, of €70 million.

5.1.2.5.13. Minority interests

Minority interests in the group's net income for 2006 are €24 million, compared with €95 million for 2005. The change is due primarily to:

- The drop in AREVA NP results, which reported a net loss in 2006 due to the impact of the OL₃ project;
- a sharp increase in net income for Eurodif due to the favorable price effect in enrichment services;
- to a lesser extent, France Télécom's disposal of its equity interest in FT1CI (co-controlling holding company for STMicroelectronics) on September 28, 2005. FT1CI is now wholly owned by AREVA.

Minority interests are as follows

<i>(in millions of euros)</i>	2006	2005
Siemens' 34% interest in AREVA NP	(57)	47
France Télécom's 2.9% interest in STMicroelectronics	0	5
Minority shareholders' 40% interest in Eurodif	59	36
Other	22	7
Total	24	95

2.92% held by France Télécom until September 28, 2005, and 0% thereafter.

5.1.2.5.14. Net income attributable to equity holders of the parent

Taking into consideration the items described above, net income attributable to equity holders of the parent for 2006 totaled €649 million, a leap of 43.9% compared with net income for 2005, adjusted for net after-tax income of €598 million relating to the divestment of the Connectors division. For 2005, net income attributable to equity holders of the parent, including net income from discontinued operations, totaled €1.049 billion.

Net earnings per share were €18.31 in 2006, compared with €29.60 in 2005.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.6. Review by division

5.1.2.6.1. Front End Division

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change	2006 / 2005 change LFL*
Backlog	11,335	8,086	40.2%	-
Contribution to consolidated sales	2,919	2,631	10.9%	11.6%
Mining	582	508	14.5%	24.6%
Chemistry	246	283	-13.1%	1.8%
Enrichment	844	727	16.1%	6.1%
Fuel	1,248	1,113	12.0%	12.3%
Operating income	456	374	21.9%	-
<i>In % of contribution to sales</i>	<i>15.6%</i>	<i>14.2%</i>	-	-

* Like-for-like, i.e. at constant exchange rate and consolidation scope.

Highlights of the year

Major events in the *Mining* business included the flooding of the Cigar Lake mine in Canada and the continued increase in uranium prices.

- The Cigar Lake mine, in which AREVA holds a 37% interest, flooded after an underground collapse on October 23, 2006. Cameco, the operator and main shareholder of the mine, submitted a recovery plan to the Canadian safety authorities. This step-by-step plan is designed to allow for gradual evacuation of the water and restart of construction by October 2007. Production has been postponed until 2010.
- The uranium spot price continued to climb, reaching \$72 / pound at the end of December 2006, compared with \$36.50 / pound one year earlier. This increase of almost 100% is due to strong global demand over the 2008-2012 period, while available resources remain limited (acquisitions by investment funds, flooding of the Cigar Lake mine, change in utility behavior regarding anticipated purchases, etc.). This favorable price trend will have a significant impact on the group's financial statements when contracts negotiated at these prices come into effect, mostly after 2008.

The *Mining* business unit produced 5,322 metric tons of uranium in 2006, down from the 6,019 metric tons produced in 2005 as a result of production difficulties in Canada. On the sales side, 2006 was marked by the renegotiation of several contracts to match contract prices and market price trends, in exchange for contract extension after 2011. In particular, a new uranium sales contract for the period 2009-2018 was signed with EDF to supplement the contract signed in 2005.

Consistent with the goals for the uranium sector and pursuant to announcements, the operating Capex program continued to ramp up in 2006, particularly at the McLean and Cigar Lake sites in Canada (where surface work continued despite the flooding) and by Katco in Kazakhstan.

The *Mining* business unit's gold assets were contributed to Canadian company La Mancha in exchange for a controlling interest in that company's capital. La Mancha is listed on the Toronto Stock Exchange.

In *Enrichment*, the main event of the year was AREVA's acquisition of a 50% interest in the *Enrichment* Technology Company (ETC). The remaining 50% are held by Urenco. This transaction enabled the group to proceed with construction of the Georges Besse II enrichment plant, with completion of the first module scheduled for 2009.

Backlog

In the Front End division, the backlog as of December 31, 2006 was €11.335 billion, compared with €8.086 billion as of December 31, 2005, representing an increase of 40.2%. The backlog is the equivalent of close to four years of 2006 sales.

The upturn reflects strong marketing activity, particularly in uranium supply, where more than four years of sales were placed under contract in 2006 and old contracts were updated, and in fuel, where major new contracts were won totaling more than €1.1 billion, including:

- a new contract to supply uranium to EDF during the 2009-2018 period;
- a contract to supply uranium to Constellation during the 2010-2015 period;
- signature of an enrichment contract with Tokyo Electric Power Company.

5.1. Analysis of and comments on the group's financial position and performance

Sales revenue

Sales revenue for the Front End division totaled €2.919 billion in 2006, compared with €2.631 billion in 2005, representing a 10.9% increase in reported data and 11.6% like-for-like.

In the *Mining* field, the favorable uranium price effect boosted sales (+24.6% organic growth). The group sold more than 14,000 metric tons (MT) of uranium in 2006, up 9.1% from 2005.

The *Conversion* business was up over the period (+1.8% organic growth) due to the favorable price effect and despite UF₆ production of slightly more than 12,000 MT, below 2005 production levels.

The *Enrichment* business unit reported sales growth of 6.1% over the period, reflecting slightly higher sales volumes for enrichment services and favorable prices.

Sales revenue was exceptionally strong in *Fuel*, up 12.3% like-for-like. While volumes were stable, the product mix and the regional distribution of fuel delivered were particularly favorable.

Geographically, the increase in 2006 sales was located in the Asia-Pacific area (11% of the division's sales) and in Europe (close to 65% of sales).

Operating income

The Front End division reported operating income for 2006 of €456 million, or 15.6% of sales, compared with €374 million in 2005, representing 14.2% of sales. This increase in profitability reflects:

- strong performance in the *Mining* business unit, which is capitalizing on the uranium price increase, despite significantly higher average costs for production and exploration during the year, and a non-recurring dilution profit on the contribution of its gold mining assets to La Mancha;
- a favorable price effect and product mix in the *Enrichment* business unit;
- increased profitability in the *Fuel* business, mainly due to the geographic distribution of fuel deliveries but also a number of one-off positive factors.

5.1.2.6.2. Reactors and Services division

(in millions of euros)	2006	2005	2006 / 2005 change	2006 / 2005 change LFL*
Backlog	4,413	3,804	16.0%	-
Contribution to consolidated sales	2,312	2,348	-1.5%	-4.0%
Plants	741	769	-3.6%	-3.9%
Nuclear Services	644	727	-11.4%	-12.9%
Equipment	251	227	10.4%	1.7%
AREVA TA	314	316	-0.6%	3.2%
Nuclear Measurement	175	166	5.0%	9.1%
Consulting and Information Systems	156	143	9.0%	5.6%
Renewable Energies	32	0	immaterial	immaterial
Operating income	(420)	87	immaterial	-
<i>In % of contribution to sales</i>	<i>-18.2%</i>	<i>3.7%</i>	-	-

* Like-for-like, i.e. at constant exchange rate and consolidation scope.

Highlights of the year

In the *Plants* business unit, 2006 was marked by the signature of a partnership agreement between UniStar Nuclear, a consortium created in 2005 between AREVA and Constellation Energy to market the EPR in the United States, and BWX Technologies, a company that manufactures heavy components and precision components. This alliance secures the overall supply of forgings and primary components in the United States, where the Nuclear Energy Institute is forecasting 18 potential applications to build and operate new reactors.

AREVA's acquisition of Starsteel on September 8 follows the same logic with regard, in this case to the launch of a new wave of reactor construction programs in Europe. The acquisition enables the group to secure its supply of large forgings needed for the key components of NSSS primary cooling systems.

In December, the AREVA-Siemens consortium in charge of building the OL3 Nuclear plant in Finland held discussions with its customer TVO to reassess the project's status. Together, they agreed on a new schedule, which provides for start-up of the reactor in 2010-2011. The difficulties that led to the new schedule are not unusual for a first-of-a-kind project of this magnitude. These difficulties include:

5.1. Analysis of and comments on the group's financial position and performance

- the development, review and approval of engineering, procurement and construction during the course of the project;
- the time taken by subcontractors to reach the higher level of performance required to build a new-generation Nuclear power plant;
- concrete production difficulties encountered at the site.

The signature of a Memorandum of Understanding between AREVA and Mitsubishi Heavy Industries (MHI) was also a momentous event that lays the foundations of a cooperation agreement for the development of a Generation III 1,000 MWe reactor.

In December, after nearly two years of commercial negotiations, the Chinese government decided to award the construction of four new-generation reactors to a group competing with AREVA. AREVA is nonetheless continuing discussions with its Chinese counterparts to develop a partnership that could include the Front End, the Back End and EPRs.

In naval propulsion, the French defense procurement agency DGA notified AREVA TA and French naval shipyards DCN of its decision to award them a contract to acquire six new-generation nuclear attack submarines, including operational readiness support during the first years of service. AREVA TA, prime contractor for the nuclear propulsion system, designed a nuclear reactor based on the reactor that powers the SNLE-NG submarines and the *Charles de Gaulle* aircraft carrier. The total value of the program is estimated at €8 billion over a 20-year period. AREVA TA's share is approximately 15%.

Backlog

In the Reactors and Services division, the backlog as of December 31, 2006 stood at €4.413 billion, compared with €3.806 billion as of December 31, 2005, representing an increase of 16%. This backlog corresponds to almost two years of 2006 sales.

The *Plants* business unit was awarded a number of major contracts in 2006, including a contract with EDF ⁽¹⁾ for the Flamanville program and a contract with the Chinese utility Dalian.

The *Equipment* business unit was awarded several contracts, particularly in the United States:

- a contract to replace reactor vessel heads at the Diablo Canyon power plant in California for Pacific Gas & Electric Company (PGEC);
- a contract to supply two steam generators to the Prairie Island power plant in Minnesota operated by Nuclear Management Company;
- an option to reserve 44 forgings for Constellation Energy for the construction of the first US EPR.

The *Nuclear Services* business unit's backlog increased by more than 30% in 2006 compared with 2005. The business unit was awarded a number of contracts to replace steam generators at the Blayais power plant in France for EDF, at Ringhals in Sweden, and at Angra in Brazil. Several contracts were also won in the United States in cooperation with the *Equipment* business unit. These developments herald an increase in activity in 2007 compared with 2006, which was mediocre from a volume point of view.

The backlog includes only €175 million in respect of the contract awarded by the French defense procurement agency to AREVA TA.

Sales revenue

Sales for the Reactors and Services division fell by 4% in 2006 (-1.5% in reported data) from those of 2005, mainly due to the following:

- Sales fell 3.9% in the *Plants* business unit due to developments in the OL3 project. Although the level of production recognized for this contract was up in 2006, the redefinition of the project schedule translated into lower revenue compared with 2005, based on the percentage of completion method used for revenue recognition. This negative impact on revenue was partially offset by solid billings in China (Ling Ao II) and France (preliminary studies for the Flamanville EPR).
- Sales for the *Nuclear Services* business unit dropped by 12.9% like-for-like in 2006 as the market slumped for steam generator replacements in particular. However, the business unit's orders were up considerably in the second half of 2006.
- Reported sales increased 10.4% in the *Equipment* business unit (+1.7% organic growth), taking into account the consolidation of Sfarsteel as of September 8, 2006.

Geographically, the strongest increases were recorded in the Asia-Pacific and Africa & Middle East regions, which represent close to 10% of the group's sales.

Operating income

The Reactors and Services division reported an operating loss of €420 million in 2006, representing -18.2% of sales revenue of 18.2%, compared with operating income of €87 million in 2005, or 3.7% of sales. This decrease in performance is due to:

- Provisions recognized in connection with the OL3 contract (Finland). The significant level of the provisions recorded by the group corresponds to 1) identified cost overruns and 2) an estimation of the risks, covering in particular current uncertainties about the conditions of project execution. An efficient document production and approval system is a key factor for the pace of

(1) The backlog reported as of December 31, 2006 does not include the NSSS order for the Flamanville 3 EPR.

5.1. Analysis of and comments on the group's financial position and performance

- the project's progress. AREVA is engaged in discussions with the customer to remedy the current difficulties. Internally, the group has installed new leadership for the teams in charge of the project, placed coordination of dedicated group resources under the direct authority of the Chief Operating Officer, and strengthened its support to suppliers so that they can more quickly achieve the level of quality required for nuclear projects.
- A change in consolidation scope with the disposal of Jeumont's electromechanical operations, which required provisions, and productivity issues at the Chalon Saint-Marcel heavy component manufacturing plant, where an improvement program has been launched.

5.1.2.6.3. Back End division

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change	2006 / 2005 change LFL*
Backlog	6,375	5,665	12.5%	-
Contribution to consolidated sales	1,908	1,922	-0.7%	-0.3%
Treatment and Recycling	1,552	1,553	-0.1%	0.5%
Logistics	180	181	-0.2%	3.6%
Engineering	69	69	-0.5%	-16.7%
Cleanup	107	119	-10.3%	-4.3%
Operating income	273	208	31.3%	-
<i>In % of contribution to sales</i>	<i>14.3%</i>	<i>10.8%</i>	-	-

* Like-for-like, i.e. at constant exchange rate and consolidation scope.

Highlights of the year

In France, a new law on radioactive waste management was passed in 2006. This law will not have a significant impact on the group's Back End operations.

In the United States, discussions continued regarding the possible use of the closed fuel cycle for used fuel management, prompting the US Department of Energy (DOE) to issue a request for expressions of interest from industry in August regarding a Treatment-Recycling facility (Consolidated Fuel Treatment Center, CFTC) and an Advanced Breeder Reactor (ABR). In September 2006, the group responded to this request in cooperation with Washington Group International and BWTX.

On the industrial level, production was interrupted at the La Hague plant shearing facility for almost one month in the first half of 2006. As a result, production was down 9% in the first half of 2006 compared with the first half of 2005. This impact was partially offset in the second half of the year, as production levels were particularly high in waste compaction and packaging.

Backlog

In the Back End division, the backlog as of December 31, 2006 was €6.375 billion, compared with €5.667 billion as of December 31, 2005, representing an increase of 12.5%. This backlog represents more than three years of 2006 sales.

Commercially, 2006 was marked by the signature of a contract for more than €500 million in waste packaging for German utilities and a

contract of more than €1.1 billion with the CEA for the final shutdown and dismantling of the Marcoule site.

In recycling, AREVA was awarded several contracts to supply MOX fuel to the Japanese utilities, including Chubu, Kyushu and Shikoku.

The *Logistics* business unit entered into a partnership agreement with GNS to supply 24 dual-purpose transportation / storage casks for compacted waste, with an option for 126 additional casks. The business unit is currently the only supplier able to offer casks licensed for use in Germany. It is therefore well positioned to satisfy Germany's requirements, which are expected to grow significantly over the next few years. Once again, the group was successful on every proposal to provide dry used fuel storage solutions in the United States.

Sales revenue

Sales revenue for the Back End division was stable (-0.3% like-for-like, -0.7% in reported data) compared with 2005.

Treatment and Recycling operations, which represented more than three-fourths of the division's sales, were stable compared with those of 2005, reflecting strong business in vitrification and compaction. This year again, the Melox plant (*Recycling*) performed well, with production at the plant's maximum licensed capacity.

Logistics posted a 3.6% increase for the year, like-for-like. This performance, which firmed up in the fourth quarter, is chiefly attributable to business in the transportation of Front End materials, low-level radioactive waste and MOX fuel to Japan.

5.1. Analysis of and comments on the group's financial position and performance

Operating income

Operating income for the Back End division was €273 million in 2006, compared with €208 million in 2005.

The increase is due primarily to:

- the shipment to German utilities of process waste produced in connection with the treatment of used fuel, in a form different from that contemplated in the contracts, which were signed many years ago;
- an increase in production at the Melox plant (*Recycling*), where economies of scale resulting from increased volumes translate

into higher operating income for the *Recycling* business unit. The license request to increase plant capacity from 145 metric tons per year to 195 metric tons per year was submitted in 2005. If the request is approved, the facility's fixed costs would be spread over a larger production base.

- In the *Logistics* business unit, the negative impact of the completion of used fuel shipments from Germany was partially offset by the performance of higher-margin contracts, the restart of MOX fuel shipments to Japanese utilities, and the reversal of a provision covering the dismantling of business unit equipment, which was completed under budget.

5.1.2.6.4. Transmission & Distribution division

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change	2006 / 2005 change LFL*
Backlog	3,514	3,015	16.2%	-
Contribution to consolidated sales	3,724	3,212	15.9%	15.2%
Products	2,161	1,784	21.1%	16.4%
Systems	1,210	1,024	18.2%	20.0%
Services	493	492	0.2%	11.2%
Automation	530	475	11.5%	7.7%
Eliminations of inter-business unit sales	(670)	(563)	19.0%	18.2%
Operating income	191	(61)	immaterial	-
<i>In % of contribution to sales</i>	<i>5.1%</i>	<i>-1.9%</i>	-	-

* Like-for-like, i.e. at constant exchange rate and consolidation scope.

Highlights of the year

On the industrial level, the optimization plan developed and implemented in 2004 continued in 2006.

- facilities were shut down in Saint-Ouen (France), Dresden (Germany) and Greece;
- production capacity was adjusted in Belgium;
- medium voltage operations were sold in Brazil at the Medford site.

The group continued to expand in high growth regions and businesses:

- new gas insulated switchgear manufacturing facilities were deployed in China and Europe;
- production capacity for high voltage instrument transformers was increased in Turkey, Germany, the UK and China, and a new plant was built in India.

The year was marked by the acquisition of Ritz High Voltage, one of the world leaders in high voltage instrument transformers, whose strong presence in China and the United States enables AREVA to strengthen its world leadership in this segment.

Backlog

Orders booked for the year were up by 14.7% like-for-like from 2005, with the increase driven by strong growth in the fourth quarter. Orders exceeded €4.3 billion for the year.

The Transmission & Distribution division's backlog as of December 31, 2006 was €3.514 billion, compared with €3.015 billion as of December 31, 2005, representing an increase of 16.6%. This corresponds to more than 11 months of 2006 sales.

Commercially, the division signed a number of contracts in 2006 valued at more than €50 million in Libya, Saudi Arabia, Indonesia and Russia, and other significant contracts were won in Spain, the United Kingdom and the United States. Orders were up by 37% like-for-like in Asia (including +44% in India) and by 23% in Europe, particularly in the United Kingdom, France, Germany and Russia.

5.1. Analysis of and comments on the group's financial position and performance

Sales revenue

Sales were up considerably in all business units and regions in 2006. The Transmission & Distribution division reported sales of €3.724 billion in 2006, up 15.9% on €3.212 billion in 2005.

Sales rose 15.2% like-for-like.

All business units contributed to organic sales growth:

- *Products* sales were up by 16.4%, led mainly by the high voltage business;
- *Systems* sales were up by 20%, mainly reflecting orders won in late 2005 and early 2006 in Qatar and Libya;
- *Automation* sales were up by 7.7%, with growth recorded in all product lines;
- *Services* sales were up by 11.2%, partly due to the startup of a plant in China.

Operating income and restructuring expenses

Operating income for the Transmission & Distribution division stood at €191 million in 2006, representing 5.1% of sales, up very sharply from the operating loss of €61 million in 2005. Restructuring expenses decreased from €102 million in 2005 to €61 million in 2006. Operating income before restructuring expenses was up from €103 million in 2005, representing 3.2% of revenue, to €251 million in 2006, representing 6.7% of revenue.

All business units now report operating income. Higher commodities prices, negative price effects and higher personnel expenses, estimated together at €180 million in 2006, were more than offset by volume increases, pass-throughs of a portion of price increases to customers, and the impact of the three-year plan (adjustment of production capacities, increased productivity, cost reductions and procurement efficiencies). The benefits of these measures are now very clear.

- In *Products*, operating results were back in the black thanks to reductions in operating and restructuring expenses combined with a significant volume increase. About two-thirds of the increase in commodities prices, representing a large share of the cost structure, was passed through to customers.
- Operating margin was up by 5 points in *Automation* in 2006, reflecting a favorable product mix and the positive impact of specific optimization plan measures. However, prices continued to decline.
- *Services* improved as well compared with 2005, thanks to a favorable price effect and higher volumes.
- Profitability remained low in *Systems* in 2006. However, operating income is now in the black. The business unit continued to suffer from eroding prices, although higher volumes had a favorable impact on gross margin. The margin forecast for new business booked in 2006 picked up as the division's sales strategy became more selective.

5.1.2.6.5. Corporate and other operations

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change	2006 / 2005 change LFL*
Contribution to consolidated sales	1	14	-92.7%	-89.5%
Operating income	(94)	(58)	62.1%	62.1%

* Like-for-like, i.e. at constant exchange rate and consolidation scope.

The change in sales for **Corporate and Other** Operations is part of a process leading ultimately to reducing that figure to zero. No particular comment is needed in this regard.

Operating losses increased from €58 million reported in 2005 to €93 million in 2006. This change reflects the cost of moving to new corporate headquarters and expenses incurred for AREVA's participation in the America's Cup.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.7. Cash flow**5.1.2.7.1. Comparative table of operating cash flows and consolidated cash flows****Introduction and definitions**

The group analyzes cash flows from operating activities separately from flows relating to end-of-life-cycle operations and other cash flows. This analysis of operating flows is based on a number of definitions which seek to distinguish between these flows.

These indicators are defined below:

• Operating working capital requirements (OWCR)

Operating working capital requirements represent all current assets and liabilities directly relating to operations, i.e.:

- inventories and work-in-process,
- trade accounts receivable and related accounts,
- advances paid,
- other accounts receivable, accrued income and prepaid expenses,
- less trade accounts payable and related accounts, trade advances and prepayments received (excluding interest-bearing advances), other operating liabilities, accrued expenses, and deferred income.

OWCR does not include non-operating receivables and payables such as income tax liabilities, amounts receivable on the sale of non-current assets, and liabilities in respect of the purchase of non-current assets.

The table on the following page presents the movement in operating WCR.

• Earnings before income tax, depreciation and amortization (EBITDA)

EBITDA is equal to operating income before deduction of the net charge to depreciation, amortization and provisions (excluding provisions for the write-down of current assets) included in operating income.

Beginning in fiscal year 2004, EBITDA is adjusted to exclude costs associated with Nuclear facility end-of-life cycle operations

(dismantling, waste retrieval and packaging) performed during the year, including, in 2004, amounts paid or to be paid to third parties in this regard.

• Free operating cash flow

Free operating cash flow is the cash flow generated by operating activities. It is equal to the sum of the following items:

- EBITDA, excluding end-of-life-cycle operations,
- plus losses or minus gains on sales of PP&E and intangible assets included in operating income;
- plus the decrease or minus the increase in operating working capital requirement between the beginning and the end of the year (excluding account transfers, currency translation adjustments and changes in consolidation scope);
- minus acquisitions of PP&E and intangible assets, net of changes in accounts payable related to non-current assets;
- plus sales of PP&E and intangible assets included in operating income, net of changes in receivables on the sale of non-current assets;
- plus customer prepayments on non-current assets received during the year;
- plus acquisitions (or disposals) of consolidated companies (excluding equity associates).

• Cash flows from end-of-life-cycle operations

Cash flows from end-of-life-cycle obligations include all cash flows relating to end-of-life-cycle operations and assets earmarked to fund such operations. It is equal to the sum of the following items:

- income from the portfolio of earmarked assets,
- cash from the sale of earmarked assets,
- minus acquisitions of earmarked assets,
- minus cash spent during the year on end-of-life-cycle operations,
- full and final payments received for facility dismantling,
- less full and final payments paid for facility dismantling.

5.1. Analysis of and comments on the group's financial position and performance

Reconciliation of operating cash flows and other cash flows

The following table distinguishes operating cash flows from the other cash flows presented in the consolidated cash flow statement.

<i>(in millions of euros)</i>	Operating	End-of-life- cycle operations ⁽¹⁾	Other ⁽²⁾	Total
EBITDA ⁽¹⁾	1,292	-	-	-
Net gain on the sale of non-current operating assets (II)	(50)	-	-	-
Cash flow from operations after interest and taxes (I+II)	1,242	(53)	(47)	1,142
Change in working capital requirement (III)	(352)	0	9	(343)
Net cash flow from operating activities (I+II+III)	890	(53)	(38)	799
Cash used in investing activities, net of disposals (IV)	(1,248)	125	170	(953)
Net cash used in financing activities	0	0	(364)	(364)
Cash flow (I+II+III+IV+V)	(358)	72	(232)	(518)

(1) Includes expenses for end-of-life-cycle operations incurred on-site and for final waste disposal, flows relating to the financial asset portfolio earmarked for end-of-life-cycle operations, and flows resulting from the signature of agreements with third parties, notably the CEA, for the funding by such parties of a portion of end-of-life-cycle operations.

(2) That is, non-operating flows not relating to end-of-life-cycle operations and primarily corresponding to financing flows (including flows relating to exceptional external growth operations), dividends paid, and tax flows.

5.1.2.7.2. Operating cash flow

<i>(in millions of euros)</i>	EBITDA		Change in operating WCR		Net operating CAPEX*		Free operating cash flow before tax	
	2006	2005	2006	2005	2006	2005	2006	2005
Front End	630	508	(28)	(77)	(750)	(236)	(186)	197
Reactors and Services	7	173	(21)	226	(341)	(170)	(350)	228
Back End	443	483	(205)	(95)	(77)	(53)	156	332
Nuclear	1,080	1,165	(255)	54	(1,167)	(459)	(379)	757
Transmission & Distribution	258	106	(67)	(69)	(95)	68	95	116
Other	(46)	(53)	(29)	(30)	14	(4)	(71)	(90)
Group total	1,292	1,217	(352)	(45)	(1,248)	(395)	(358)	783

Earnings before income tax, depreciation and amortization (EBITDA)

The group's EBITDA totaled €1.292 billion in 2006, up 6.3% compared with 2005. The Front End and Transmission & Distribution divisions were the main contributors to this increase.

- In the Front End division, EBITDA rose 24% to €630 million in 2006. This improvement is due to favorable trends in the *Mining*, *Chemistry* and *Enrichment* business units.
- In the Reactors and Services division, EBITDA decreased by €166 million to €7 million in 2006. This unfavorable change

concerns the *Plants*, *Services* and *Equipment* business units and is mainly due to difficulties related to the OL3 project.

- EBITDA for the Back End division was €443 million in 2006, down by 8% from €483 million reported for 2005. This decrease concerns the *Treatment* and *Recycling* businesses, where volume was down slightly.
- The Transmission & Distribution division's EBITDA totaled €258 million in 2006, compared with €106 million in 2005. This change reflects improved operations, as described above in the review of performance by division.

5.1. Analysis of and comments on the group's financial position and performance

Change in operating working capital requirement (Operating WCR)

For the second year in a row, the change in operating WCR corresponds to use of €352 million in cash in 2006.

This change was due to:

- the Front End division's consumption of €28 million in cash from operating activities in 2005, sharply down from the €77 million consumed in 2005 and €157 million consumed in 2004, with most of the cash consumed in the *Enrichment* business unit as it constituted large SWU stockpiles in light of ongoing electricity supply negotiations;
- a negative change in operating WCR of €21 million in the Reactors and Services division due to the consumption of customer advances, particularly on contracts in Finland and China;
- the Back End division's consumption of €205 million, primarily from the consumption of customer advances;
- the increase in operating WCR in the Transmission & Distribution division due to a strong level of business, resulting in the use of €67 million in 2006, down €2 million from 2005. Action is being taken to correct this trend, which is mainly due to swelling work-in-process at the end of the period and to delays in customer payments in some businesses.

Operating Capex

Operating Capex was up very sharply, from €854 million in 2005 to €1.248 billion in 2006.

This trend is primarily the result of:

- a significant increase in Capex in the Front End division, which went from €236 million in 2005 to €750 million in 2006 due to major mining development projects such as Cigar Lake in Canada and Katco in Kazakhstan, as well as to the group's acquisition of a 50% equity interest in ETC, acquisition of ultracentrifugation enrichment technology, and subsequently the beginning of construction of the Georges Besse II enrichment plant;
- the sharp increase in capital expenditure, net of disposals, in the Reactors and Services division, which totaled €341 million in 2006 against €170 million in 2005. Reflecting for the most part the *Equipment* business unit's acquisition of Sfarsteel and the capitalization of development and certification expenses for the EPR reactor in the United States;

- increased Capex in the Back End division, which rose to €77 million in 2006 against €53 million in 2005; mainly due to the development of the cold crucible vitrification process at the La Hague plant and capital expenditures associated with waste retrieval and packaging operations;
- increased Capex in the Transmission & Distribution division totaling €95 million in 2006, up from €68 million in 2005, primarily attributable to the group's acquisition of Ritz High Voltage.

Free operating cash flow

Considering the above, the group's free operating cash flow in 2006 was negative €358 million, compared with positive €783 million in the first half of 2005.

- Free operating cash flow from Nuclear operations was negative €379 million in 2006 due to significant Capex and the use of customer advances, compared to positive €757 million in 2005.
- Free operating cash flow was down in the Transmission & Distribution division in 2006, to €95 million, compared with €116 million in 2005, which however included significant proceeds from asset disposals. Excluding these proceeds, free operating cash flow was negative €11 million in 2005.

5.1.2.7.3. Cash flows for end-of-life-cycle operations

To finance its end-of-life-cycle commitments, the group has set aside a portfolio of securities earmarked to fund expenses related to these obligations (see Note 13 to the consolidated financial statements). It is the group's policy to offset negative cash flows associated with end-of-life-cycle operations with positive cash flows from dividends or sales of securities held in the portfolio.

Cash flows for end-of-life-cycle operations totaled €72 million in 2006, compared with negative €106 million in 2005. These cash flows are broken down as follows:

- disbursements related to end-of-life-cycle operations, representing negative €71 million, This negative cash flow should be compared with negative €254 million in 2005. As a reminder, in 2005 the group paid the second half (€215 million) of the final settlement stipulated in agreements signed with the CEA in December 2004 for Marcoule decommissioning.
- Proceeds from dividends and sales of securities totaling €143 million, down slightly from €148 million in 2005.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.7.4. Consolidated cash flow statement

The simplified consolidated cash flow statement is presented below:

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change
Cash flow from operations	1,231	1,173	4.9%
Interest expense and taxes paid	(90)	(117)	-
Cash flow from operations after interest and taxes	1,141	1,056	8.0%
Change in working capital requirement	(344)	(286)	20.3%
Cash from operating activities	797	770	3.5%
Cash used in investing activities	(953)	(739)	29.0%
Cash used in financing activities	(364)	(392)	-7.1%
Decrease (increase) in marketable securities maturing in more than 3 months	(1)	(9)	-
Change in consolidated group, foreign exchange adjustments, etc.	2	(7)	-
Cash from discontinued operations	0	853	-
Increase (decrease) in net cash	(518)	475	-
Cash at the beginning of the year	1,419	945	50.1%
Cash at the end of the year	901	1,419	-36.5%

Cash flow from operating activities

Cash flow from operating activities increased 3.5% in 2006, to €797 million, compared with €770 million in 2005. The rate of increase is less than the rate of increase in operating margin, which rose 4.9% to €1.231 billion in 2006.

This is due mostly to the deterioration of working capital requirements (see above explanations relating to operating WCR).

Cash used in investing activities

Cash used in investing activities, net of divestments, totaled negative €953 million in 2006, compared with negative €739 million in 2005, representing an increase in net investment of €216 million in 2006. This increase reflects the following movements:

- a €623 million increase in acquisitions of PP&E and intangible assets, net of disposals, which rose to €1.092 billion in 2006 from €469 million in 2005. Capital expenditure is discussed in the section on "Free operating cash flow".
- an increase in cash flow from churn in the portfolio of securities earmarked for end-of-life-cycle operations. The purpose of these transactions is to produce financial income to offset the cost of unwinding the group's share of end-of-life-cycle provisions.

- a €398 million decrease in investment in financial assets, excluding dismantling, representing €15 million in 2006 compared with €413 million in 2006.

- purchases of REpower and ETC shares and acquisitions of companies, including Ritz High Voltage and Sfarsteel, for a total of €262 million;
- sales of Société Générale shares for €217 million.

Cash used in financing activities

Cash used in financing activities represented a cash outflow of €364 million in 2006, compared with a cash outflow of €392 million in 2005, representing a decrease in outflow of €28 million.

Increase (decrease) in net cash

Based on the foregoing, the group decreased net cash by €518 million euros in 2006, compared with an increase of €475 million in 2005, an amount which included €853 million in proceeds from the disposal of the Connectors division (FCI) in November 2005. The group thus had a closing cash position for 2006 of €901 million.

5.1. Analysis of and comments on the group's financial position and performance

5.1.2.8. Balance sheet data

Summary consolidated balance sheet

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005
ASSETS		
Net goodwill	2,515	2,095
PP&E and intangible assets	4,989	4,303
End-of-life-cycle asset (third party share)	2,091	2,045
Financial assets earmarked to finance end-of-life-cycle operations	2,986	2,798
Equity associates	1,521	1,288
Other non-current financial assets	2,376	2,365
Deferred taxes (assets - liabilities)	(251)	27
Working capital requirement (WCR)	(736)	(1,061)
Cash and cash equivalents	962	1,484
Other current financial assets	292	264
Net assets of operations held for sale	0	6
LIABILITIES AND EQUITY		
Equity	6,722	6,362
Minority interests	294	228
Provisions for end-of-life-cycle operations – third party share	2,091	2,045
Provisions for end-of-life-cycle operations – AREVA share	2,494	2,444
Other current and non-current provisions	3,023	2,518
Borrowings	2,119	2,016
Summary balance sheet total	16,743	15,613
Net cash (debt) (including Siemens' put)	(865)	(268)
Net cash (debt) (excluding Siemens' put)	251	808

Note: Working capital assets and liabilities are reported on a net basis in the summary balance sheet. Deferred tax assets are also offset against deferred tax liabilities. Assets and liabilities are not offset in the detailed balance sheet.

5.1.2.8.1. Non-current assets

Net goodwills

Net goodwill went from €2.095 billion as of December 31, 2005 to €2.515 billion as of December 31, 2006, for a net increase of €420 million.

The change in goodwill is primarily due to:

- the acquisition of Sfarsteel, a company specialized in the forging, welding, mechanics and machining of large steel forgings;
- the acquisition of 50% of ETC, the company that holds Urenco's rights in the gas centrifuge process to be used in the group's future Georges Besse II enrichment plant; and
- the revaluation of put options held by minority shareholders of AREVA NP based on the amount of the corresponding minority interests.

Property, plant and equipment (PP&E) and intangible assets

PP&E and intangible assets went from €4.303 billion as of December 31, 2005 to €4.989 billion as of December 31, 2006, giving a net increase of €686 million.

Key aspects of this change are as follows:

- increased R&D expenses, particularly related to development expenses for the EPR, representing close to €100 million;
- increased Capex, which relate to the acquisition of the right to use ultracentrifugation technology from Urenco and to mine development expenses.

The components of PP&E and intangible assets are described in Notes 11 and 12 to the consolidated financial statements respectively.

5.1. Analysis of and comments on the group's financial position and performance

Equity associates

Equity associates represented €1.521 billion as of December 31, 2006, compared with €1.288 billion as of December 31, 2005, representing an increase of €233 million.

STMicroelectronics, Eramet and REpower represent the bulk of the equity-accounted shares. The change during the period is primarily due to an improvement in net income reported by equity associates, particularly STMicroelectronics.

5.1.2.8.2. Assets earmarked for end-of-life-cycle operations

Assets earmarked for end-of-life-cycle operations are discussed with the corresponding liabilities in section 5.1.2.8.6 pertaining to provisions for end-of-life-cycle operations.

5.1.2.8.3. Working capital requirement

The group's working capital requirement (WCR) is structurally negative, reflecting significant customer prepayments, primarily relating to long-term operations in the Back End division.

WCR totaled negative €736 million as of December 31, 2006, compared with negative €1.061 billion as of January 1, 2005. This €324 million use of cash is explained by the change in operating WCR (+€352 million), as discussed above under "Operating cash flow".

5.1.2.8.4. Net cash (debt)

Net cash is defined as the sum of "Cash and cash equivalents" and "Other current financial assets", less "Long and short-term borrowings". "Long- and short-term borrowings" include the current value of minority put options.

As of December 31, 2006, the group had net borrowings of €865 million, representing an increase of €597 million from the €268 million reported as of December 31, 2005. Excluding the Siemens' put, which is not a debt by nature, AREVA's had net cash of €251 million as of December 31, 2006, compared with €808 million as of December 31, 2005.

Reconciliation between net cash reported in the cash flow statement and net cash (debt) reported on the balance sheet

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change
Net cash per cash flow statement	901	1,419	-36.5%
Short-term bank facilities and non-trade current accounts (credit balances)	61	65	-6.2%
Securities held for trading maturing in more than 3 months	248	245	1.2%
Other current financial assets and derivatives on financing activities	44	19	131.6%
Cash position per the balance sheet	1,254	1,748	-28.3%
Borrowings	2,119	2,016	5.1%
Net cash (debt)	(865)	(268)	222.8%
Siemens put option	1,117	1,076	3.8%
Net cash (debt) excluding the Siemens' put	251	808	immaterial

Starting from a net cash position of €808 million at the end of 2005, excluding the Siemens' put option, the change in net cash can be summarized as the sum of:

- negative operating cash flow of €358 million, as discussed in section 5.1.2.7.2.;
- positive cash flow of €72 million related to end-of-life-cycle operations, as discussed in section 5.1.2.7.2.;
- net positive cash flow of €158 million corresponding to sales of Société Générale shares for €217 million minus acquisitions of REpower shares for €49 million;

- less dividends of €429 million paid.

Based on the above, the group's net cash position as of December 31, 2006, excluding Siemens' put option, is €251 million.

The Siemens' put option was revalued from €1.076 billion to €1.117 billion as of December 31, 2006. Taking into account the put option, the group had a net debt of €865 million as of December 31, 2006.

5.1. Analysis of and comments on the group's financial position and performance

Schedule of borrowings

<i>(in millions of euros)</i>	2006	2005	2006 / 2005 change
Put options of minority shareholders	1,117	1,076	3.8%
Interest-bearing advances	548	497	10.3%
Loans from financial institutions	316	286	10.5%
Short-term bank facilities and other credit balances	61	65	-6.2%
Financial instruments	3	38	-92.1%
Other debt	74	55	34.5%
Total borrowings	2,119	2,016	5.1%

5.1.2.8.5. Equity

Equity totaled €6.721 billion as of December 31, 2006, compared with €6.362 billion as of December 31, 2005, an increase of €359 million.

The increase primarily reflects:

- the effect of net income for fiscal year 2006 €649 million;

- the payment of dividends to equity holders of the parent for fiscal year 2005 in the amount of €350 million.

5.1.2.8.6. Assets and provisions for end-of-life-cycle operations

The change in the balance sheet from December 31, 2005 to December 31, 2006 with regard to assets and provisions for end-of-life cycle operations is summarized in the table below.

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005
ASSETS		
End-of-life-cycle asset	2,289	2,208
- AREVA share (to be amortized in future years)	198	163
- third-party share	2,091	2,045
Financial assets earmarked for end-of-life-cycle operations ("earmarked portfolio")	2,986	2,798
LIABILITIES AND EQUITY		
Provisions for end-of-life-cycle operations	4,585	4,490
- provisions to be funded by AREVA	2,494	2,444
- provisions to be funded by third parties	2,091	2,045

The net end-of-life-cycle asset totaled €2.289 billion as of December 31, 2006, compared with €2.208 billion as of December 31, 2005. This increase relates mostly to the reversal of discounting on the asset's third party share.

The IFRS balance sheet now allows the provisions tied to end-of-life-cycle operations (€4.585 billion as of December 31, 2006, of which €2.091 billion are to be funded by third parties and €2.494 million are to be funded by AREVA) to be reconciled with the assets relating to these provisions: "End-of-life-cycle asset, third party share" (€2.091 billion) and "Financial portfolio covering end-of-life-cycle operations" at its market value (€2.986 billion).

As of December 31, 2006, 60% of this portfolio consisted of shares and 40% consisted of bonds (58% shares and 42% bonds as of December 31, 2005). The portfolio's composition is regularly analyzed by the Cleanup and Decommissioning Fund Monitoring Committee, which issues opinions and makes recommendations to the Supervisory Board.

By design, the third party share of the end-of-life-cycle asset is always equal to the provision to be funded by third parties, but the value of the portfolio of financial assets covering end-of-life-cycle operations borne by the group varies according to the change in value of the securities in the portfolio. At December 31, 2006, this ratio showed a surplus of €492 million, due to the good performance of the earmarked portfolio over the period.

5.1. Analysis of and comments on the group's financial position and performance

The nature of the obligations and the calculation of the provision are presented in Note 13 to the consolidated financial statements.

5.1.2.8.7. Other provisions

Other provisions consist mainly of provisions for employee benefits, non-current provisions other than those related to end-of-life-cycle operations, and current provisions.

These provisions rose by €505 million in 2006, from €2.518 billion

as of December 31, 2005 to €3.023 billion as of December 31, 2006. The increase is primarily due to:

- the increase in provisions for employee benefits, which totaled €1.122 billion as of December 31, 2006, compared with €1.096 billion at January 1, 2006.
- recognition of gross current provisions totaling €916 million, covering in particular the restructuring plans, losses on contracts to completion, and provisions for contract completion. These items are detailed in Note 24 to the consolidated financial statements.

5.1.2.8.8. Off balance-sheet commitments

(in millions of euros)	December 31, 2005	December 31, 2006	Maturity < 1 yr	Maturity 1 – 5 yrs	Maturity > 5 yrs
Commitments given	3,076	3,085	1,425	1,167	493
Operating commitments given	2,689	2,676	1,253	972	451
Commitments given on financing	49	49	21	21	7
Other commitments given	337	360	151	174	35
Commitments received	900	883	329	247	307
Operating commitments received	427	436	315	71	50
Commitments received on financing	36	13	6	0	7
Other commitments received	437	434	8	176	250
Reciprocal commitments	907	781	228	512	41

A detailed table of off-balance sheet commitments is presented in Note 34 to the consolidated financial statements.

Commitments given

The value of commitments given is comparable to that of 2005. Operating commitments represent 87% of all commitments given. Two-thirds consist of performance guarantees.

In addition, the group gave a parent company guarantee to TVO for the EPR project in Finland for full value of the contract. The group received a counter-guarantee from Siemens corresponding to that supplier's share of the TVO contract. The net commitment given by the group is in the €1.5 billion to €2 billion range. This amount is not included in the summary table.

AREVA gave a specific guarantee in respect of ownership of FCI shares sold to Bain Capital. This guarantee, which is capped at the sale price of €582 million, is not included in the summary table.

Commitments received

Commitments received totaled €883 million as of December 31, 2006, down 1.9% from €900 million at the end of 2005. Commitments received include capped on vendor warranties received from Alstom pursuant to acquisition of the Transmission & Distribution division.

The agreement to purchase AREVA T&D includes two types of vendor warranties: a general warranty and specific warranties, as indicated in Note 32 to the consolidated financial statements.

Reciprocal commitments

Reciprocal commitments totaled €781 million as of December 31, 2006, compared with €907 million at the end of 2005. This decrease is mostly due to the expiration of a €400 million commitment related to the acquisition of an equity interest in ETC from Urenco, and additional commitments of €280 million, relating to minimum future payments on operating leases.

5.1.2.8.9. Capital employed and ROACE

Return on average capital employed (ROACE) is an internal and external indicator used to measure profitability and assess the group's performance. In the group's opinion, this performance indicator measures the long-term productivity of the group's capital.

ROACE is a performance measurement indicator of capital employed by the group, as defined by management rather than accounting standards. This should be taken into account when using ROACE to make comparisons with other companies.

5.1. Analysis of and comments on the group's financial position and performance

The group defines ROACE as the return on average capital employed.

ROACE represents the after-tax operating profitability of capital employed by the company for its operating requirements.

ROACE is equal to the ratio of net operating income to average capital employed.

- Net operating income is equal to operating income less the corresponding pro forma income tax, derived by multiplying operating income by the tax rate applicable to the group under the global consolidated tax regime, or the specific tax rates applicable to certain subsidiaries subject to specific tax rates.

- Capital employed comprises the following:

- net PP&E and intangible assets;
- gross goodwill, other than goodwill related to equity associates, to the Siemens' put and allocated to Total shares;
- inventories, trade receivables and other operating receivables;
- less customer advances, trade payables and other operating liabilities;
- less provisions for contingencies and losses, excluding provisions for end-of-life-cycle operations and provisions for tax risk.

<i>(in millions of euros)</i>	December 31, 2005	December 31, 2006	2006 / 2005 change
Net intangible assets	762	1,175	54.2%
Initial goodwill	2,095	2,515	20.0%
Goodwill used in ROACE calculation	1,338	1,614	20.6%
Net PP&E	3,542	3,814	7.6%
Prepayments invested in non-current assets	(1,040)	(978)	-6.0%
Operating working capital requirements, excluding advances to fund non-current assets	(193)	85	-144.0%
Provisions for contingencies and losses	(2,481)	(3,007)	21.2%
Total capital employed	1,928	2,701	40.1%
Average capital employed over the period	1,952	2,315	18.6%

Note: The method used takes into account a definition of capital employed after deduction of all provisions for contingencies and losses.

ROACE

The following table presents changes in the group's ROACE by fiscal year:

December 31 <i>(in millions of euros)</i>	Average capital employed	Net operating income	ROACE
2006	2,315	308	13.3%
2005	1,952	396	20.3%
2004	2,164	396	18.3%

In 2006, ROACE was 13.3%. The 7-point decrease from 2005 to 2006 reflects a drop in after-tax operating income and an increase in capital employed. As anticipated, capital employed was impacted by higher Capex and working capital requirements.

In the coming years, ROACE should continue to decline, with capital expenditure rising faster than operating income, confirming the group's entry into a new industrial cycle.

5.2. Human Resources report 2006

5.2.1. KEY DATA

	2004	2005	2006
1. THE WORKFORCE AT YEAR-END, CONSISTENT WITH CONSOLIDATION SCOPE			
By division			
Front End	10,952	11,047	11,995
Reactors and Services	14,066	14,323	14,936
Back End	10,697	10,864	10,697
Connectors	12,160	-	-
Transmission & Distribution	2,816	22,094	22,988
Corporate and other operations	378	432	495
Total	70,069	58,760	61,111
By geographical area			
France	34,128	31,194	31,240
Europe (excluding France)	14,094	12,085	13,456
North & South America	11,763	7,912	7,479
Africa and Middle East	1,726	1,745	2,519
Asia-Pacific	8,358	5,824	6,417
Total	70,069	58,760	61,111
By category			
Engineers and management staff	31%	34%	37%
Technical and administrative personnel	39%	40%	37%
Skilled workers	30%	26%	26%
2. LABOR DATA			
Women executives	5.4%	6.2%	4.8%
Women managers	16.1%	15.7%	16.85%
Women in non-management positions	22.8%	17.5%	17.4%
Number of hours of training per employee per year ⁽¹⁾	-	24.5	21.1
Disabled personnel (excluding USA) ⁽²⁾	1.75%	1.94%	1.92%
Absenteeism rate	0.04	0.05	0.04
Number of hours worked	-	82,971,906	82,221,077
Number of overtime hours paid	-	3,704,322	4,395,214
3. OCCUPATIONAL SAFETY AND RADIATION PROTECTION DATA			
Average employee dose from radiation exposure (mSv)	1.37	1.23	1.22
Total individual external dose to AREVA group employees over 12 consecutive months (man-millisievert)	20,441.71	20,137.01	19,157.12
Total individual internal dose to AREVA group employees over 12 consecutive months (man-millisievert)	5,460.88	4,138.85	4,999.32
Average subcontractor dose from radiation exposure (mSv)	0.37	0.48	0.48
Accident frequency rate with lost time (excluding commuting accidents)	7.6	5.4	4.66
Accident severity rate (excluding commuting accidents)	0.23	0.20	0.14
Number of fatal accidents	5	6	3

(1) The employee training indicator was modified in 2005 to benchmark it to other major European industrial groups.

(2) Reporting of the percentage of disabled personnel was modified in 2005; 2004 data was restated accordingly.

5.2.2. CHANGE IN NUMBER OF EMPLOYEES AND HUMAN RESOURCES DATA

5.2.2.1. Change in number of employees

In 2006, 2,300 new employees joined the group. The increase is attributable mainly to the change in the scope of the consolidated group over that period through:

- acquisition of Ritz High Voltage by AREVA T&D, adding 500 employees in Germany, Hungary, China and the United States;
- acquisition of Sfarsteel in France by AREVA NP, for an additional 400 employees;
- consolidation of Lesedi, a South African company, in which AREVA NP raised its equity interest from 45% to 51%, adding some 200 employees;
- sale of Jeumont's electromechanical operations and of Sarelem, for a combined decrease of 450 employees.

Business trends also accounted for a significant change in the workforce of the *Mining* business unit, the *Plants* business unit and the *Equipment* business unit, all of which continued to recruit, as well as of the T&D division, with the expansion of its subsidiaries in China, India and the Middle East.

Temporary employment contracts rose by 30% in 2006 to a total of 3,626. The highly seasonal nature of some plant operations is partly responsible for this figure, as are apprenticeships and work / study training programs to which the group is committed in France. Apprenticeships and vocational contracts accounted for 61% of the temporary employment contracts in France.

Changes by socio-professional category

Engineers and managers represented 37% of the workforce in 2006, compared with 34% in 2005. The percentage of technical and administrative personnel went from 40% in 2005 to 37% in 2006. This shift is mainly due to increased professional qualification requirements calling for more training and thus more engineers and managers.

Changes by geographical area

The headcount rose in all geographical regions due to acquisitions and recruitment, although the relative percentages were stable with 73% for Europe, 12% for North and South America, 4% for Africa and the Middle East, and 11% for Asia-Pacific as of the end of 2006.

5.2.2.2. Changes in demographic profiles and health data

Changes in demographic profiles

The number of women in executive positions, excluding top-tier executive positions, rose by 1.15 percentage points while the number of women in non-management positions remained unchanged.

The absenteeism rate was slightly down and was equivalent to the 2004 level of 0.04. Sick leave was the main cause of absenteeism.

Changes in occupational safety and radiation protection data

AREVA has an effective radiation protection management system in place

The average exposure to radiation continued to drop in 2006, confirming the effectiveness of the group's radiation protection system. The average employee exposure went from 1.23 mSv in 2005 to 1.22 mSv in 2006.

The *Mining*, *Nuclear Services* and *Recycling* business units had the group's highest levels of employee exposure.

For subcontractor personnel working at AREVA sites, the average radiation exposure is much lower and in 2006 remained at the 2005 level of 0.48 mSv.

The *Mining* and *Recycling* business units have the group's highest levels of subcontractor employee exposure.

It should be noted that the group's employee radiation exposure levels are well below the European Union's regulatory limit of 20 mSv / year and the United States' limit of 50 mSv / year. None of the group's employees or subcontractor personnel working at AREVA sites received an individual dose of more than 20 mSv this year. Furthermore, more than 86% of the group's employees and subcontractor personnel working at AREVA sites received individual doses of less than 2 mSv over a period of 12 consecutive months. For the record, the average annual exposure to naturally occurring radiation is around 2.5 mSv.

5.2. Human Resources report 2006

Industrial accidents

The accident frequency rate for the AREVA group dropped from 5.4 in 2005 to 4.66 in 2006, while the accident severity rate dropped from 0.20 to 0.14. With this performance, both of the group's objectives for year-end 2006 were achieved, i.e. a frequency rate of less than 5 and a severity rate of less than 0.20.

The 2006 performance is far better than the French industry average of 26.1 for accident frequency and 1.33 for accident severity (source: French Social Security Administration, CNAMTS, 2004).

Unfortunately, three fatal accidents occurred in the group in 2006, two of which involved employees (a fall and a handling accident), and one of which involved a subcontractor (motor vehicle accident).

5.2.3. SUPPORTING THE GROUP'S INTERNATIONAL DEVELOPMENT THROUGH HUMAN RESOURCES PROGRAMS

5.2.3.1. Meeting three major challenges

Charting a course for new challenges and a changing environment

In a business environment characterized by expansion and globalization, AREVA's biggest challenge is to continue evolving so as to achieve profitable growth and remain number one. One of the drivers that will help accomplish this is an HR program organized for global operations that is adopted at every level of the group.

Three major challenges for adapting HR programs to support AREVA's growth

- Skills and talent must be developed to support the group's development.
- Massive investment must be made in mobility and recruitment.
- Diversity, which mirrors our markets, our customers and civil society, must become a driver.

5.2.3.2 HR processes deployed at the group level

AREVA Way and the Values Charter underpin our processes

- Sustainable development is the guiding principle of AREVA Way, AREVA's business model. This model has been completely integrated into the group's HR programs, particularly the fourth commitment of AREVA Way, "Commitment to Employees". Under the general theme of social responsibility, HR programs are assessed based on employee relations, employment management, and employee development and involvement. AREVA Way

assessment criteria are used to structure HR action plans and budgets. There are now corporate HR standards applicable to all of the group's HR departments, which serve as a basis for self-assessments by each site and are used to establish their performance improvement plans.

- The AREVA Values Charter has been distributed and is followed all over the world. It is a shared benchmark for all of the group's employees, who agree to abide by its principles. The Charter enables employees to perform their duties with full knowledge of their rights and responsibilities to the company and its stakeholders. Its seven core values are customer satisfaction, profitability, responsibility, integrity, excellence, sincerity and partnership.

An HR network with shared policies and processes

HR processes shared around the globe

- People review: The people review process was launched in 2005 and its effective application at every level was measured in 2006. More than 80% of all engineers and managers were covered by the people review process in 2006, compared with 40% in 2005. Talent was identified at every level and consolidated at the group level. An Executive Committee met in September 2006 to review the talent pool. Talent is identified, described and managed individually in each subsidiary and the corresponding employee career plans are now consolidated and followed at the group level.
- Performance management program: The performance and development interview process has been established and disseminated to all HR managers and direct supervisors. The rules established by this process apply to everyone. The program has made measurable progress, with more than 70% of all employees receiving an annual interview in 2006. That figure is 90% for engineers and managers.

Other processes are being finalized and will be adopted throughout the group in 2007, including a single induction program for new employees and a formal employee integration process derived from the "AREVA Resources" program that follows new first-time recruits from their first work experience to their first mobility.

Managers welcomed into the HR network

Considering the important role managers have to play in supporting and deploying HR policies, they were invited to attend both HR conventions held in the Europe and North / South America regions in 2006. On this occasion, it was agreed to monitor the deployment of HR programs in the field closely and to set up joint programs for the subsidiaries of each region.

Performance indicators and performance measurement

AREVA's social rating has improved

For the second year in a row, the independent rating agency Innovest gave AREVA a social and environmental rating of "A". Within that rating, the rating for "human capital" rose from 7 to 7.3.

The first group-wide employee opinion survey

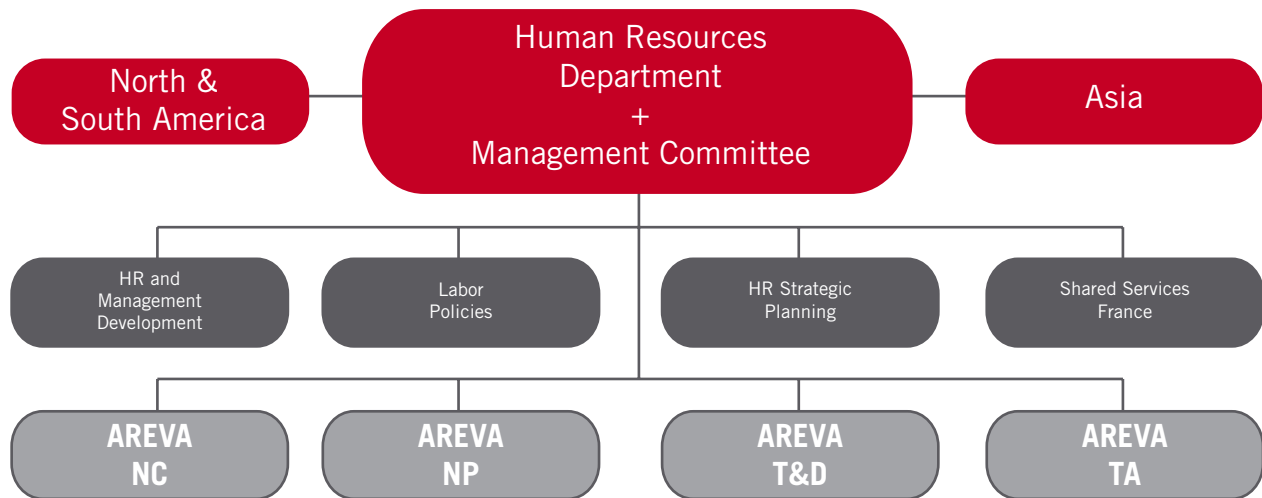
The rate of employee participation in the opinion survey was well above the ambitious goal of 60%. AREVA NC had a participation rate of 68% and AREVA NP had a participation rate of 73%. AREVA T&D's participation was even higher, at 87%. In each case, the good turn-

out was achieved through strong involvement by management and by the HR department and through a well-prepared and well-organized communication plan. The survey findings and the performance improvement plans they generate will be presented through a variety of communications activities in 2007.

5.2.3.3. A fully operational worldwide HR organization

Building bridges between strategy and operations around the world

The HR organization serves the worldwide group as well as its individual segments. It operates through international networks of HR professionals animated at the local, regional and global level by the intranet and international workshops. These networks implement the group's HR processes, which are themselves a reflection of its strategic orientations. In addition to this shared foundation, local HR professionals can adapt the processes to the specific requirements of their country or region.



Management information system

For more than two years, the group has had a consolidated human resources information system that enables it to measure HR performance. The system tracks recruitment and mobility performance as well as annual interviews and individual employee

plans. Training performance indicators are expected to be finalized in early 2007. They will be closely connected to the skills and professions mapping effort, giving us a precise picture of existing skills and training requirements and enabling us to structure effective professionalization initiatives.

5.2.4. 2006 REVIEW

5.2.4.1. Becoming a leading employer in France and around the globe

Enhancing the group's appeal through an international branding program

Globalization advertising recruitment

A unified communications strategy was set up for all AREVA recruitment activities in 2005; in 2006, the strategy was deployed on a global scale. For example, a convention held in October for the recruitment and campus relations networks provided an opportunity for networking and teamwork to HR professionals, new recruits, and representatives of targeted schools and universities.

In addition, HR department staff members were trained in the group's job bank software, e-Talent.

Interest was high in Germany and the United States as brand recognition quickly gained ground, despite the competitive environment. The same was true in China and India. The businesses contributed to this high level of activity as they pursued their goals: AREVA NP began working on global sourcing in countries in which it has strong growth prospects, such as Turkey, India and South Africa, while AREVA T&D focused on India and China.

Closer ties with schools and universities

Attendance at job forums was strong during the year. Of the 100 attended, 25 were in France, 22 in Germany, 28 in the United States, and the remainder in other countries in which the group does business.

In France, special agreements were signed or are under development with the leading engineering schools, including *École Polytechnique*, *École des Mines*, *École Centrale* and the *Institut National des Sciences Appliquées* (INSA), as well as with universities such as the *Université Technologique de Compiègne*. This was also the first year of involvement with "Euromanagers", a business game that brings together eight internationally recognized French universities.

AREVA TA, AREVA NP and AREVA NC collaborated to showcase the nuclear safety profession. This culminated in a communications action plan aimed at engineering school graduates.

In France, the apprenticeship tax is being distributed in rising proportions: €7.3 million were distributed to 700 schools and training centers in 2006, 25% more than in 2005.

In Asia, partnerships are being formed and target universities have been identified in China and India.

In addition, a joint program to induct students into the group and a common remuneration scale for student interns and young graduate recruits was approved and will be applied in 2007.

The Universum Study shows HR programs are having a positive impact on students

AREVA was not even on the list of the 130 companies most preferred by students in 2004 and 2005. In 2006, AREVA was ranked 14th most desirable employer for all professions and 6th most desirable employer for engineers in the ranking of France's top ten schools. AREVA is beginning to appear on such lists outside France as well, particularly in Europe and the United States.

A dynamic recruitment program to achieve AREVA's development goals

Optimized recruitment and internal mobility processes

- The recruitment of young engineers and managers in France and mobility in France and abroad were pooled, producing good results in 2006.
- The young managers recruitment team hired more than 300 people in 2006. Recruitment performance is measured with indicators. In 2006, for example, 55% of the candidates were presented in less than four weeks and 31% of the recruits were women, compared with the market average of 15%.

The team's responsibilities were extended to include recruitment of experienced candidates in 2007. Following the example set in France, staffing centers are being set up in areas where the group already does business or is expanding. For example, AREVA T&D formed a dedicated team in the United States that is available to the other businesses to take advantage of synergies.

- In the area of international mobility, a common framework for expatriation was constructed and will be deployed in 2007. The framework covers all subsidiaries, with 20 originating countries serving 50 expatriation countries. The number of expatriates rose from 470 to 520 in 2006 to support the group's international expansion and need to transfer know-how.

E-talent has become the preferred tool for managing recruitment and mobility and is used in every major region in which the AREVA group operates. Use of this tool is promoted through the HR networks and by providing training to managers.

Recruitment performance in 2006: increased volume and diversity

The AREVA group recruited 8,622 people in 2006, including 4,055 under permanent employment contracts and 2,636 under temporary employment contracts. One third of the employees recruited are engineers and managers, one third are technicians, and one third are skilled workers. In France, 3,000 people were recruited, including 1,050 engineers and managers, while 1,500 were recruited in North America and 1,500 in the Asia-Pacific region, where the T&D division recruited more than 850 people in India, including 550 engineers and managers.

An analysis of recruitment by activity shows varied requirements. In all, AREVA T&D recruited more than 3,000 people in 2006, while AREVA NC recruited more than 2,500 new employees, mainly in the *Engineering* and *Mining* businesses. Recruitment rose sharply in the *Mining* business units, which had 600 new recruits, of whom 100 were geologists and 80% came from outside France (Kazakhstan, Niger and Canada). At AREVA NP, close to 2,000 recruits were added to meet growing business in Reactors and Services.

Leveraging diversity for development

The group is fully committed to diversity

An equal opportunity agreement was signed on November 16, 2006 with the European Federation of Metallurgists. This agreement was the culmination of discussions on the themes of gender equity and the disabled with the European Work Council. The agreement takes a pragmatic approach founded on a joint assessment and identification of measurable performance indicators, such as the number of women recruited, the percentage of disabled people in the workforce, the number of outreach meetings on diversity, and the existence of interviews during maternity leave.

The partners have systematically worked together to apply the agreement in each of the areas covered. In France, for example, agreements were signed with AGEFIPH, the association that manages the fund for employment of the disabled, to develop awareness raising programs on employment of the disabled and with AFPA, the association for adult job training, as well as with the local and national offices of ANPE, the state employment agency, to sponsor and train young people in difficulty.

Strong diversity programs are in place

Work / study programs throughout the group grew by 60% in just one year. AREVA NP has placed special emphasis on work / study programs and exceeded the 2% target set by the group. These programs provide paid training to young people of all backgrounds, making it possible for them to continue their education while successfully entering the working world. In partnership with the manufacturing and metallurgical workers union (UIMM), programs to bring more women into the

machining, welding and quality control professions are open to female students beginning at the middle school and high school levels. With regard to the employment of people in difficulty, Cezus promoted the recruitment of long-term unemployed women at its Romans plant in southern France, offering vocational contracts to 30 people between the ages of 35 and 40, most of whom had worked in shoe manufacturing.

AREVA NC gave some 40 young people in difficulty temporary, work / study or intern positions, mainly at Euriware. It also signed an equal job opportunity agreement with all of its labor organizations. This agreement promotes equal access to jobs, mobility, pay, career development, supervisory positions and training for men and women, and recognizes the importance of balancing one's professional and private life.

AREVA T&D boosted its apprenticeship training programs in France and Germany and has set the goal of bringing more women into jobs traditionally filled by men in mechanics and electricity. As a result, 39% of new recruits in France were women. For employment of the disabled, work has been subcontracted to sheltered workshops and workstations are being equipped for the disabled.

5.2.4.2 Promoting talent development and performance

Integrating employees successfully

An integration process common to all businesses and all countries will be disseminated and implemented in 2007. A number of activities are already under way.

In India, AREVA T&D created an integration process specifically for young university graduates from the university to develop loyalty to the company in a competitive environment. In the Nuclear businesses, the number and rate of young people integrated doubled and is now close to 500 per year. This experience prompted the definition of an integration program and the creation of a handbook. Meanwhile, the Resources program at AREVA NC continued to integrate young international talent at the rate of 20 people per year. Special attention is paid to the management of the youngest recruits, with a career committee, initial mobility and an integration convention in addition to other AREVA conventions. The *Mining* College established for the burgeoning *Mining* business held three integration seminars and gave project management training classes in France and Niger.

Managing the Group's performance, one person at a time

AREVA NC continued to conduct people reviews and to deploy replacement plans. Reviews are done collectively by each business unit. Some 3,000 managers are involved, an increase of 20% from 2005. A managerial skills development plan and a process for individual employee development plans were set up.

5.2. Human Resources report 2006

In all, 440 employees are monitored through these plans, either because they have skills key to their businesses, or because they are members of management committees. Considerable effort was expended to train managers to conduct the annual interview, with a total of 600 managers taking part.

AREVA NP developed an annual interview document for France, Germany and the United States. The document is the same for every site in each of these regions and is adapted to the management practices of each country. The objective is to extend its use to everyone involved. At the same time, activities to raise awareness about performance management were conducted. In France, for example, all 600 intermediate level managers participated.

Towards a single set of compensation practices

The group refined its management compensation policies after in-depth benchmarking of the compensation practices of comparable industrial companies. The benchmarks are identified for a reference local market and consist of companies that compete with the group. The criteria are responsibility, skills, results and sustainable performance. AREVA NP developed and began applying in 2006 a unified global compensation policy based on performance and designed to be a driver for performance improvement. Disseminated over the intranet along with a variety of tools for its implementation, it is broken down into phases and factors in regional specifics.

In 2007, this initiative could serve as a basis for a unified policy for the entire group.

Encouraging mobility

Mobility plays an important role in managing employment dynamically at AREVA. A fair balance is sought between mobility for reclassification as an aid mechanism and mobility for professional development, with employees electing to change jobs or businesses voluntarily. In France, at the group level, the job / mobility network for each employment region operates like a job bank, backed by the job repository. For example, more than 100 employees affected by T&D's restructuring in France were successfully reclassified to the group's other entities. Today, every one of the group's entities deposits its existing job openings via the e-Talent job opportunity management software, greatly facilitating this process.

Capitalizing on skills through professionalization

Professionalization meets two objectives: developing skills and laying the foundations for professional advancement. It is a crucial management tool. Following up on the skills and professions mapping work at the group level completed in 2006, the businesses have set up career management organizations for individual professions. AREVA NC and AREVA NP, for example, have an HR management organization and a career committee for each cross-cutting profession.

- AREVA University and initiatives by the subsidiaries: harvesting synergies

AREVA University's goal is to facilitate and support development and change within the group. It provides a common foundation for shaping the managers and leaders of the future in a global, cross-cultural setting. That is the purpose of its five major management courses, which bring in "manager teachers", helping to pass on skills. Cross-cutting professional programs are also offered in subjects such as sustainable development and continuous improvement, or in technical subjects.

In 2006, 50 programs were offered during 163 sessions attended by 3,000 people.

At AREVA NC, the number of employees attending AREVA University rose significantly in 2006.

The group also identified key project personnel for the critical task of project management. AREVA NC trained American engineers at La Hague as part of its planning for major international projects. Major programs were launched for other cross-cutting subjects in the fields of occupational safety and marketing and sales.

At AREVA T&D, the number and extent of training programs were doubled. Emphasis was placed on project management, procurement and general management through the creation of a module for N-3 level personnel (plant directors, marketing managers, etc.), supplementing the university's programs, with strong involvement by the executive committee.

Management of technical and scientific knowledge

Following the second campaign to identify and replenish the group's experts conducted in 2005, a survey carried out in the nuclear businesses confirmed that becoming an expert is a recognized career in itself. Transferring knowledge, supervising PhD candidates, and participating in innovative approaches continue to be areas for improvement. An expertise steering committee consisting of three experts, two from the R&D department and an HR manager, meets every two months to provide leadership for the group's experts, in partnership with COFRI, the functional committee on research and innovation. Several activities were carried out during the year: five internal expertise networks were deployed; an AREVA Technical Day was held at Erlangen on the state of the art of new materials, which was attended by 60 experts and specialists from the group's European sites; and a quarterly newsletter was sent to the group's 700 experts and to R&D managers.

The R&D departments of the subsidiaries are in the process of mapping their technologies. This will serve as a basis for the next campaign to identify experts, scheduled for 2007, which aims to bring expertise management into closer alignment with the group's strategic developments.

5.2.4.3. Supporting change in the group with an innovative, responsible human resources policy

Human resources policy is a reflection of the company, of its preparedness, and of its responsibility. It paves the way for labor agreements founded on an appreciation of the situation and built to foster tangible advances that are regularly measured with performance indicators. This method is systematically applied and is anchored in the establishment of bodies devoted to dialogue such as the European Work Council.

The Nova project comes to life

Through the Nova project, personnel from five Paris-area sites were relocated to two buildings. The purpose of the project is to improve how we operate by bringing teams who work together to the same location. It also seeks to simplify interactions with our customers. The modern, functional work environment aims for greater efficiency by facilitating discussion and teamwork. It helps create a real human community and brings all of the group's facets into one place. This initiative also included negotiated incentives for employees for whom this creates longer commutes.

A constructive contractual policy

A lifetime professional training agreement at the group level

The professional training agreement signed on May 5, 2006 joined the mobility agreement and the employment and career management planning agreement signed in 2005. Innovative and practical, it provides a framework for a global approach to professionalization within the group and for the establishment of performance indicators. It formalizes the group's commitment to provide an average of 30 hours of training per employee in each first-tier subsidiary by 2008. It helps anticipate and meet the group's requirements for professionals and aims for a broad association of employee representative bodies.

On a practical level, the agreement resulted in the distribution of a document on individual training entitlement to all of the group's employees in France. The document focuses on four segments: improving language skills, refresher courses on fundamentals, developing talent, and understanding one's professional environment. With their managers' help, employees are encouraged to think about the training they will need for their entire career with the "training passport" distributed to all employees. HR tools for managers and an internal communications campaign were also developed. In addition, a task force on professionalization met to lay the groundwork for a professionalization committee, which met in January 2007 for the first time.

Agreements at the subsidiary level

At AREVA NP, an agreement to set up a time bank and a disability agreement is under negotiation. At AREVA NC's *Cleanup* business unit, an implementing agreement was signed to create a common set of labor conditions, while the SWAP agreement at Marcoule enabled the transfer of 307 employees to the CEA. At AREVA TA, a profit-sharing and incentive remuneration agreement was signed and a French Work Council was set up.

Supporting restructuring and contributing to sustainable reindustrialization

The AREVA T&D restructuring plan set up in 2004 continued. In Great Britain, 97% of the employees found internal or external job opportunities. In France, 92% of the employees at Saint-Ouen were reclassified, mainly within T&D or with the group. In all, close to 100 mobility assignments to nuclear sites occurred in-house.

Reconfiguring parts of the group

AREVA NP's electromechanical business was sold in late 2006 so that the new company can refocus on its mid-sized nuclear components operations and wind turbine maintenance. Sfarsteel was acquired to secure the group's procurement of forgings for the EPR.

Continuing reindustrialization

An agreement was signed in Saint-Ouen with the Prefect of Seine-Saint-Denis as part of our commitment to reindustrialization of the T&D site following layoffs. AREVA has agreed to support job creation for three years. The business parks created following AREVA's departure from various sites continue to develop. The Creusot park hosts 15 companies, representing 600 new jobs. In Pontarlier, 10 companies were created, saving 250 jobs. AREVA has agreed to support economic development in the Meuse and Haute Marne departments in connection with framework legislation on nuclear waste. In 2007, it will move its records storage center there. A technical park project was initiated in Saint-Dizier.

Profit-sharing, incentive remuneration and employee savings plans

The Group Savings Plan took hold in 2006, underpinned by favorable market conditions.

Two monitoring committee meetings and two board meetings were held, giving rise to training on the roles of financial advisors and macro-economic mechanisms.

Educational communication programs on measuring fund performance were conducted to give employees more background in fund management and trading.

5.2. Human Resources report 2006

In 2006, the average total investment by employees since the account was opened was €20,000, twice as many trades were made as in 2005, 65% of the earnings were reinvested in the funds, and 11 million additional amounts were paid in, versus 80 million distributed. One advantage of the program is that the company pays fund management expenses.

Ensuring the health and safety of group and subcontractor personnel

Occupational safety

Protecting employees and subcontractor personnel who work at our sites is a top priority for the group.

Because occupational safety is integral to AREVA's businesses, it is factored into the design of facilities and ensured throughout their operating life. Safety is also a criterion in subcontractor selection.

In 2006, the group revised and strengthened the safety policy it had developed in 2004, although no changes were made to the policy's four fundamental commitments:

- define a clear and specific safety organization;
- make safety an integral part of our business;
- establish an accident prevention program and a continuous improvement initiative;
- formalize our occupational safety management system.

The policy has a single objective: ZERO accidents.

For the 2006 program revisions, AREVA strengthened safety requirements for monitoring its own operations at third party and customer sites, monitoring the work of subcontractors at AREVA sites, establishing integrated management systems like OHSAS 18001 at sites with significant safety aspects, and training of site directors and business managers.

The group has continued to make steady progress since it was established in 2002 and has achieved the intermediate objectives it set for the end of 2006: its accident frequency rate was 4.66 (versus the objective of less than 5) and its accident severity rate was 0.14 (versus the objective of less than 0.20).

Now AREVA has set its sights on new intermediate targets for 2010, when it aims to achieve an accident frequency rate of less than 3, by continuing to implement its continuous improvement initiative.

To help personnel achieve these new objectives, the group rolled out tools and support measures to accompany its revised policy:

- refresher training in safety management for senior executives at AREVA University, and
- distribution of a safety handbook for all managers across the globe.

Maintaining a high level of radiation protection

AREVA continued to implement the new French radiation protection regulations. As in 2005, numerous planning meetings were held with the sites to harmonize deployment of the new regulatory requirements.

The group's radiation protection managers from the French sites met twice on this subject in 2006. The meetings were an opportunity to share best practices and coordinate cross-cutting programs, in addition to presenting lessons learned on implementation of regulatory requirements in 2004 and 2005. The two main topics discussed this year were radiation protection inspections and implementation of new regulatory requirements on facility zoning for radiation protection.

The group's General Inspectorate also conducted radiation protection inspections at the sites. As in 2005, no major issues were recorded in 2006.

The group's radiation protection directive became effective in June 2006. It provides guidelines for in-house roles and responsibilities concerning radiation protection, in accordance with the group's Nuclear Safety Charter and Values Charter. It promotes a continuous improvement approach to improving the group's overall radiation protection performance as an extension of the principles of the AREVA Way business model.

In accordance with the recommendations of the International Commission on Radiological Protection (ICRP), the group set an objective of reducing personnel exposure to radiation in its facilities to less than 20 mSv per year. That objective was achieved in 2006 by implementing drastic measures to reduce personnel exposure.

Health

At AREVA, a thorough knowledge of the working conditions at each site is used to ensure the best possible medical monitoring of employees, with particular emphasis on analysis, research and coordination among the different medical services.

5.3. Environmental report

Risk management related to Nuclear operations is a major objective of the group's programs. The extent and specifics of risk management merit its own organization, methods and resources.

The group's diverse businesses and the wide range of cultures and regulations in countries in which AREVA operates cover a number

of environmental issues. Through the group's environmental policy and relations with stakeholders, supplemented by specific measures for Nuclear risk management and prevention, AREVA is able to take all of these issues into account.

5.3.1. ENVIRONMENTAL POLICY

AREVA's environmental policy applies to every entity of the group, in France as well as abroad. Its implementation is based on specific local characteristics. The policy is based on six commitments:

- Managing

Ensuring compliance with regulatory requirements in every country in which the group operates and deploying Environmental Management Systems (EMS) for all operations.

- Preventing Risk

Developing monitoring and assessment procedures to prevent chemical and biological hazards in the environment, and standardizing methods of assessing radiological impacts.

- Innovating

Deploying an eco-design initiative that integrates environmental impact minimization into product, service, process and infrastructure design.

- Improving environmental performance

Improving environmental performance on a like-for-like basis (constant consolidation scope and operations) by reducing:

- materials and energy consumption and uses of other resources found in the natural environment;
- atmospheric releases and releases in aquatic environments, and
- final waste.

- Preserving the land

Managing land use by planning for the future reuse of the site and by preserving ecosystems.

- Measuring and reporting

Harmonizing and expanding environmental reporting to include stakeholders at all sites with significant environmental aspects (SEA sites) ⁽¹⁾.

This program is implemented through the AREVA Way process by quantifying objectives and updating them annually based on risk mapping efforts, stakeholder expectations, best internal and external practices, environmental reporting, and dialogue with the operating entities.

To focus activities, the corresponding action plans are specific to the significance of the site's risk. In 2006, the list of sites with significant environmental aspects was updated to include acquisitions and disposals occurring during the year. The group had a total of 94 SEA sites in 2006, including 15 licensed nuclear facilities (INB), 4 high-threshold Seveso sites, 5 low-threshold Seveso sites, and 4 uranium mining complexes.

The action plans are organized around three key tasks:

- environmental management:

- of the sites: ISO 14001 certification of sites with significant environmental aspects;
- of products and services, through eco-design.

- risk reduction:

- chronic risks: polluted soils and environmental health risks;
- man-made chemical hazards.

(1) In AREVA's frame of reference, sites with significant environmental aspects include our Nuclear sites, sites with facilities representing major man-made risk per Seveso regulations, mine sites, plants with facilities subject to public inquiry, and industrial or office building sites which make a significant contribution to the group's environmental accounting.

5.3. Environmental report

- performance improvement:
 - minimizing water use;
 - conserving energy;
 - reducing emissions and releases, in particular direct emissions of greenhouse gases;
 - reducing final waste volumes.

Progress is tracked by the AREVA Environment Committee, which meets monthly. Monitoring tools include:

- the scorecard for deployment of AREVA's environmental policy;
- analysis of entity performance objectives charts and action plans on topic 6, "Environmental Protection", as part of the AREVA Way continuous improvement process;
- environmental data and indicators from the sustainable development reporting system, which was revised in 2006 along with the in-house data validation process to improve data reliability; and
- topical environmental reviews (70 in 2006, including 15 independent reviews) conducted at SEA sites.

5.3.1.1. Environmental management at the sites

Environmental Management Systems

AREVA's goal was to implement environmental management systems (EMS) at all sites and to secure ISO 14001 or equivalent certification for nuclear sites before the end of 2005 and for other sites with significant environmental aspects before the end of 2006.

In 2006, all of the sites maintained their certification and 21 new sites were certified, bringing the total to 105 certified sites:

- Reactors and Services division: Canberra Canada, Canberra France, Karlskrona, Sully sur Loire;
- Back End division: STMI Triade, Elta, Helion;
- Transmission & Distribution division: Villeurbanne, Bagnères de Bigorre, Leonding, Rocklea, La Prairie, Noida, Pondicherry, San Pellegrino, Toluca Edo de Mexico, Karachi, Petit Quevilly, Montpellier Pompignane, Vénissieux.

As of the end of 2006, 78% of the sites with significant environmental aspects had been certified under ISO 14001. Of these sites, all of the AREVA group's Nuclear SEA sites and Seveso sites were ISO 14001-certified.

In the Front End division, the current situation in the gold mines of Sudan and Côte d'Ivoire has prevented, and still prevents, certification.

Status of certifications in 2006:

	Front End division	Reactors and Services division	Back End division	Transmission & Distribution division	Total
Number of SEA sites	26	11	4	53	94
Number of certified SEA sites	23	7	4	39	73
Percent of certified SEA sites	88%	64%	100%	74%	78%
Including nuclear sites (number)	10	2	3	-	15
Including certified nuclear sites (number)	10	2	3	-	15
Percent of certified nuclear sites	100%	100%	100%	-	100%

The AREVA Tower at La Défense became ISO 14001 certified in 2006. T&D launched a program to set up a simplified EMS at its tertiary and industrial sites with no significant environmental aspects (non-SEA sites).

Training and awareness raising

AREVA seeks to strengthen personnel training and to raise awareness within its entities concerning environmental responsibilities, particularly as regards energy conservation and the reduction of greenhouse gas (GHG) emissions. This goes beyond activities conducted in connection with the EMS.

A day was spent in June 2006 raising the awareness of group managers to environmental risks.

Technical meetings were organized in 2006 on energy conservation (Nuclear ventilation) and water management (leak reduction).

The distribution of tools in French and English to raise eco-efficiency awareness continued. The emphasis is on behavior, based on a collective eco-attitude concept consisting of promoting environmentally responsible behavior among employees.

The "Green Way" manual, containing the AREVA group's basic standards for environmental protection in various fields, was published in French, English and Spanish, and more than 7,000 copies were distributed throughout the group.

Regulatory intelligence

In 2006, group tool called Regulatory Intelligence Area (RIA) was rolled out initially to all AREVA NC plant sites in France. RIA is a repository for regulatory intelligence with a view to securing ISO 14001 and OSHAS 18001 certifications and renewals and will serve to demonstrate that each plant site complies with regulations, in accordance with the concept of the legal liability of plant managers and their representatives. It will be introduced to all AREVA plant sites in France in 2007.

Environmental spending

This indicator was added to sustainable development and continuous improvement reporting in 2004. It applies to France and is based on the definition of environmental spending appearing in the annual statistical survey published by SESSI, the French Ministry of Economy, Finance and Industry's department of industrial studies and statistics. The group spent €174 million on the environment in France in 2006.

Provisions and guarantees related to the group's end-of-life-cycle obligations and environmental hazards

A provision totaling €4.778 billion was in place as of December 31, 2006 for environmental hazards, including mine reclamation and dismantling, nuclear facility dismantling, radioactive waste retrieval and packaging, final waste disposal, routine clean-up, and Cleanup and reclamation of mines and plant sites. Nuclear facility dismantling and waste retrieval and packaging accounted for €4.585 billion of this amount, €2.687 billion of which is borne by AREVA (see Note 24 to the consolidated financial statements).

Environmental penalties

This indicator was added to sustainable development and continuous improvement reporting in 2004. The group paid a total of €1,678 in penalties in 2006.

5.3.1.2. Environmental management of products through eco-design

By understanding the environmental impacts generated by a product at each stage in its life cycle, its design can be optimized to reduce those impacts at the source: this is what eco-design approaches try to achieve.

Following the Eco-design Day held in December 2005, a number of pilot programs were set up in the nuclear business and revisions were undertaken of the Uranium Life-Cycle Analysis.

2006 was the first year that all group entities performed self-assessments based on the two eco-design criteria added to the AREVA Way self-assessment model, one concerning eco-design organization and the other relating to eco-design practices. The results helped group entities determine their current and target levels of eco-design so that the latter could be recorded in performance progress charts and performance improvement plans.

The Transmission & Distribution division's program in this field has already made good progress. Four new training and awareness raising sessions were held, bringing the total number of Transmission & Distribution division personnel trained in eco-design to 180. Its Eco-Design intranet site is also regularly updated for all users. Speeches on the subject were made at 6 conferences in 2006, and 6 Eco Declarations were drafted for key products. R&D is focusing on limiting the use of hazardous substances, on defining and documenting end-of-life-cycle and recycling procedures, and on reducing SF₆ emissions.

5.3.2. ENVIRONMENTAL RISK MANAGEMENT AND PREVENTION

5.3.2.1. Monitoring releases and the environment

AREVA devotes considerable resources to monitoring releases and environmental monitoring, in advance of monitoring performed by government agencies.

The resources deployed by AREVA to monitor releases take account of the upheavals in regulatory requirements, most notably with the adoption of the European Pollutant Emission Register (EPER) in 2006, preparation of the second National Quota Allocation Plan for the 2008 to 2012 period, and the renewal of release permits for the nuclear facilities. The two group sites affected by the first and second National Quota Allocation Plan are AREVA NC La Hague and Comurhex Malvézi, due to the presence of combustion plants with more than 20 MW of power. AREVA NC is no longer present at Marcoule.

With respect to the group's environmental monitoring at the nuclear sites, specialized personnel regularly sample and analyze various receptor environments, i.e. air, water, soil, fauna and flora. With regard to the monitoring of radioactivity in the environment, the group's environmental laboratories are seeking registration in the French national environmental radioactivity measurement network pursuant to the governmental order of June 27, 2005 (revoking the order of October 17, 2003). In 2006, five laboratories were licensed under this order. As part of its environmental monitoring program, the AREVA group performs some 100,000 measurements on samples taken at 1,000 locations.

Pursuant to Article 35 of the Euratom Treaty, the La Hague plant received a visit from the European Commission during the week of October 10, 2005 to verify the compliance of the release and environmental monitoring systems. The Euratom Technical Committee, which is responsible for applying the Euratom treaty in France, worked with French nuclear safety authority ASN, French radiation protection and nuclear safety institute IRSN, and the operator to organize the visit. The EC delegation was impressed by the competence of the people they spoke to and by the facilities they visited, which they qualified as exemplary. The delegation concluded that the provisions of the Euratom Treaty's Article 35 are being followed. Its opinion and inspection report will be published in the next few months.

5.3.2.2. Radiological impact of the sites

The radiological impacts of the nuclear sites on the most exposed members of adjacent populations (reference groups) are "measured" by an exposure indicator, the additional effective dose, expressed in millisieverts per year (mSv / yr). Radiological impacts are calculated for each nuclear site based on radioactive liquids and gases released from the site and an analysis of potential exposure pathways to the affected public.

For example, the radiological impact assessment model for La Hague was the subject of collaborative efforts by French and international experts and associations under the umbrella of the Nord-Cotentin Radioecology Group (French acronym: GRNC). This highly complex assessment model factors in various types of radiation (alpha, beta-gamma, neutrons), the three potential pathways (external exposure, ingestion, inhalation), and the specific behavior in the human body of each radionuclide. Independent experts conducted epidemiological studies to supplement the model and directly assess the health effects of radioactive releases on exposed members of the public. All of the studies conducted over the past 20 years have concluded that the site has very little impact, with the total annual impact (additional effective dose) being equivalent to one day of exposure to naturally occurring radiation in the Nord Cotentin region of France.

Through its websites and monthly publications, AREVA provides regular and completely transparent data on the results of environmental sampling and analysis, which are overseen by the French nuclear safety authorities. In France, the Local Information Commissions (Commissions locales d'information, CLI) set up by the government in the vicinity of major energy facilities, including nuclear sites, facilitate direct interaction with the local community. AREVA provides them with all the information they may need.

As part of its continuous improvement initiative, the group also set a goal of continuing to control its radiological impacts and standardizing its radiological impact assessment models at all sites with radioactive releases. The methodology used at La Hague was extended to the group's other major nuclear sites, adapted for local conditions, such as life styles and consumption patterns. The impacts there are also very low, at less than 0.01 mSv.

The group had also set a goal of implementing and maintaining measures to limit the impacts of external radiation at the site boundary to 1 mSv / yr by the end of 2005. This corresponds to an extreme theoretical scenario in which an individual stays at the site boundary for an entire year without interruption, i.e. 8,760 hours. If acceptable solutions in the spirit of the ALARA principle (as low as reasonably achievable) are not found, compliance with the 1 mSv / yr limit must be demonstrated using more realistic exposure scenarios.

In this regard, the objective was met in 2006 through continued efforts to reconfigure storage areas and / or site fences as necessary. To refine the assessment when required and verify the sustainability of the system, the sites implemented heightened exposure monitoring measures following the example set by Comurhex Malvési, where a solution for sustainable storage management is under study.

5.3.2.3. Maintaining a high level of safety and managing risk

In the field of nuclear and industrial safety, the General Inspectorate continued to expand the scope of its inspection activities and experience-sharing begun in 2004 to all of the AREVA group's nuclear and environmentally regulated facilities in 2006.

Above and beyond a mere review of facility compliance with applicable requirements, the General Inspectorate analyzes existing safety systems and their mode of operation, and the work processes of the operating units. The analysis helps identify potential deficiencies and recognizes best practices that should be broadly implemented. These lessons learned help build a shared culture among the group's industrial operators and facilitate assessment of the safety culture of its operating teams.

Since 2001, the General Inspectorate has carried out 174 inspections, including 33 in 2006. The inspections focused mainly on the following topics:

- fire risk management,
- safety management during the transportation of hazardous materials,
- safety management during the performance of services in customer facilities,
- safety management during the turnover of facilities for operations following maintenance or modifications.

In each case, the inspections performed in 2006 demonstrated that the entities involved had organizations and practices in place to ensure that safety requirements are correctly recognized and applied, which is a strength.

Several areas for improvement were identified, in particular the need to ensure the ongoing availability of skills through retraining, better integration of lessons learned, and development of internal control activities.

Of the 86 events ranked on the International Nuclear Event Scale (INES) reported in 2006:

- 75 were level 0 events,
- 10 were level 1 events, and
- 1 was a level 2 event in which the mass limit for nuclear materials in an operating process was exceeded because an operating instruction concerning criticality risk control was not followed.

While the total number of events has remained relatively stable over time (83 in 2005, 81 in 2004), the number of level 1 events has declined (17 in 2005). An analysis of the 2005 events indicated that the causes involved human factors to a great extent. In this regard, the group drew up a human factors characterization handbook in 2006 for events within the AREVA group. In addition to analysis, the handbook is designed to enhance the relevance of corrective measures taken with respect to human and organizational factors. To facilitate its adoption and acceptance by group entities, a training course for people in charge of event analysis was set up in 2006 at the AREVA University. The training will continue in 2007.

As it had committed to do, in 2006 the group published, both in hard copy and on its website, the 2005 Nuclear Safety report on the status of nuclear safety and radiation protection at AREVA group nuclear facilities in France and abroad, as observed through the program of inspections and analyses carried out by the Nuclear safety inspectors and specialists in 2005.

5.3.2.4. Preventing environmental health risks

The group continued to improve knowledge on the health effects of chemical releases from its non-radioactive industrial operations. It deploys a proportional approach adapted to each SEA site identified as having a potential impact. This includes sites abroad.

For example, two AREVA NC mine sites completed their health hazards assessments. Many more such assessments are ongoing or will be carried out in the near future. Whether or not the regulatory authorities request it, these assessments are systematically included in license applications. In 2007, the Transmission & Distribution division will finish rolling out this initiative at 10 sites that have been identified as priorities.

A detailed inventory of each industrial and office site was done pursuant to AREVA's Asbestos directive. Most of the sites have completed a thorough asbestos inventory for their buildings and production equipment. An important item of this directive should

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continue into next year, e.g. the elimination or replacement of production equipment components containing asbestos, when they are determined to be hazardous, with less toxic materials before December 2007.

Vigilance in the prevention of Legionnaire's disease is still a priority. A day was devoted to the promotion of best risk management practices. Programs concerning operation of risk-prone facilities using new methods such as polymerase chain reactions (PCR) are being evaluated at AREVA NC's La Hague and Tricastin sites.

5.3.2.5. Prevention programs for technology risks and natural hazards

The implementing regulations of the Law of July 30, 2003 on the prevention of technology risks and natural hazards and compensation for damages introduced a new tool for controlling urban development around high-threshold SEVESO sites: Technology Risk Prevention Plans (TRPP) that serve to:

- reduce risk,
- deal with real-life situations and plan for the future, and
- stimulate dialogue among stakeholders, including local governments.

The four group sites concerned by this legislation started developing TRPPs in 2006. Progress varies, depending on the priority level set by the Ministry of the Environment and Sustainable Development.

In 2006, the four standards on technological chemical risks – development of a hazards assessment, risk analysis, definition and evaluation of scenarios and domino effects, and identification and follow-up of safety-related items – were deployed at the sites in question.

After signing an emergency response agreement in 2005 with the CASU, an emergency response unit of the French national institute for the industrial environment and risk (INERIS), the group conducted two drills at the Comurhex Pierrelatte and Malvési sites in 2006. Operating experience has shown the need to set up a modeling data sheet to facilitate data exchange between the sites and the CASU.

The Environment Department worked with the environmental network, the Audit Department and the General Inspectorate to carry out or participate in 25 environmental reviews, including 15 compliance reviews. The main topics for the latter were chemical technological risks, waste, liquid and atmospheric releases, and environmental liabilities.

5.3.2.6. Soil management

In the area of soil management, one of the goals of AREVA's environmental policy is to carry out a simplified risk assessment (SRA) or its equivalent before year-end 2006 on all of its plant sites with significant environmental aspects, excluding licensed nuclear facilities (French acronym: INB) and mine sites for which the necessary analytical data is already available due to regulations or their own operating requirements. This was accomplished throughout the Reactors & Services division in 2000 and the Transmission & Distribution division in 2004. As of the end of 2006, 75% of these assessments had been updated for AREVA NP's sites, and 12% for T&D sites.

Moreover, after site closure, AREVA is committed to reducing the residual environmental impacts of former operations through rehabilitation and reclamation programs. Provisions are made for site reclamation before a mine site even opens. The CESAAM (Centre d'Études et de Surveillance des Anciennes Activités Minières), a special body set up to monitor former mine sites in France, centralizes technical oversight of closed mines and uranium tailings disposal sites. In late 2005, the Environment, Industry, and Health Ministers set up a multidisciplinary group of experts for the uranium mine sites in France's Haute-Vienne region. Its task is to perform critical assessments of technical monitoring documentation on AREVA NC mine sites so as to advise the administration and owner on facility management and monitoring options.

In the *Chemistry* business unit, the AREVA NC Miramas site started site rehabilitation operations in 2006 along with its dismantling of part of its facilities. This work will continue in 2007. Comhurex also started extensive work at its Narbonne site in the Aude region, for a cost of €29 million. The work will be finished by the end of 2007. Part of the embankment of one of the lagoons broke in March 2004, and due to unusually high rainfall in that region in late 2005 and early 2006, the site had to be shut down for nearly two months. Extensive work to secure the area, improving its ability to withstand the vagaries of the weather, was undertaken in 2006. This involved reinforcing a lagooning area where the company treats its effluents in sedimentation and evaporation ponds. Studies were also carried out on how to manage a pond from an old open-pit mine once the pond is no longer in use at year-end 2007.

5.3.2.7. Protecting and restoring ecosystems

Monitoring and preserving biodiversity is a special concern for AREVA. Our study of plant and animal life at the site begins with the design phase and continues throughout facility operations and into site rehabilitation. Special care is devoted to native species and to how species introduced or reintroduced during reclamation adapt to the local biotope (plant and animal habitat).

A Biodiversity seminar with eight international experts and representatives from each of the group's business units took place in October 2006 to brainstorm on developing specific biodiversity indicators for each of the group's business and on including biodiversity issues in preventive measures for group operations affecting AREVA's overall environmental footprint.

In 2006, an "AREVA and biodiversity" study was carried out to identify the biodiversity objectives for each of the group's business unit.

An inventory of plant and animal life initiated in 2005 was carried out on the aquatic and subaquatic environment near the Tricastin platform to gain a better understanding of the impacts of AREVA's operations on biodiversity. The scope of the study was expanded to define the most appropriate monitoring program for the specific characteristics of this industrial complex.

As part of a proposed mine opening in Niger, AREVA commissioned an in-depth "man and the environments" inventory from the university in Niamey.

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Key data

	2006	2005	2004*
Consumption			
Quantity of energy consumed (MWh), excluding Eurodif	2,806,108	2,895,338	2,904,055
Total quantity of water consumed (m ³)	35,109,800	160,360,641	160,298,477
Total quantity of water consumed (m ³), excluding cooling water at Eurodif and Marcoule	20,600,920	23,912,910	25,68,227
Consumption of hazardous chemicals:			
Nitric acid (MT)	22,619	17,218	17,277
Sulfuric acid (MT)	153,090	81,975	87,237
Hydrofluoric acid (MT)	7,044	8,342	7,663
Ammonia (MT)	4,943	6,228	6,440
Chlorine (MT)	7,336	7,717	8,179
Chlorinated solvents (MT)	157	162	147
Hydrochloric acid (MT)	514	-	-
Sodium hydroxide (MT)	9,671	-	-
Potassium carbonate (MT)	1,024	-	-
Hydrogen (MT)	25,348	-	-
Oil (MT)	24,344	-	-
Waste			
Quantity of hazardous waste (MT) ⁽¹⁾	15,563	14,098	19,270
Quantity of non-hazardous waste (MT) ⁽¹⁾	58,521 ⁽²⁾	46,234	72,716
Hazardous waste: % recycled ⁽¹⁾	40%	36%	32%
Non-hazardous waste: % recycled ⁽¹⁾	59% ⁽²⁾	61%	44%
Process sludge	60,824	74,566	70,347
Sludge from cooling water treatment (MT)	8,548	13,240	10,621
Releases			
Total nitrogen releases into aquatic environments (MT)	802	838	921
Aqueous releases of copper (kg)	36	10	29
Aqueous releases of chromium (kg)	26	93	86
Aqueous releases of lead (kg)	0.41	27	31
Aqueous releases of uranium (kg)	980	1,425	2,011
Direct greenhouse gases (MT CO ₂ e)	1,118,137	1,286,848	977,697
CO ₂ emissions from facilities subject to National Quota Allocation Plan	97 766	137,336	-
Toxic gas releases: volatile organic compounds (Kg VOC)	1,079,906	994,654	850,588
Releases of acid-forming gases: SO _x (MT)	704	731	847
Releases of acid-forming gases: NO _x (MT)	494	565	595
Releases of acid-forming gases: NH ₃ (MT)	337	333	337
Releases of ozone-depleting gases (Kg CFC 111e)	1,511	1,342	3,244
Nuclear Risks			
Dose impact from the La Hague site (mSv)	0.009	0.011	0.008
Number of INES events	Level 0: 75 Level 1: 10 Level 2: 1	Level 0: 65 Level 1: 17 Level 2: 1	Level 0: 66 Level 1: 15 Level 2: 1

*Adjusted data including Transmission & Distribution and excluding the Connectors division (FCI).

(1) Our reporting protocol changed in 2006 after a review of the three categories of hazardous industrial waste (HIW), ordinary industrial waste (OIW) and inert waste (IW).

These were reorganized into two new categories: hazardous waste (formerly HIW) and non-hazardous waste (which combines the former OIW and IW categories). The data for 2004 and 2005 were recalculated in accordance with these new definitions.

(2) Excluding waste from the GBII site.

Source: AREVA.

5.3.3.1. Energy conservation

Eurodif's Georges Besse plant, where uranium is enriched using the gaseous diffusion process, accounts for about 90% of the group's total power consumption. The group is preparing to phase in the centrifugation process to replace plant capacity in the medium term, as this technology consumes 50 times less power than gaseous diffusion. In 2006, the public inquiry was held and construction began.

The following total energy consumption figures do not include the Eurodif process. In 2006, a total of 2,806,108 GWh of energy was consumed, indicating a slight decrease of 3.1% in relation to 2005. The raw data are unadjusted by business. At constant sales revenue, energy consumption dropped 13.2% from 2004 to 2006, compared with the goal of 15%. As early as 2003, the La Hague site alone (a pilot site for energy conservation) reduced group-wide consumption by nearly 2%.

The largest consumers are implementing action plans based on the findings of preliminary energy efficiency studies, with the goal of stabilizing and ultimately reducing the group's energy consumption.

All of our methodological tools – including the eco-efficiency awareness kit, good practice handbooks, best available technologies, and energy news – are available on the group intranet.

A methodology was developed based on operating experience from Nuclear ventilation system optimization projects. A workshop was organized at the Melox site to share experience, attended by some 30 representatives from the group's licensed nuclear facilities.

Example

Excluding Eurodif, the La Hague plant is the group's biggest energy consumer, accounting for 25% of total consumption. Today it is a pilot for the energy consumption reduction program. The performance improvement plan consists of 11 activities, all of which are in progress. Production building ventilation and heating are expected to yield the greatest savings, along with eco-efficiency improvements to plant operations. From 2005 to 2006, energy consumption dropped by 4.3%. Overall, consumption dropped by 12.2% during the three-year period from 2003 to 2006.

Consumption was down substantially at two sites:

- Comurhex Pierrelatte in France (*Chemistry* business unit, AREVA NC), where it dropped 7.5%, and
- Gebze in Turkey (*Products* business unit, AREVA T&D), with a drop of 7.9%.

The office sites are also contributing to efforts to reduce energy consumption. SGN's Equeurdreville site, for example, slashed consumption by 20.7%.

Renewable energies

In November 2006, AREVA created a new business unit charged with expanding its offering to include renewable energies. The new business unit will combine AREVA T&D's distributed energy business, AREVA TA's subsidiary Hélion, a fuel-cell developer, and the management of AREVA's 29.9% equity interest in wind turbine manufacturer REpower. REpower specializes in high-powered wind turbine technology particularly suited to off-shore wind farms.

On February 5, AREVA made a friendly takeover bid for REpower shares that it did not already hold.

The *Renewable Energies* business unit wait offers customers turnkey power generation solutions using processes with very low CO₂ emissions, including biomass, biogas and mine gas, energy recovery, co-generation and tri-generation. The business has five industrial and commercial locations in Europe, South America and Asia.

Key recent contracts for the *Renewable Energies* business unit include:

- four 12-MW and 24-MW biomass power plants in the State of Rio Grande del Sur in southern Brazil, and
- two 10-MW biomass power plants in Thailand.

5.3.3.2. Water usage

In 2006, there were two significant changes to the consolidated group:

- AREVA NC withdrew from the Marcoule site, which had been the group's largest consumer, at 4,477,076 m³ of water in 2005 and tapped 111.2 million m³ of water (including 106.7 million m³ for cooling).
- Four Sfarsteel sites were added, one of which consumes some 1.8 million m³ of water annually.

The total quantity of water consumed, excluding cooling water for the Tricastin site (Eurodif), was 20.6 million m³ in 2006, compared with 23.9 million m³ in 2005. The change from 2004 to 2006, at constant sales revenue, is a decrease of 22.8%, compared with the target decrease of 20%.

Comparing consumption "like-for-like" (without AREVA NC Marcoule in 2005 and without Sfarsteel in 2006), the figures are 18.8 million m³ of water consumed in 2006 versus 19.4 million m³ in 2005.

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AREVA is taking steps to improve its management of the water cycle, particularly at the production sites, so that less water is tapped from the natural environment. This requires detailed knowledge of water consumption patterns and actual costs associated with managing the water cycle, as well as a concerted effort by site personnel and subcontractors.

These efforts have focused on:

- improved management of water systems and processes: several campaigns to identify leaks were conducted, both at plant sites and in office buildings;
- equipment modifications, sometimes resulting in the elimination of wasteful processes;
- changes in technology are also under consideration;
- raising awareness and the “eco-attitude” among personnel and subcontractors to promote the recycling and reuse of water and prevent unnecessarily excessive consumption, which has been particularly effective at the office buildings;
- continuing actions already in progress, most notably at the AREVA NC Pierrelatte site.

A day-long technical meeting on leak reduction was held at the AREVA NC Pierrelatte site in 2006. Fifteen representatives from the plant sites attended.

Example

The leak reduction program produced results at several of the French sites:

- Eurodif, where the consumption of drinking water dropped 63%, and
- Jeumont, with a 42% drop in water consumption (leak reduction campaign in 2005, with visible results in 2006).

At the AREVA T&D Aix-les-Bains site, the 67% drop in water consumption was linked to the replacement of water-to-water refrigeration units by air-to-water refrigeration units.

The AREVA TA Cadarache site shut down its new-generation reactor, which is equipped with open-loop cooling, and acquired a closed-loop cooling system for its pressure welding facility. These two actions led to a 75% reduction in the site’s water consumption.

The AREVA NC Pierrelatte site continued to pursue programs launched in previous years. From 2005 to 2006, the facility reduced its water consumption by 3%, or about 73,000 m³.

In all, since 2003, AREVA NC Pierrelatte has reduced its water consumption by 27%, or 836,000 m³.

5.3.3.3. Consumption of materials

The group is continuing to reduce its consumption of chemicals with major direct or indirect impacts identified with analytical tools specific to the environment (life cycle analysis, health hazards assessment), primarily through internal recycling (acid recycling at the Cezus Paimboeuf, Montreuil Juigné and Rugles sites).

AREVA has been tracking paper consumption throughout the group since 2004 and has distributed a list of 20 best practices to all entities. Paper reduction programs are being implemented at the site level.

For example, measures were taken at the AREVA Tower in Paris-La Défense to replace individual printers by printer networks. This action reduced the entity’s paper consumption by 27%.

At the AREVA TA Aix-en-Provence site, the focus was on raising employee awareness. Here, the paper conservation campaign led to a 45% drop in the amount of paper purchased.

Group-wide, paper consumption per employee dropped from 32.5 kg in 2004 to 31 kg in 2005 and to 27.3 kg in 2006. This amounts to 1,645 metric tons of A4 / US letter paper purchased in 2006, compared with 1,985 MT in 2004. The change from 2004 to 2006, at constant sales revenue, is a 19% reduction, compared with the target reduction of 10%.

5.3.3.4. Waste

The sustainable development reporting protocol was broadened in 2005 with the introduction of the concept of internally processed waste so as to highlight sites that have invested in systems to process their own waste. Examples include the reduction of shipments and waste generator responsibility for processing.

The protocol was slightly simplified in 2006 to facilitate an understanding of the definitions, in particular at sites abroad. Now there are only two waste categories:

- hazardous waste, and
- non-hazardous waste (which combines common industrial waste and inert waste).

Conventional waste

A total of 131,714 metric tons of conventional waste was produced in 2006, as follows:

- 15,563 MT of hazardous waste, 88% of which came from routine operations.
- 116,151 MT of non-hazardous waste, 35% of which came from routine operations.

For the scope corresponding to this data, the percentages of recycled material are:

- 40% for hazardous waste, and
- 59% for non-hazardous waste, excluding the soil from stripping operations at the GBII worksite.

The recycling rate rose from:

- 32% in 2004 to 40% in 2006 for hazardous waste, for an improvement of 27.7% at constant sales revenue, and
- 44% in 2004 to 59% in 2006 for non-hazardous waste, for an improvement of 37.7% at constant sales revenue.

In all, this represents an improvement in the recycling rate for all conventional waste of more than 35% for the 2004-2006 period, compared with the goal of 30%.

Programs for improving final waste reduction are ongoing in all of the group's facilities to:

- minimize and manage waste generation at the source;
- promote sorting by providing bins for waste separation or by creating in-house waste sorting plants. The AREVA NP Saint-Marcel site built a new waste shed with equipment to facilitate sorting and interim waste storage;
- recycle and reuse waste by selecting the most suitable processing methods, for which a study was conducted at AREVA NP's European sites to identify best practices;
- improve processing and packaging of non-reusable waste.

To gain a better understanding of potential improvements at production sites abroad, a report on local situations (applicable regulations, available waste treatment options) was drawn up for the United States, Mexico, Indonesia and Australia.

We also developed an in-house decision making tool to facilitate waste processing choices. The software program is designed to

compare processing methods, assigning scores based on regulatory, technical, economic, environmental and social criteria.

PCBs and PCTs

PCBs (polychlorinated biphenyls) and PCTs (polychlorinated terphenyls) are toxic chemicals that were formerly used to manufacture and operate electrical distribution equipment. AREVA's subsidiaries began to eradicate them several years before the 2010 date set for their elimination by European directive 96 / 59 of September 16, 1996, and AREVA has made a commitment to phasing out the remaining equipment under a plan approved by the French Ministry of Ecology and Sustainable Development and included in the national plan approved by decree on February 26, 2003.

In 2006, 122 transformers containing these substances had been eradicated in France. As of December 31 2006, 358 machines had yet to be eliminated.

Radioactive waste

Waste generated by Nuclear operations is classified according to two criteria:

- the intensity of the radioactivity it contains (very low-, low-, medium- and high-level waste); and
- its half-life, i.e. the time it takes for the initial radioactivity of the waste to be reduced by half. Short-lived waste has a half-life of less than 30 years; long-lived waste has a half-life of more than 30 years.

Each type of waste requires a specific management method.

In France, very low-level waste (VLLW) is disposed of at the disposal center operated by Andra in Morvilliers.

Short-lived low-level waste (LLW) and medium-level waste (MLW) is disposed of in a surface disposal facility, also operated by Andra, the Centre de l'Aube in Soullaines.

For long-lived medium-level (MLW) and high-level waste (HLW), research is being carried out pursuant to Program Law 2006-739 of June 28, 2006 on the sustainable management of radioactive materials and waste. This law defines the schedule for setting up facilities to develop deep geologic repositories.

The law is an extension of the process launched in 1991 by the "Bataille" Law on research on end-of-cycle Nuclear operations

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in France. The law is fundamental in that it programs the construction required for the management and disposal of all radioactive waste in France and sets up the technical, financial and political governance for these operations. This process sets the framework for waste processing and packaging operations in the AREVA group's French facilities. It organizes:

- the management of long-lived, low-level graphite and radiferous waste in a future disposal facility that Andra will open in 2013;
- the management of waste with or without available disposable methods as part of a tri-annual review of the French national radioactive materials and waste management plan report;
- the management of mill tailings disposal;
- the packaging before 2030 of all long-lived medium-level waste produced before 2015;
- the future of the high-level waste generated by the treatment of foreign fuels;
- the development of deep geologic disposal, with a preliminary design report set for 2015 and the opening of a repository in 2025.

The group's operations generate waste such as technological (dry active) waste, ion exchange resins and sludge, and sometimes waste from facility dismantling operations. This waste is only a slight fraction of the total quantity of radioactive waste generated by nuclear power, representing but a few percentage points in terms of radioactivity.

Every year, we endeavor to reduce these waste volumes. The group established indicators to report on progress in this field in a consolidated summary-level manner.

AREVA also continued in 2006 to expand its initiative for the comprehensive management of legacy waste and stored materials at the group's sites by systematically using inventory management software, conducting programs for legacy waste retrieval and packaging, and planning for the management of waste from facility dismantling.

Andra, the French national waste management agency, is preparing an exhaustive inventory of radioactive waste in France. This inventory is public and the 2006 version may be consulted on its website. It provides all available information on radioactive waste inventoried in France, including waste held at the group's sites.

The group also contributes to the responsible management of radioactive waste generated by the nuclear industry by offering solutions for its safe storage, processing, packaging and often transport. "Group-held" waste, as opposed to "group-generated" waste, as defined in Article L. 541-2 of the French Environmental

Code, consists mainly of long-lived high-level waste (HLW) belonging to AREVA's electric utility customers. This waste is returned to the customer at the end of the used fuel treatment process.

For the French utility EDF, the group offers a service which includes the interim storage of radioactive waste in suitable and safe facilities pending the availability in 2025 of a deep geologic repository for its long-term management, as stipulated by the French law of June 28, 2006. EDF remains the owner of the waste. AREVA assumes responsibility for holding it, within the limits of the provisions relating to Nuclear liability stipulated in the "TSN" law of June 13, 2006 on nuclear accountability and safety, which incorporates provisions relating to nuclear liability.

The other waste, which can be disposed of directly, consists of low- and very low-level waste that is routinely shipped to the disposal site and is not stored in significant quantities at the group's sites. Waste from used fuel belonging to foreign customers is returned to those customers as soon as it is technically feasible to do so, in accordance with the French law of June 28, 2006.

Several sites have invested in improvements to radioactive waste storage and packaging:

- at the Cezus Jarrie site in France, a dedicated interim storage facility was built in 2005, making it possible to complete the transfer of all accumulated radiferous waste in 2006;
- at the Marcoule site, contaminated lead recycling was set up, allowing 400 MT of lead from the dismantling of AREVA, CEA and EDF facilities in France to be recycled each year. The lead is melted down in a dedicated furnace at the Marcoule dismantling facility and the lead ingots are sent to a manufacturer in Marseille, which remelts and custom-forms the lead for new nuclear industry projects;
- at the La Hague site in France, a processing facility for very low-level waste was started up to package the waste shipped to Andra's VLLW disposal facility and to increase the quantities.

With respect to waste disposal, Andra has issued new acceptance certificates to the group's plants for the disposal of groups of very low-level waste generated by a variety of operations, such as site Cleanup and dismantling.

5.3.3.5. Releases in water

The nuclear fuel cycle typically processes small quantities of materials. Small quantities of reagents are used for uranium Mining and chemistry and for used fuel treatment.

In 2006, feedback from prior year reporting showed that, due to regulatory requirements, a theoretical release value (volume released x detection threshold) had to be computed for sites with reporting results below the detection threshold. This overestimated value was also included in the reporting system. In 2006, the release indicators were split into two parts:

- the actual measured value for data above the detection thresholds, and
- the theoretical computed value for data below the detection thresholds.

This change in the protocol has significantly reduced the reported quantities of chromium and lead. At the same time, we are also seeing better reporting data, especially for sites abroad. This explains the increase in copper releases, for example.

However, the *Treatment* business unit released significant quantities of certain chemicals, particularly nitrogen, with 802 MT of total nitrogen released in 2006, 838 MT in 2005, 930 MT in 2004, and 1,102 MT in 2003. Reduction programs targeting these chemicals are under way as part of the group's overall continuous improvement initiative.

All of the group's French plants combined released 980 MT of uranium into aquatic environments in 2006, 1.4 MT in 2005, 2 MT in 2004, and 2.4 MT in 2003. By way of comparison, the Rhone River alone carries along around 70 MT of natural uranium each year (Source: environmental report of the Tricastin site).

Some sites have embarked on capital spending projects to improve the treatment of aqueous releases: a spent acid treatment station built in 2005 at the Cezus Rugles site started up in 2006, and the AREVA T&D Aix-les-Bains site acquired a new in-house liquid effluent treatment station.

5.3.3.6. Releases in the air

The group's operations release certain gases which, though limited, contribute to global warming, depletion of the ozone layer and atmospheric pollution. These are primarily:

- direct emissions of greenhouse gases (GHG) associated with 1) the burning of fossil fuels, 2) certain fluorinated emissions (SF₆) from chemical operations and from the manufacturing of electrical equipment and 3) certain nitrogenous emissions (N₂O) from operations that use nitric acid;
- indirect greenhouse gas emissions associated with the consumption of electricity and thermal power;
- gaseous releases such as volatile organic compounds (VOC), acid-forming gases, or ozone-depleting gases.

Greenhouse gases

The 32,000 MT drop in the group's emissions of CO₂ equivalent generated by the transfer of the Marcoule facilities to the CEA was offset by the acquisition of Sfarsteel, which emitted 32,787 MT of CO₂ in 2006. Taking into account this change in consolidation scope, only two of the group's sites, La Hague and Comurhex Malvési, are still listed in the National Quota Allocation Plan because they have combustion plants with more than 20 MW of power. The group had 30,734 surplus CO₂ allowances for 2006.

The AREVA group's direct greenhouse gas emissions amounted to 1,118,137 metric tons in 2006. Of these, 31% are linked to fossil fuels, 25% to sulfur hexafluoride (SF₆), and 40% to nitrous oxide (N₂O), which was inventoried more accurately in 2006. At constant sales revenue, these emissions dropped 24.8% from 2004 to 2006, compared with the goal of 20%.

There are two sources of SF₆ emissions:

- The treatment used to eliminate traces of fluorine in the fluorination process off-gas, which contributes some 100,000 metric tons of CO₂ equivalent per year: a new facility for recycling off-gas to the secondary fluorination stage in the UF₆ production unit went into operation in December 2006, and the fluorine taken into the vents to be neutralized is now recycled to produce UF₆. Thanks to this change, the site will no longer emit SF₆ as of 2007.
- The use of SF₆ as insulation and to interrupt electrical arcing in power circuit breakers, which contributes about 163,000 metric tons of CO₂ equivalent per year. An eco-design approach to products is used to bring down SF₆ emissions steadily, whether during equipment manufacturing or during their use, up to the end of their useful life. In the Transmission & Distribution division, a multi-year action plan was set up to reduce SF₆ emissions from the major contributors. The plan involves audits, more accurate inventories, enhanced performance of equipment that uses SF₆, and training for all sites that handle SF₆. It also includes awareness raising, provision of a good practices handbook and a video. Implementation of the action plan reduced emissions by 19% in 2005 and by 5.7% in 2006.

Volatile organic compounds

In 2006, 1,080 MT of VOC emissions were measured, compared with 995 MT in 2005, for an 8.5% increase. This trend varies for different divisions and business units. This unweighted figure indicates that VOC emissions are not a major environmental issue for the group. The variations observed are due partially to changes in inventory methods.

5.3. Environmental report

Ozone-depleting gases

Emissions of ozone-depleting gases amounted to 1,511 kg of CFC111 equivalent. After dropping sharply in previous years (by 73% from 2003 to 2004 and 59% from 2004 to 2005), they rose slightly in 2006 (12%), due to cooling system recharge. The sharp downward trend was motivated primarily by stringent regulations requiring the phase-out of the most harmful of these substances as equipment is upgraded. We have now reached a lower threshold, making further gains difficult to achieve.

5.3.3.7. Radioactive releases

Through concerted effort, radioactive releases have dropped sharply over the past 30 years. For example, the radiological impact from La Hague has been divided by five, going from a dose to the reference group of around 70 µSv in 1985 to around 10 µSv in 2006. This dose remains relatively constant from one year to the next. This has paved the way for compliance with the more stringent regulatory standards in the European Union, which were transposed into French law, and which currently set the maximum effective dose to members of the public at

1 mSv / yr. That level is less than the average exposure to naturally occurring radiation in France of 2.4 mSv / yr, as well as in other countries around the world, where it ranges from 1 to 10 mSv / yr, according to the United Nations Scientific Committee on the Effects of Atomic Radiation (UNSCEAR).

Nevertheless, the group is continuing its research into the feasibility of further reducing radioactive releases from the La Hague plant, in particular in connection with the new release permit for that plant.

Since 1995, the group's French Nuclear sites have published and publicly distributed annual environmental reports in which radioactive releases and trends are described in detail. These releases are subject to verification monitoring and unannounced inspections by the regulatory authority.

5.3.3.8. Odor and noise pollution

Having taken the necessary action in 2003, this is no longer identified as a critical issue within the group.

5.3.4. STRENGTHENING RELATIONS WITH EXTERNAL STAKEHOLDERS

The group's commitment to sustainable development is giving a new dimension to its relations with stakeholders by making dialogue and consensus building a key building block of the group's social responsibility.

"Dialogue and consensus building" is both a commitment and principle number 9 of the AREVA Way self-assessment model.

What is meant by this commitment goes beyond communication or simply providing information. It means listening to stakeholders, i.e. any individual or group of individuals affected by the group's operations, to gain a better understanding of their expectations and take them into account as part of a continuous improvement process.

With this in mind, several initiatives have been undertaken, both at the group level and at the site level.

5.3.4.1. Consensus building at the corporate level

In 2004, the group turned over the organization of a consensus-building program ("Stakeholders session") involving a panel of stakeholders to Comité 21, a leading authority on sustainable development in France.

Preparatory to this Stakeholders Session, the AREVA group and its stakeholders accepted a methodological framework designed

by Comité 21 to ensure that the initiative would be fully credible and effective.

The first two sessions took place on September 14, 2004 and February 9, 2005, after which Comité 21 developed an executive summary of the stakeholders' expectations and proposals, including the commitments the group made in response, which also appear in the executive summary and in the group's 2005 activity and sustainable development report. The executive summary is available on our website, www.aveva.com.

The AREVA group undertook to report on the decisions made, and in 2006-2007 worked with Comité 21 to organize the next phase of the initiative, using the same methods as for the previous meetings.

Two discussion meetings took place on December 15, 2006 and January 10, 2007. This second Stakeholders Session achieved two objectives:

- reporting to stakeholders on implementation of commitments made pursuant to the 2005 initiative, and
- organizing an exchange between the company and stakeholders on how well these responses meet their expectations, and receiving their opinions and proposals on how to further our progress.

All stakeholders noted the strong involvement of the corporate departments, the general spirit of openness, the candor of AREVA participants, and the progress made in carrying out

our commitments. The question will now be to work with our stakeholders in following up on these exchanges constructively, taking inspiration from the performance improvement initiative that has served thus far.

5.3.4.2. Mapping of local stakeholders

The local stakeholder mapping initiative started in 2003 at the AREVA NC La Hague site in France, the former Limousin mines in France, the AREVA NP Lingen site in Germany, and the AREVA NP Richland site in the United States.

The group used the lessons learned at these pilot sites to finalize its methodology for the other sites, which have been phasing it in since early 2005, with priority given to the major nuclear sites and the Seveso sites.

This method prompts the sites to compare their own perceptions of local stakeholder expectations with the actual expectations of these stakeholders. It is an opportunity to go into detail on the economic, social, societal, and environmental goals of the sites and to build relationships with stakeholders.

At the end of 2006, more than 220 stakeholders were interviewed by an independent party at around 20 of our sites in France, Great Britain and Germany. The sites participating in this exercise are developing "dialogue action plans" based on the conclusions of the mapping initiatives and are starting to roll them out. Implementing these action plans will help to build relationships and partnerships between the group's plant sites and key players in their surroundings.

5.3.4.3. AREVA's patronage and sponsorship program

The AREVA group's patronage and sponsorship program aims to translate the company's policy of dialogue with stakeholders into concrete achievements in France and overseas. The projects are a natural extension of AREVA's businesses and support the company's development in countries in which it operates.

The group's commitment only has meaning if its employees support it, which is why they are regularly involved in these activities.

An in-house survey oriented our choices towards initiatives in the following fields:

- energy and climate change,
- outreach and transmission of knowledge,
- North / South development.

To formalize these commitments and give them greater clarity, AREVA plans to create a corporate foundation in 2007.

5.4. Consolidated financial statements

5.4.1. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report on the consolidated financial statements includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report on the consolidated financial statements should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In accordance with our appointment as auditors by your Annual General Meeting, we have audited the consolidated financial statements of AREVA (Société des Participations du Commissariat à l'Énergie Atomique) for the year ended December 31, 2006, attached to this report.

The consolidated financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements, based on our audit.

I - Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as of December 31, 2006 and the results of its operations for the year then ended in accordance with IFRS as adopted in the European Union.

Without qualifying the above opinion, we draw your attention to the following:

- Notes 1.1, 1.18 and 13 to the consolidated financial statements which present the procedures for measuring end-of-life-cycle assets and liabilities and their sensitivity to assumptions adopted with regard to estimates, disbursement schedules, discount rates and the outcome of current negotiations with EDF.
- Notes 1.1, 1.8 and 24 to the consolidated financial statements which present, in particular, the performance conditions of the OL3 contract and the sensitivity of profit to completion on this contract to compliance with the current schedule, contractual risks and claims.

II - Justification of assessments

Pursuant to the provisions of Article L.823-9 of the French Commercial Code governing the justification of our assessments, we draw your attention to the following:

- We reviewed the accounting treatment adopted by the company for the put options held by minority shareholders of certain group subsidiaries. Pending a position to be taken by the standards-setting bodies with respect to the offsetting entry of the liability recognized, we reviewed the position adopted by the group and verified that Note 1.19.1 to the consolidated financial statements contains appropriate disclosures in this respect.
- As indicated above, provisions for the decommissioning of nuclear facilities and waste retrieval, recorded on the balance sheet in the amount of €4.585 billion, were measured in accordance with the accounting policies, the rules and methods of valuation described in notes 1.18 and 13 to the consolidated financial statements. As a balancing entry to these provisions, the group recognized a decommissioning asset in the net amount of €2.298 billion. As indicated in Note 1.18 to the consolidated financial statements, this asset corresponds to the share to be funded by third parties and to the share to be funded by the group, which is depreciated over the useful life of the relevant facilities. As part of our procedures, we reviewed the estimates of the decommissioning liabilities and the share to be funded by third parties by assessing the reasonableness of the assumptions adopted, in particular by taking into account changes in the estimates and the negotiations currently underway with EDF.
- Your group recognizes income from long-term contracts in accordance with the policies and terms and conditions described in Notes 1.8 and 24 to the consolidated financial statements. Based on the accounting information available, our procedures mainly consisted, in general and with regard to the OL3 contract in particular, in assessing the data and assumptions made by management underlying estimates of profits or losses on contract completion and changes therein and primarily the level of risk and claims inherent to these contracts, reviewing the calculations performed and analyzing management's procedures for approving these estimates. We assessed the reasonableness of these estimates.
- Non-current assets include the financial assets earmarked for end-of-life-cycle operations for a net amount of €2.986 billion, for which the management objectives are set forth in note 13 to the consolidated financial statements. These financial assets, which are mainly comprised of directly-held securities and shares in dedicated equity mutual funds, are subject to regular valuation, the principles of which are described in Note 1.13.1 to the consolidated financial statements. As part of our procedures, we assessed the correct and consistent application of the valuation methods and the determination of long-term impairment.
- Goodwill, recognized on the balance sheet for a net amount of €2.515 billion as of December 31, 2006, was subject to impairment tests performed in accordance with the methods described in Note 1.10 and 10 to the consolidated financial statements. We reviewed the conditions under which these tests were performed based on the discounting of future cash flows of the relevant activities, assessed the consistency of the assumptions adopted with the forecast data resulting from the strategic plans prepared by the group, and verified that Notes 1.10 and 10 to the consolidated financial statements contain appropriate disclosures.
- With respect to risks and litigation, we assessed the procedures currently used by your group to identify, assess and reflect the accounting impact of such risks and litigation. We also ensured ourselves that the main litigations identified at the time we performed our procedures were described appropriately in the notes to the consolidated financial statements, specifically Note 33.

In general, as indicated in Note 1.1 to the consolidated financial statements, the estimates established by the group may vary as a result of changes in the underlying assumptions or various conditions. Hence, actual figures may differ from current estimates.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and contributed to the expression of the opinion expressed in the first part of this report.

5.4. Consolidated financial statements

III - Specific procedures and disclosures

We have also verified, in accordance with professional standards applicable in France, the financial information contained in the Group Management Report. We have no comment to make as to the fair presentation of this information or its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris La Défense, March 23, 2007

The Statutory Auditors

Deloitte & Associés

Mazars & Guérard

Salustro Reydel
Member of KPMG International

Pascal Colin

Jean-Paul Picard

Thierry Blanchetier

Denis Marangé



5.4.2. CONSOLIDATED INCOME STATEMENT

<i>(in millions of euros)</i>	Note	2006	2005	2004 <i>(excl. IAS 32 and 39)</i>
Sales revenue	3	10,863	10,125	9,821
Other income from operations		55	7	7
Cost of sales		(8,698)	(7,852)	(7,478)
Gross margin		2,220	2,280	2,350
Research and development expenses		(355)	(328)	(327)
Sales and marketing expenses		(493)	(478)	(500)
General and administrative expenses		(778)	(724)	(684)
Restructuring and early retirement costs	6	(131)	(138)	(205)
Other operating income and expenses	6	(56)	(61)	(75)
Operating income		407	551	558
Income from cash and cash equivalents		50	59	54
Gross borrowing costs		(78)	(42)	(27)
Net borrowing costs		(29)	17	27
Other financial expenses		(235)	(228)	(232)
Other financial income		360	198	202
Other financial income and expenses		126	(30)	(30)
Net financial income (expense)	7	97	(13)	(3)
Income tax	8	(51)	(146)	(124)
Net income of consolidated businesses		453	393	431
Share in net income of associates	14	220	153	128
Net income from continuing operations		672	546	559
Net income from discontinued operations	9	-	598	31
Net income for the period		672	1,144	590
Less minority interests		24	95	139
Net income attributable to equity holders of the parent		649	1,049	451
Average number of shares outstanding		35,442,701	35,442,701	35,442,701
Earnings per share from continuing operations		18.31	12.72	11.83
Basic earnings per share		18.31	29.60	12.71
Diluted earnings per share ⁽¹⁾		18.31	29.60	12.71

(1) AREVA has not issued any instruments with a dilutive impact on share capital.

5.4. Consolidated financial statements

5.4.3. CONSOLIDATED BALANCE SHEET

ASSETS

<i>(in millions of euros)</i>	Note	December 31, 2006	December 31, 2005	January 1, 2005*
Non-current assets		17,350	15,786	14,441
Goodwill on consolidated companies	10	2,515	2,095	2,206
Other intangible assets	11	1,175	761	597
Property, plant and equipment	12	3,814	3,542	3,865
<i>including: End-of-life-cycle asset (AREVA share)</i>	<i>13</i>	<i>198</i>	<i>163</i>	<i>162</i>
End-of-life-cycle asset (third party share)	13	2,091	2,045	2,015
Assets earmarked for end-of-life-cycle obligations	13	2,986	2,798	2,508
Investments in associates	14	1,521	1,288	1,313
Other non-current financial assets	15	2,376	2,365	1,490
Pension fund assets		-	-	10
Deferred tax assets	8	873	892	439
Current assets		8,543	9,060	8,296
Inventories and work-in-process	16	2,306	2,272	2,125
Trade accounts receivable and related accounts	17	3,604	3,793	3,291
Other operating receivables	18	1,121	914	977
Current tax assets	8	116	172	116
Other non-operating receivables		142	142	269
Cash and cash equivalents	19	962	1,484	1,055
Other current financial assets	20	292	264	263
Assets of operations held for sale		-	19	-
Total assets		25,893	24,846	22,537

* Including IAS 32 and 39.

LIABILITIES AND EQUITY

<i>(in millions of euros)</i>	Note	December 31, 2006	December 31, 2005	January 1, 2005*
Equity and minority interests		7,016	6,590	5,297
Share capital	21	1,347	1,347	1,347
Consolidated premiums and reserves		3,619	2,891	2,780
Deferred unrealized gains and losses on financial instruments		1,131	992	420
Currency translation reserves		(25)	83	(70)
Net income attributable to equity holders of the parent		649	1,049	451
Minority interests	22	294	228	369
Non-current liabilities		8,352	8,179	7,721
Employee benefits	23	1,122	1,096	1,031
Provisions for end-of-life-cycle operations	13	4,585	4,490	4,332
Other non-current provisions	24	113	91	66
Long-term borrowings	25	1,407	1,637	1,681
Deferred tax liabilities	8	1,124	865	611
Current liabilities		10,526	10,077	9,519
Current provisions	24	1,788	1,331	1,305
Short-term borrowings	25	712	379	203
Advances and prepayments received	26	4,185	4,671	4,326
Trade accounts payable and related accounts		2,093	1,939	1,695
Other operating liabilities	27	1,650	1,644	1,545
Current tax liabilities	8	74	99	91
Other non-operating liabilities	27	23	1	354
Liabilities of operations held for sale		-	13	-
Total liabilities and equity		25,893	24,846	22,537

* Including IAS 32 and 39.

5.4. Consolidated financial statements

5.4.4. CONSOLIDATED CASH FLOW STATEMENT

<i>(in millions of euros)</i>	Note	2006	2005	2004
Net income before minority interests		672	1,144	590
Less: income from discontinued operations		-	(598)	-
Net income from continuing operations		672	546	590
Share in net income of associates		(220)	(153)	(128)
Net amortization, depreciation and impairment of PP&E and intangible assets and marketable securities maturing in more than 3 months		500	507	516
Goodwill impairment losses		-	-	9
Net share to provisions		314	109	(500)
Net effect of reverse discounting of assets and provisions		178	169	151
Income tax expense (current and deferred)		50	146	160
Net interest included in borrowing costs		7	(13)	(12)
Loss (gain) on disposals of fixed assets and marketable securities maturing in more than 3 months; change in fair value		(259)	(123)	(99)
Other non-cash items		(15)	(14)	20
Cash flow from operations before interest and taxes		1,231	1,173	707
Net interest received (paid)		0	2	19
Income tax paid		(90)	(119)	(117)
Cash flow from operations after interest and tax		1,141	1,056	609
Change in working capital requirement	28	(344)	(286)	303
Net cash from operating activities		797	770	912
Investment in PP&E and intangible assets		(1,134)	(535)	(519)
Loans granted and acquisitions of non-current financial assets		(2,318)	(702)	(523)
Acquisitions of shares of consolidated companies, net of acquired cash		(240)	(25)	(908)
Disposals of PP&E and intangible assets		42	66	105
Loan repayments and disposals of non-current financial assets		2,650	336	601
Disposals of shares of consolidated companies, net of disposed cash		21	93	91
Dividends from equity associates		27	29	27
Net cash used in investing activities		(953)	(739)	(1,127)
Share issues subscribed by minority shareholders in consolidated subsidiaries		-	9	-
Dividends paid to shareholders of the parent company		(350)	(340)	(220)
Dividends paid to minority shareholders of consolidated companies		(79)	(81)	(65)
Increase (decrease) in borrowings		64	19	12
Net cash used in financing activities		(364)	(392)	(273)
Decrease (increase) in marketable securities maturing in more than 3 months		(1)	(9)	133
Impact of foreign exchange movements		2	(7)	16
Net cash flow from discontinued operations	28	-	853	-
Increase (decrease) in net cash		(518)	475	(339)
Net cash at the beginning of the year		1,419	945	1,284
Cash at the end of the year	19	962	1,484	1,054
Less: short-term bank facilities and non-trade current accounts (credit balances)	25	(61)	(65)	(109)
Net cash at the end of the year		901	1,419	945

“Net cash” taken into account in establishing the cash flow statement consists of:

- “Cash and cash equivalents” (see Note 19), which includes:
 - cash balances and non-trade current accounts, and
 - risk-free marketable securities initially maturing in less than three months, and money market funds;
- after deduction of short-term bank facilities and non-trade current accounts included in short-term borrowings (see Note 25).

5.4.5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(in millions of euros)</i>	Number of shares and investment certificates	Share capital	Premiums and consolidated reserves	Currency translation reserves	Deferred unrealized gains and losses on financial instruments	Equity attributable to equity holders of the parent	Minority interests	Total equity
January 1, 2005 (incl. IAS 32 and 39)	35,442,701	1,347	3,231	(70)	420	4,928	369	5,297
Net income for 2005	-	-	1,049			1,049	95	1,144
Change in deferred unrealized gains and losses (after tax):								
- on cash flow hedging instruments					(4)	(4)	(5)	(9)
- change in value of available-for- sale securities					576	576	16	592
Total income and expenses recognized			1,049		572	1,621	106	1,727
Dividends paid *	-	-	(340)			(340)	(81)	(421)
Change in consolidated group	-	-					(189)	(189)
Change in accounting method and other adjustments	-	-				-	-	-
Currency translation adjustments	-	-		153		153	23	176
December 31, 2005	35,442,701	1,347	3,940	83	992	6,362	228	6,590
Net income for 2006			649			649	24	672
Change in deferred unrealized gains and losses (after tax):								
- on cash flow hedging instruments					1	1	3	4
- change in value of available-for- sale securities					138	138	(3)	135
Total income and expenses recognized			649		139	788	24	811
Dividends paid *			(350)			(350)	(79)	(429)
Change in consolidated group								
Change in accounting method and other adjustments **			29			29	134	164
Currency translation adjustments				(108)		(108)	(13)	(121)
December 31, 2006	35,442,701	1,347	4,268	(25)	1,131	6,721	294	7,016
* Dividend paid per share (in euros):								
in 2005 from 2004 net income			9.59					
in 2006 from 2005 net income			9.87					

** The €29 million impact on group reserves corresponds mostly to the equity component of a convertible debt instrument issued by the STMicroelectronics group.

5.4. Consolidated financial statements

5.4.6. SEGMENT REPORTING

DATA BY DIVISION

2006

Income Statement

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Eliminations	Total Group
Gross sales revenue	2,971	2,441	2,203	3,725	255	(732)	10,863
Inter-company sales *	(52)	(129)	(295)	(1)	(254)	732	0
Contribution to consolidated sales revenue	2,919	2,312	1,908	3,724			10,863
Operating income	456	(420)	273	191	(93)	(1)	407
% of gross sales revenue	15.4%	-17.2%	12.4%	5.1%	n.a.		3.7%
Depreciation and amortization of PP&E and intangible assets	(180)	(68)	(153)	(76)	(2)		(479)
Impairment of PP&E and intangible assets	(17)						(17)
Net charge to / (reversal of) provisions	33	(358)	40	10	(45)		(320)
Gain or (loss) on asset disposals recognized in Operating Income	34	(5)	1	2	20		51

* Transfer prices used in inter-company transactions are determined at arms' length.

Balance sheet

<i>(in millions of euros, except personnel data)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Eliminations	Total Group
PP&E and intangible assets (including goodwill)	2,321	918	1,954	961	1,344	3	7,502
Assets earmarked for end-of-life-cycle operations	429	70	4,581				5,080
Other non-current assets					4,769		4,769
Subtotal: Non-current assets	2,750	988	6,535	961	6,113	3	17,350
Inventories and receivables (excluding tax receivables)	1,890	1,494	1,326	2,513	375	(426)	7,172
Other current assets					1,370		1,370
Subtotal: Current assets	1,890	1,494	1,326	2,513	1,745	(426)	8,542
Total assets	4,640	2,482	7,861	3,474	7,858	(423)	25,893
Employee benefits and non-current provisions	1,153	197	4,154	279	38		5,821
Other non-current liabilities					2,531		2,531
Subtotal: Non-current liabilities	1,153	197	4,154	279	2,569		8,352
Current provisions	204	670	413	408	95	(2)	1,788
Advances, down payments and other debt, excluding tax liabilities	1,131	1,676	3,248	2,089	232	(425)	7,952
Other current liabilities					786		786
Subtotal: Current liabilities	1,335	2,346	3,661	2,498	1,114	(427)	10,526
Total liabilities	2,488	2,543	7,815	2,776	3,682	(427)	18,878
Workforce	11,995	14,936	10,697	22,988	495		61,111

2005

Income Statement

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Eliminations	Total Group
Gross sales revenue	2,712	2,469	2,147	3,212	233	(647)	10,125
Inter-company sales *	(81)	(121)	(226)		(219)	647	0
Contribution to consolidated sales revenue	2,631	2,348	1,921	3,212	14		10,125
Operating income	374	87	208	(61)	(58)	1	551
% of gross sales revenue	13.8%	3.5%	9.7%	-1.9%	NA		5.4%
Depreciation and amortization of PP&E and intangible assets	(153)	(61)	(200)	(78)	(2)		(493)
Impairment of PP&E and intangible assets	(1)						(1)
Net charge to / (reversal of) provisions	26	(26)	(45)	(96)	(2)		(132)
Gain (loss) on asset disposals recognized in Operating Income	(1)	2	2	(13)	2		(8)

* Transfer prices used in inter-company transactions are determined at arms' length.

Balance sheet

<i>in millions of euros (except personnel data)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Eliminations	Total Group
PP&E and intangible assets (including goodwill)	1,554	606	2,079	950	1,205	5	6,399
Assets earmarked for end-of-life-cycle obligations	443	48	4,352				4,843
Other non-current assets					4,545		4,545
Subtotal: Non-current assets	1,998	654	6,431	950	5,750	5	15,787
Inventories and receivables (excluding tax receivables)	1,891	1,614	1,372	2,268	304	(328)	7,121
Other current assets					1,939		1,939
Subtotal: Current assets	1,891	1,614	1,372	2,268	2,242	(328)	9,060
Total assets	3,888	2,268	7,803	3,218	7,992	(323)	24,847
Employee benefits and non-current provisions	1,106	264	4,025	245	41		5,676
Other non-current liabilities					2,502		2,502
Subtotal: Non-current liabilities	1,106	260	4,025	244	2,543		8,179
Current provisions	188	249	389	429	76		1,331
Advances, down payments and other debt, excluding tax liabilities	1,106	1,807	3,562	1,929	194	(342)	8,255
Other current liabilities					492		492
Subtotal: Current liabilities	1,294	2,056	3,951	2,358	762	(342)	10,078
Total liabilities	2,401	2,316	7,975	2,602	3,305	(342)	18,257
Workforce	11,047	14,323	10,864	22,094	432		58,760

5.4. Consolidated financial statements

2004*(income data excludes operations discontinued in 2005)***Income Statement**

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	FCI	Transmission & Distribution	Corporate	Eliminations	Total group
Gross sales revenue	2,599	2,308	2,124	n.a.	3,186	182	(578)	9,821
Inter-company sales *	(75)	(162)	(178)		(0)	(163)	578	0
Contribution to consolidated sales revenue	2,524	2,146	1,946	n.a.	3,186	19		9,821
Operating income	370	95	228	n.a.	(103)	(34)	2	558
% of gross sales revenue	14,2%	4,1%	10,8%		(3,2)%	n.a.		5,8%
Depreciation and amortization of PP&E and intangible assets	(125)	(56)	(223)	n.a.	(76)	(9)		(489)
Impairment of PP&E and intangible assets	-	-	-		-	(9)		(9)
Net charge to / (reversal of) provisions	36	35	398	n.a.	(50)	(10)		409
Gain (loss) on asset disposals included in operating income								

**Transfer prices used in inter-company transactions are determined at arms' length.*

DATA BY GEOGRAPHICAL AREA

2006

Contribution to consolidated sales revenue by business division and customer location

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Total group
France	1,203	886	1,125	316	0	3,530
Europe (excluding France)	708	687	489	1,279	1	3,164
North & South America	643	522	78	603	0	1,846
Asia-Pacific	330	183	215	817	0	1,545
Africa / Middle East	35	34	1	708	0	778
Other countries	0	0	0	0	0	0
Total	2,919	2,312	1,908	3,723	1	10,863

Closing balances of property, plant and equipment and intangible net assets (excluding goodwill) as of December 31, 2006 by geographical area and by division

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Total group
France	931	290	1,938	129	53	3,341
Europe (excluding France)	246	117	0	175	8	546
North & South America	732	120	10	54	28	944
Asia-Pacific	8	1	0	95	1	106
Africa / Middle East	51	0	0	1	0	51
Total	1,967	528	1,948	455	90	4,988

Acquisitions of property, plant and equipment and intangible net assets (excluding goodwill) as of December 31, 2006 by geographical area and by division

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Total group
France	536	87	87	29	14	752
Europe (excluding France)	67	57	0	26	0	149
North & South America	134	62	3	13	1	213
Asia-Pacific	5	1	0	19	0	25
Africa / Middle East	17	0	0	0	0	18
Total	759	207	89	87	15	1,157

5.4. Consolidated financial statements

Exercise 2005

Contribution to consolidated sales revenue by business division and customer location

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Total group
France	1,116	873	1,104	270	8	3,371
Europe (excluding France)	604	702	511	1,204	1	3,022
North & South America	631	626	118	482	4	1,861
Asia-Pacific	229	115	187	648	1	1,180
Africa / Middle East	51	31	0	596	0	678
Other countries	0	1	0	12	0	13
Total	2,631	2,348	1,920	3,212	14	10,125

Closing balances of property, plant and equipment and intangible net assets (excluding goodwill) as of December 31, 2005 by geographical area and by division*

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Total group
France	419	158	2,062	133	51	2,824
Europe (excluding France)	157	80	0	169	9	415
North & South America	742	81	10	61	31	924
Asia-Pacific	4	0	0	87	1	93
Africa / Middle East	47	0	0	1	0	48
Total	1,369	319	2,073	451	92	4,304

Acquisitions of property, plant and equipment and intangible net assets (excluding goodwill) as of December 31, 2005 by geographical area and by division

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Total group
France	114	74	67	19	12	286
Europe (excluding France)	46	53	0	16	0	115
North & South America	81	26	3	10	1	120
Asia-Pacific	4	0	0	14	0	18
Africa / Middle East	12	0	0	0	0	12
Total	256	153	70	60	13	552

* Including end-of-life-cycle asset – AREVA share.

2004*(excluding discontinued operations)***Contribution to consolidated sales revenue by business division and customer location**

<i>(in millions of euros)</i>	Front End	Reactors and Services	Back End	Transmission & Distribution	Corporate	Total group
France	1,051	844	1,027	208	7	3,137
Europe (excluding France)	558	530	403	1,155	1	2,647
North & South America	623	658	138	448	10	1,877
Asia-Pacific	252	91	377	716	1	1,437
Africa / Middle East	41	23	1	649	0	714
Other countries	0	0	0	9	0	9
Total	2,525	2,146	1,946	3,185	19	9,821

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

5.5. Notes to the consolidated financial statements

All amounts are presented in millions of euros unless otherwise indicated. Certain totals may include rounding differences.

INTRODUCTION

AREVA's consolidated financial statements for the period January 1, 2006 through December 31, 2006 were approved by the Executive Board on March 5, 2007 and reviewed by the Supervisory Board on March 22, 2007. The financial statements will be presented to the Annual General Meeting of Shareholders for approval in May 2007.

The AREVA group is fully consolidated by the Commissariat to l'Énergie Atomique (see Note 21).

NOTE 1. ACCOUNTING PRINCIPLES

Pursuant to European Regulation 1606 / 2002 of July 19, 2002, AREVA's consolidated financial statements for the year ended December 31, 2006 were prepared in accordance with International Financial Reporting Standards (IFRS), as approved by the European Union as of December 31, 2006. They reflect IAS and IFRS standards and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretation Committee (SIC).

Early adoption of IAS 32 and IAS 39 as of January 1, 2005

AREVA implemented IAS 32 and IAS 39 on financial instruments effective January 1, 2005, without restating its financial statements for 2004. Accordingly, the Company's Income Statement for 2004 cannot be compared directly to the Income Statements for 2005 and 2006.

Mandatory IFRS accounting standards and IFRIC interpretations applicable to the 2006 annual financial statements

Several new IFRS rules, amendments to existing rules, and IFRIC interpretations became mandatory for years beginning on or after January 1, 2006:

- IAS 19 revised, Employee Benefits (limited revision): actuarial differences, multi-employer plans and additional disclosures;
- IAS 21 revised, Effects of Changes in Foreign Exchange Rates: amendments regarding net investment in a foreign entity;
- IAS 39 revised, Financial Instruments:
 - Fair value option,
 - Inter-company cash flow hedges;

- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining Whether an Arrangement Contains a Lease;
- IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds Rehabilitations Funds;
- IFRIC 6, Liabilities Arising from Participating in a Specific Market - Waste. Electrical and Electronic equipment.

Implementation of these rules, amendments and interpretations had no material impact on AREVA's consolidated financial statements for the year ended December 31, 2006.

In particular, AREVA did not opt to recognize actuarial differences concerning employee benefits directly in equity at each closing, as now authorized by IAS 19. AREVA has elected to continue applying the corridor method to gains and losses resulting from changes in assumptions and experience differences after January 1, 2004, the date of first adoption of the IFRS.

In addition, IFRIC 5 had no effect on AREVA's financial statements since the group retains control over the financial assets it has earmarked for end-of-life-cycle obligations.

Early adoption of certain standards and interpretations as of December 31, 2006

The European Union adopted one new IFRS and several new IFRIC interpretations in 2006 which are mandatory for years beginning after December 31, 2006, with a possible early adoption on a voluntary basis:

- IFRS 7, Financial Instruments: Disclosures replacing IAS 30, revising IAS 32 and amending IAS 1;

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

- IFRIC 7, Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies;
- IFRIC 8, Scope of IFRS 2 Share-based Payments;
- IFRIC 9, Reassessment of Embedded Derivatives.

AREVA did not elect for early adoption of this standard and these interpretations in the financial statements for the year ended December 31, 2006, and, as such, they had no impact on the financial statements.

The quantified impact of application of this standard and these interpretations on AREVA's financial statements for the years beginning on or after January 1, 2007 is being evaluated.

AREVA's consolidated financial statements for the year ended December 31, 2006 take into account the final impact of IFRS adoption at STMicroelectronics, an associate accounted for under the equity method. By the deadline set to close its accounts for 2005, AREVA had not received a detailed assessment of IFRS adoption on the 2005 financial statements of STMicroelectronics.

1.1. Estimates and assumptions

To prepare its financial statements, AREVA must make estimates and assumptions impacting the net carrying amount of certain assets and liabilities, income and expense items, or information provided in the Notes to the financial statements. AREVA updates its estimates and assumptions on a regular basis to take into account past experience and other factors deemed relevant, based on business circumstances. Depending on changes in these assumptions or in circumstances, the group's future financial statements may or may not be consistent with current estimates.

The main estimates and assumptions include:

- anticipated margins on contracts accounted for according to the percentage of completion method (see Notes 1.8 and 24);
- anticipated cash flows, discount rates and growth assumptions used in impairment tests for goodwill and other property, plant and equipment and intangible assets (see Note 1.10 and 10);
- anticipated cash flows, discount rates and growth assumptions used to assess the value of put options held by minority shareholders of certain AREVA subsidiaries (see Notes 1.19 and 25);
- all assumptions used to assess the value of pension obligations and other employee benefits, including future payroll escalation, discount rates, retirement age and employee turnover (see Notes 1.16 and 23);
- all assumptions used to calculate provisions for end-of-life-cycle obligations and the corresponding asset, including:
 - estimated costs of future end-of-life-cycle obligations,

- inflation and discount rates,
- the schedule of future disbursements,
- the estimated operating life of the facilities, and
- the share of costs to be funded by third parties (see Notes 1.18 and 13);
- estimates regarding the outcome of ongoing litigation and, more generally, estimates regarding all provisions and contingent liabilities of the AREVA group (see Notes 1.17, 24 and 23);
- estimates of recovery potential used to recognize deferred tax assets (see Notes 1.22 and 8).

1.2. Presentation of the financial statements

AREVA's financial statements are presented in accordance with IAS 1.

1.2.1. Presentation of the balance sheet

The balance sheet makes a distinction between current and non-current assets, and current and non-current liabilities, in accordance with IAS 1.

Current assets and liabilities include assets held for sale or for use in connection with the operating cycle or expected to be sold or settled within 12 months of the balance sheet date.

Financial liabilities are reported as current or non-current liabilities based on their residual maturity at year-end.

To simplify the presentation of the balance sheet, AREVA presents all headings relating to end-of-life-cycle operations, as defined in Note 13, on separate lines under non-current assets or liabilities, for their full amount. Thus, provisions for end-of-life-cycle obligations are presented as non-current liabilities; the end-of-life-cycle asset corresponding to the share of third parties in the financing of these operations is presented under non-current assets. Financial assets earmarked to cover these operations are presented in a separate heading under non-current assets, including all equities and shares of equity and bond funds held in the portfolio, together with cash held on a short-term basis.

Provisions for employee benefits are also presented under non-current liabilities for their full amount.

Deferred tax assets and liabilities are reported as "non-current".

Non-current assets or groups of assets held for sale, and liabilities and assets of discontinued operations are presented under separate headings of the balance sheet, as required under IFRS 5.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

1.2.2. Presentation of the income statement

In the absence of guidance in IAS 1, the income statement is presented in accordance with recommendation 2004-R.02 of the Conseil National de la Comptabilité (French national accounting board).

- Operating expenses are presented by function and are split among the following categories:
 - Cost of sales;
 - Research and development expenses;
 - Sales and marketing expenses;
 - General and administrative expenses;
 - The costs of restructuring and early employee retirement plans;
 - Other operating income and expenses, mainly comprising:
 - Goodwill impairment losses;
 - Impairment of and income from disposals of property, plant and equipment and intangible assets;
 - Income from the deconsolidation of subsidiaries (except when qualified as discontinued operations in accordance with IFRS 5, in which instance they are presented on a separate line in the income statement).
- Net financial income comprises:
 - Gross borrowing costs;
 - Income from cash and cash equivalents;
 - Other financial expenses, most notably:
 - lasting impairment and gains or losses on disposals of available-for-sale securities;
 - positive changes in value and gains on disposals of securities held at fair value through profit or loss;
 - reverse discounting of provisions for end-of-life-cycle obligations and employee benefits.
 - Other financial income, most notably:
 - dividends received and other income from financial assets other than cash and cash equivalents;
 - gains on disposals of available-for-sale securities;
 - negative changes in value and losses on disposals of securities held at fair value through profit or loss;
 - reverse discounting of end-of-life-cycle assets (third party share);

- returns on retirement plan assets and other employee benefits.

- Net income after tax from discontinued operations, as defined in IFRS 5, is presented under a separate heading in the income statement. This item includes net income from these operations during the year up to the date of their disposal, and net income from the disposal itself.

1.2.3. Cash flow data

The cash flow statement is presented in accordance with recommendation 2004-R.02 of the French national accounting board. AREVA has adopted the indirect method of presentation, which starts with consolidated net income for the period.

Cash flows from operating activities include income taxes paid, interest paid or received, and dividends received, except for dividends received from equity associates, which are reported in cash flows from investing activities.

Cash flow from operations is presented before income tax, dividends and interest.

In accordance with IFRS 5, net cash flow from discontinued operations is presented under a separate heading in the cash flow statement.

This heading includes net cash flows from operations during the year up to the date of their disposal, and net after tax income from the disposal itself.

1.3. Consolidation methods

The consolidated statements combine the financial statements as of December 31, 2006 of AREVA and the subsidiaries which it controls or in which it exercises either joint control or a significant influence over financial policy and management.

- The companies controlled by AREVA are consolidated using the full consolidation method (including special purpose entities). Control is defined as the direct or indirect power to govern a company's financial and operating policies in order to benefit from its activities. Control is assumed when more than 50% of the voting rights are held, directly or indirectly. Determination of control takes into account the existence and effect of potential voting rights that may be exercised or converted immediately.
- The companies in which AREVA exercises joint control are consolidated using the proportionate consolidation method.
- The companies in which AREVA exercises a significant influence over financial policy and management ("associates") are accounted for using the equity method. Significant influence is deemed to exist if the group's investment is 20% or higher.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

Minority interests in consolidated subsidiaries with negative equity are borne in full by the group for accounting purposes, unless there is an explicit agreement for such minority shareholders to bear their share of the deficit, or when funding by the latter is not in question.

All material inter-company transactions are eliminated during consolidation.

1.4. Translation of financial statements of foreign companies

The AREVA group's financial statements are presented in euros.

The functional currency of an entity is the currency of the economic environment in which that entity primarily operates. The functional currency of foreign subsidiaries and associates is generally the local currency. However, another currency may be designated for this purpose when most of a company's transactions are in another currency.

The financial statements of foreign companies belonging to the AREVA group are prepared in the local functional currency and translated into euros for consolidation purposes in accordance with the following principles:

- balance sheet items (including goodwill) are translated at the rates applicable at the end of the period, with the exception of equity components, which are kept at their historic rates;
- income statement transactions and cash flow statements are translated at average annual rates;
- the group's share of currency translation differences impacting the income statement and equity is recognized directly in equity under the heading "Currency translation reserves". When a foreign company is sold, currency translation differences in respect of the company recorded in equity after January 1, 2004 are recognized in income.

1.5. Segment reporting

Segment reporting is presented at two levels:

- Level one: information by business sector, corresponding to the group's four operating divisions: Front End, Reactors and Services, Back End, and Transmission & Distribution, in addition to a Corporate division.

Information by division includes only personnel data and operating data included in the balance sheet and the income statement: sales revenue, operating income, goodwill, non-current property, plant and equipment and intangible assets, other operating assets, and liabilities. Financial assets and

liabilities and the group's tax position are managed at central level. The corresponding balance sheet and income statement items are not allocated to the group's operating divisions, but rather presented on a consolidated basis under the heading Corporate division.

- Level two: information by geographical area

AREVA's consolidated sales revenue are broken down by geographical area, depending on the destination of the goods and services, as follows:

- France
- Europe (excluding France),
- North and South America,
- Asia-Pacific,
- Africa / Middle East.

1.6. Business combinations – goodwill

Acquisitions of companies and operations are recorded at cost, as provided in IFRS 3, for business combinations subsequent to January 1, 2004.

The acquired company's assets, liabilities and contingent liabilities meeting the definition of identifiable assets and liabilities are recognized at fair value on the date of acquisition. However, the acquired entity's operations and non-current assets held for sale, as provided in IFRS 5, are recognized at the lower of fair value less costs to sell and the net carrying amount of the corresponding assets. For consolidation purposes, the date of consolidation of the acquired company is the date at which AREVA acquires effective control.

Restructuring and other costs incurred by the acquired company as a result of the business combination are included in the liabilities acquired, as long as IAS 37 criteria for provisions are met at the date of acquisition. Costs incurred after the date of acquisition are recognized in operating income during the year in which such costs are incurred or when meeting IAS 37 criteria.

The acquired company's contingent liabilities are recognized as identifiable liabilities and recorded at fair value on the date of acquisition. These liabilities reflect a potential obligation whose existence will only be confirmed if one or several uncertain future events which are not completely under the company's control were to occur.

The difference, on the acquisition date, between the acquisition cost of a company's shares and the fair value of corresponding assets, liabilities and contingent liabilities is recognized in goodwill when positive and in the income statement of the year of acquisition when negative.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

Minority interests are recognized initially based on the fair value of assets, liabilities and contingent liabilities on the date of acquisition, prorated for the percentage interest held by minority shareholders.

The valuation of the acquired company's assets, liabilities and contingent liabilities may be adjusted within twelve months of the date of acquisition. After expiration of this period, the goodwill may only be adjusted under very specific circumstances: price adjustment, correction of errors, or subsequent recognition of a deferred tax asset that did not meet the criteria for recognition at the date of acquisition.

Goodwill is not amortized. It is subject to impairment tests that are systematically performed at least once a year, or more often if there are signs of impairment. Impairment is recognized if the outcome of these tests indicates that it is necessary.

To perform impairment tests, all goodwill is allocated to cash-generating units (CGUs) reflecting the group's structure. CGUs and the methodology used for impairment tests are described in Note 1.10.

When the recoverable value of the cash-generating unit is less than the net carrying amount of its assets, the impairment is allocated first to goodwill and then to other non-current assets of the CGU (property, plant and equipment and intangible assets), prorated based on their net carrying amount.

Impairment allocated to goodwill cannot be reversed.

Upon the sale of a consolidated unit, goodwill allocated to the unit is included in its net carrying amount and taken into consideration determining the gain or loss on disposal.

1.7. Revenue recognition

Sales revenue is recognized at the fair value of the consideration received or to be received.

It is recognized net of rebates and sales taxes.

Sales are recognized upon transfer to the buyer of the risks and rewards of ownership, which generally coincides with the transfer of title or the performance of the service.

Sales revenue includes:

- Sales revenue recognized according to the percentage of completion method for long-term contracts (see Note 1.8 below);
- Sales revenue other than from long-term contracts, including:
 - sales of goods (products and merchandise), and;
 - services performed.

Sales revenue in respect of transactions where the unit only acts as broker, without bearing the risks and rewards attached to the goods, consists of the margin obtained by the unit. The same is true for commodity trading activities, which primarily concern uranium trading.

No revenue is recognized when materials or products are exchanged for materials or products of a similar nature and value.

1.8. Sales recognized according to the percentage of completion method

Sales revenue and margins on long-term contracts are recognized according to the percentage of completion method (PCM), as provided in IAS 11 for construction contracts and in IAS 18 for services.

As required by this method, sales revenue and income from long-term contracts are recognized over the period of performance of the contract. Depending on the contract terms, the percentage of completion may be based on costs incurred or the stage of physical completion.

- Under the cost-based PCM formula, the stage of completion is equal to the ratio of costs incurred (i.e. costs of work or services performed and confirmed as of the end of the accounting period) to the total anticipated cost of the contract. This ratio may not exceed the percentage of physical or technical completion as of the end of the accounting period.
- Under the physical completion PCM formula, a predetermined percentage of completion is assigned to each stage of completion of the contract. The sales revenue and costs recognized at the end of the period are equal to the percentage of sales revenue and anticipated costs for the stage of completion achieved at that date.

When contract terms generate significant cash surpluses during all or part of the contract's performance, the resulting financial income is included in contract revenue and recognized in sales revenue based on the percentage of completion.

However, AREVA has elected not to include financial expenses in the cost of the contract, as allowed under IAS 11.

When the gain or loss at the end of the contract cannot be estimated reliably, the costs are recorded as expenses when incurred and the revenue recognized may not exceed the costs incurred and recoverable. The net margin recognized is therefore nil.

When a contract is expected to generate a loss at completion, the total projected loss is recorded immediately, after deduction of any already recognized partial loss, and a provision is set up accordingly.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

1.9. Valuation of property, plant and equipment and intangible assets

1.9.1. Initial recognition

Property, plant and equipment and intangible assets are recognized at amortized cost.

AREVA has not elected to recognize certain PPE and intangible assets at fair value, as allowed under IAS 16.

1.9.2. Borrowing costs

AREVA has not made an IAS 23 election to include borrowing costs in the valuation of property, plant and equipment and intangible assets.

1.9.3. Intangible assets

Research and development expenses

Research and development expenses incurred by AREVA for its own account are expensed as they are incurred.

Research and development expenses funded by customers under contract are included in the production cost of these contracts and recorded under cost of sales when the corresponding sales revenue is recognized in income.

As provided in IAS 38, expenses relating to development projects are recorded as intangible assets if the project meets the following six criteria:

- it is technically feasible;
- the company intends to complete the asset, to use it or sell it;
- the company is able to use or sell the asset;
- future economic benefits are likely (existence of a market or internal use);
- adequate resources are available to complete the project; and
- costs attributable to the asset can be measured reliably.

Capitalized development costs are amortized over the expected life of the intangible asset, from the commissioning date. They are depreciated on a straight line basis over a minimum period of time.

Costs expensed in a year prior to the decision to capitalize may not be capitalized subsequently.

Mineral exploration

Exploration costs, including geological work, are determined in accordance with the following rules: exploration costs for which no commercially viable deposit has been discovered are expensed during the year in which they are incurred under the heading "Research and development expenses". mining pre-development expenses relating to reserves presenting technical and economic characteristics that indicate a strong probability of profitable mining development may be capitalized at year end. Indirect costs, excluding overhead expenses, are included in the valuation of these costs. Capitalized pre-mining expenses are amortized in proportion to the number of tons mined from the reserves they helped identify.

Greenhouse gas emission allowances

Following the withdrawal by the IASB of IFRIC 3, and pending a decision by regulators on accounting for greenhouse gas emission allowances, AREVA does not record an asset or provision as long as the group's emissions are lower than the allowances it has received.

AREVA does not trade speculatively on emission allowance markets. The group's only transactions in 2006 were sales of rights corresponding to allowances allocated to it in excess of actual CO₂ emissions. Proceeds from these sales were recognized in the income statement under the heading "Other operating income".

Other intangible assets

An intangible asset is recorded when it is likely that future economic benefits will accrue to the company and if the cost of this asset can be estimated reliably, based on reasonable and documented assumptions.

Intangible assets are recorded at acquisition or production cost.

Goodwill and trademarks produced internally are not capitalized.

Amortization of intangible assets is calculated using the most appropriate method for the asset category, starting on the date of commissioning and over the shorter of their probable period of use and, when applicable, the length of their legal protection.

Intangible assets without indefinite useful lives, such as brands, are not amortized, but are subject to impairment tests (see Note 1.10).

1.9.4. Property, plant and equipment

Property, plant and equipment are recognized at acquisition or production cost, including startup expenses, less cumulative depreciation and impairment.

The cost of nuclear facilities includes AREVA's share of provisions for end-of-life-cycle operations, estimated as the start date (see Note 1.18).

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

They are depreciated, based on the approach most representative of the loss of economic value of each component, with each component depreciated based on its own useful life.

Mining land is depreciated over the life of the deposit; site layout and preparation expenses are depreciated over 10 years; buildings over 10 to 45 years; production facilities, equipment and tooling other than nuclear facilities over 5 to 10 years; general facilities and miscellaneous fixtures over 10 to 20 years; and transportation equipment, office equipment, computer equipment and furniture over 3 to 10 years.

Assets financed under leasing arrangements, which transfer, in substance, nearly all the risks and rewards inherent to ownership of the asset to AREVA, are recognized in the balance sheet as property, plant and equipment assets and depreciated as indicated above. Assets financed by customers are depreciated over the term of the corresponding contracts.

The group's nuclear facilities are depreciated on a straight line over their useful lives on the basis of firm contracts to be performed by these facilities, including reasonable expectations for contract renewals.

Depreciation periods may be revised if the group's backlog changes significantly.

1.10. Impairment of property, plant and equipment and intangible assets

At each year-end, the group evaluates potential indications of asset impairments.

Impairment tests are performed systematically at least once a year for intangible assets with indefinite useful lives or more often if there is an indication of impairment.

Impairment tests are performed as soon as there is an indication that property, plant and equipment or intangible assets with finite useful lives may be impaired.

When no estimate of an individual asset's recoverable amount may be established, the group determines the recoverable amount of the cash-generating unit to which the asset belongs.

A cash-generating unit (CGU) is the smallest identifiable group of assets generating cash inflows which are largely independently of the cash inflows from other assets or groups of assets.

Impairment is recognized when the recoverable amount of a cash-generating unit is less than the net carrying amount of all assets belonging to it. The recoverable amount of a CGU is the higher of:

- its fair value net of disposal expenses;
- the present value of the estimated future cash flows it produces plus, if applicable, its residual value at the end of its projected service life.

To determine an asset's useful value, cash flows are discounted based on a discount rate consistent with a current assessment of the time value of money and the specific risk of the asset.

For goodwill impairment tests, AREVA's CGUs generally represent business units. Each business unit is comprised of reporting entities managed by a single operating manager. The business unit is the elementary unit of the group's management structure.

However, a CGU may include several interdependent business units.

1.11. Inventories and work-in-process

Inventories and work-in-process are valued at production cost in the case of goods produced by the group and at acquisition cost in the case of goods acquired for consideration. Items are valued according to the first-in first-out method (FIFO) or at weighted average cost, depending on the type of inventory or work-in-process.

Impairment is recognized when the likely recoverable amount of inventory or work-in-process is less than its net carrying amount.

Financial expenses and research and development costs funded by AREVA are not taken into account in the valuation of inventories and work-in-process. However, the cost of research and development programs funded by customers is recognized in inventories and work-in-process.

Uranium inventories belonging to the group's trading business are recognized at market price.

1.12. Accounts receivable

Accounts receivable, generally due in less than one year, are recognized at face value.

An impairment charge is recognized to reflect the likely recovery value when collection is not assured.

1.13. Financial assets

Financial assets consist of:

- Assets earmarked to finance end-of-life-cycle obligations;
- Other available-for-sale securities;
- Loans, advances and deposits;
- Securities recognized at fair value through profit and loss;
- Cash and cash equivalents.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

They are valued in accordance with IAS 39.

Regular purchases and sales of financial assets are recognized as of the date of transaction.

1.13.1. Assets earmarked to finance end-of-life-cycle obligations

This heading includes all investments dedicated by AREVA to the funding of its obligations for future end-of-life-cycle operations in the Nuclear business, including facility dismantling and waste retrieval and packaging. The portfolio includes directly-held publicly traded shares, dedicated equity mutual funds, dedicated bond and money market funds, and cash.

- Publicly traded shares are recognized as “Available-for-sale securities, as provided in IAS 39. They are recognized at fair value corresponding to the last traded price of the year. Changes in value are recognized directly in equity under the heading “Deferred unrealized gains and losses”, on an after-tax basis, except for lasting impairment, which is recognized in financial expenses for the year.

A charge for lasting impairment is recognized when the sliding average of the stock market price of the share over 12 months is less than 70% of its initial fair value. The impairment is calculated as the difference between the price traded on the stock market on the last day of the period and the initial fair value of the shares.

Impairment of available-for-sale securities is irreversible and may only be released to the income statement on sale of the securities. Market price increases subsequent to recognition of impairment are recorded as a change of fair value recognized directly in equity under the heading “Deferred unrealized gains and losses”.

- AREVA does not consolidate its dedicated mutual funds on an individual basis, since the company is not involved in their management, which is under the responsibility of first-rate management firms that are independent from the group. These mutual funds are benchmarked to the MSCI index of large European capitalizations, with strict limits on risk. The funds are regulated by the French stock market authority and therefore subject to regulations governing investment and concentration of risk. Moreover, AREVA complies with the conditions established in the August 2005 interim report of the French national accounting board regarding accounting for dedicated mutual fund investments. This method was adopted as of December 31, 2006, pending the issue of an opinion by IFRIC on the French national account board’s interim report. In addition:
 - AREVA does not have control over the mutual funds’ management firms;

- AREVA does not hold voting rights in the mutual funds;
- the funds do not trade directly or indirectly in financial instruments issued by AREVA;
- none of the financial investments made by the funds are strategic to AREVA;
- AREVA receives no benefit and bears no risk, directly or indirectly, other than that normally associated with investments in mutual funds and in proportion to its holding;
- the funds have no debt or liabilities other than that resulting from normal trading.

Accordingly, the dedicated mutual funds are recognized on the balance sheet under a single heading corresponding to AREVA’s share of their net asset value as of the end of the year.

Irrespective of their long-term investment objective, the funds dedicated to financing end-of-life-cycle operations are recognized as available-for-sale securities. Accordingly, the accounting treatment of changes in fair value and lasting impairment measurement and recognition methods are identical to those applicable to directly-held shares.

1.13.2. Other available-for-sale securities

This heading includes all shares held by AREVA in publicly traded companies, except shares in equity associates and shares recognized at fair value through profit and loss.

These shares are valued in the same manner as shares held in the dedicated portfolio:

- Fair value equal to the last traded price of the year.
- Changes in fair value recognized directly in equity.
- Lasting impairment recorded in financial income when the 12-month sliding average of the market price of the share is less than 70% of its initial fair value. Impairment is equal to the difference between the stock market price of the share at the end of the year and the initial fair value.

This heading also includes the group’s investments in the share capital of unconsolidated companies, either because AREVA does not have control and has no significant influence over them or because of immateriality. These shares are valued at cost when the fair value cannot be estimated reliably. This relates only to privately held companies.

Impairment due to a long-term decrease in value is recognized as a financial expense, based on financial criteria relevant to each individual company, such as AREVA’s share of the company’s equity or its profitability outlook.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

1.13.3. Loans, advances and deposits

This heading mainly includes loans related to unconsolidated equity interests, advances for acquisitions of equity interests, and security deposits.

These assets are valued at amortized cost. Impairment is recognized when the recoverable amount is less than the net carrying amount.

1.13.4. Securities recognized at fair value through profit and loss

This heading includes investments in bonds – other than those earmarked for end-of-life-cycle operations – and balanced mutual funds comprised of equities and bonds.

These assets are recognized at fair value based on their stock market price or their net asset value at the end of the period. Changes in fair value are recognized under financial income for the period.

1.13.5. Cash and cash equivalents

Cash includes bank balances and non-trade current accounts with unconsolidated entities.

Cash and cash equivalents include risk-free marketable securities with an initial maturity of three months or less, or which may be converted into cash almost immediately. These assets include:

- negotiable debt instruments recognized at face value, deemed equivalent to fair value;
- mutual fund shares in euros valued at net asset value at year-end.

1.14. Treasury shares

Treasury shares are not recognized on the balance sheet but deducted from equity, at cost.

Accordingly, treasury shares held by associates are deducted from the equity taken into account by AREVA when recognizing these companies under the equity method.

1.15. Non-current assets held for sale and discontinued operations

As provided in IFRS 5, non-current property, plant and equipment and intangible assets are considered held for sale if they are available for immediate sale in their current condition and their

disposal is highly probable during the 12-month period following the end of the accounting year.

Discontinued operations include specific business lines where management has initiated a disposal program and an active search for buyers, when disposal is highly probable during the 12-month period following the end of the accounting year.

Non-current assets held for sale and assets from discontinued operations are recognized at the lower of their net carrying amount before reclassification and their fair value, less costs to sell. They are presented under a specific heading of the balance sheet and depreciation is discontinued upon transfer to this category.

Net income from discontinued operations or operations in the process of being sold, which includes net income from these operations until the date of disposal and the net after-tax gain on the disposal, is reported on a separate line in the income statement.

Net cash flows from discontinued operations, which include cash flows from these operations until the date of disposal and the net cash flow after tax on the disposal, are reported on a separate line in the cash flow statement.

1.16. Employee benefits

The group recognizes a provision for all of its commitments for retirement, early retirement, severance pay, medical insurance, job-related awards, accident and disability insurance, and other related commitments, whether for active personnel or for retired personnel, net of assets in the plans and unrecognized gains.

In the case of defined contribution plans, the group's payments are recognized as expenses for the period to which they related.

In the case of defined benefit plans, benefit costs are estimated using the projected unit credit method. Under this method, accrued pension benefits are allocated to service periods based on the plan vesting formula. If service in subsequent years results in accrued benefit levels that are substantially higher than those of previous years, the company must allocate the accrued benefits on a straight-line basis.

The amount of future benefit payments to employees is determined based on salary trend assumptions, retirement age and mortality, and, discounted to present value based on interest rates for long-term bonds from AAA issuers.

Actuarial gains and losses (change in the valuation of the commitment due to changes in assumptions and experience differences) are spread out over the average expected remaining working life of personnel taking part in these plans for the portion exceeding the largest of the following values by more than 10%:

- the present value of the defined benefit obligation at the balance sheet date,

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

- the fair value of plan assets at the balance sheet date.

The cost of plan changes are spread over the vesting period.

AREVA elected to record in equity as of January 1, 2004, all actuarial gains and losses not recognized in the balance sheet as of December 31, 2003.

The costs relating to employee benefits (pensions and other similar benefits) are split into three categories:

- the provision discount reversal, net of returns on plan assets, is recognized in “Net financial expenses”;
- the current service cost and the amortization of past services are split between the different operating expense items by destination: Cost of sales, Research and development expenses, Sales and marketing expenses, and General and administrative expenses;
- the amortization of actuarial gains and losses is recognized in operating income under the heading “Other operating income and expenses”.

1.17. Provisions

As provided in IAS 37, a provision is recognized when the group has an obligation towards a third party at the end of the period, whether legally, contractually or implicitly, and it is probable that a net outflow of resources will be required after the end of the period to settle this obligation, without receiving consideration at least equal to the outflow. A reasonably reliable estimate of net outflow must be determined in order to recognize a provision.

Provisions for restructuring are recognized when the restructuring has been announced and a detailed plan has been presented or the restructuring has begun.

When the outflow of resources is expected to occur in more than two years, provisions are discounted to net present value if the impact of discounting is material.

1.18. Provisions for end-of-life-cycle operations

Provisions for end-of-life-cycle operations are discounted by applying an inflation rate and a discount rate, determined based on the economic situation of the country in which the particular facility is located, to estimated future cash flows by maturity.

The share of provisions for end-of-life-cycle operations corresponding to funding expected from third parties is recognized in a non-current asset account, “End-of-life-cycle asset - third party share”, which is discounted in exactly the same way as the related provisions.

The AREVA group’s share of the provision for end-of-life-cycle operations is valued at the startup date of the facilities in question and is an integral component of the cost basis of these facilities, which are recognized as plant, property and equipment (see Note 1.9.4.).

Treatment of income and expenses from discounting reversals

The discounting of the provision is partially reversed at the end of each period. The discounting reversal corresponds to the increase in the provision due to the passage of time. It is based on the discount rate used when the provision was established.

This increase is recorded as a financial expense.

Similarly, the discounting of the provision corresponding to the third party share is partially reversed rather than amortized.

The resulting increase in the third party share is recognized as financial income.

The share financed by third parties is reduced for the value of work done on their behalf, with recognition of a receivable from these third parties in the same amount.

Treatment of amortization

AREVA’s share of each end-of-life-cycle asset (share of provisions for end-of-life-cycle operations to be borne by the group) is amortized over the same period as the facilities to which it relates.

The corresponding amortization expense is not considered as part of the cost of inventories or the cost of contracts, and is not taken into account in the calculation of their percentage of completion. However, it is included in the income statement under the heading “Cost of sales” and is therefore deducted from the gross margin.

Inflation and discount rates used to discount the cost of end-of-life-cycle operations

Inflation and discount rates used to discount the cost of end-of-life-cycle operations are determined as follows:

- The inflation rate reflects the long-term objectives of the European Central Bank.
- The discount rate is determined taking into account:
 - anticipated inflation as defined above;
 - the sliding three-year average rate of French Treasury bonds (OATs), escalated for inflation and adjusted based on the average duration of end-of-life-cycle expenses;
 - a spread between AAA bonds and OATs for this same time-frame.

For facilities in France, AREVA adopted an inflation rate of 2% and a discount rate of 5% as of December 31, 2004, December 31, 2005 and December 31, 2006.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

Treatment of changes in assumptions

Changes in assumptions relate to changes in cost estimates, discount rates and disbursement schedules.

As provided in IFRS, the group uses the prospective method:

- The end-of-life-cycle asset / AREVA share is adjusted for the same amount as the provision.
- It is amortized over the residual useful life of the facilities.
- If operation of the facility is discontinued, the impact is recognized in the year of the change. Impacts from changes in cost estimates are recognized under operating income. Impacts from changes in discount rates and disbursement schedules are recognized under financial income.

Provisions for waste retrieval and packaging funded by the group have no corresponding end-of-life-cycle asset. Consequently, changes in assumptions concerning the group's share of these provisions are recognized immediately in the income statement. Impacts from changes in cost estimates are recognized under operating income. Impacts from changes in discount rates and disbursement schedules are recognized under financial income.

1.19. Borrowings

Borrowings include:

- Put options held by minority shareholders of AREVA group subsidiaries;
- Obligations under finance leases;
- Other interest-bearing debt.

1.19.1. Put options held by minority shareholders of group subsidiaries

As provided in IAS 32, unconditional put options held by minority shareholders of AREVA group subsidiaries are recognized as borrowings.

Agreements establishing these options stipulate a strike price corresponding to the fair value of the minority interests at the date of exercise. Consequently, the amount recognized on AREVA's balance sheet is equal to the fair value of the minority interests at the balance sheet date, calculated according to the discounted cash flow method. This value is revised annually.

The difference between the amount recognized in "Borrowings and the minority interests" corresponds to the difference between the fair value of these interests and their net carrying amount. Accordingly, considering the lack of guidance from regulators regarding accounting for options of this kind, AREVA has decided to report these options as borrowings through the following offsetting entries:

- first, the corresponding minority interests are canceled;
- secondly, the excess above the value of the minority interests is treated as an increase in the goodwill of the companies involved.

Minority interests are allocated their share of income in the income statement. In the balance sheet, the share of income allocated to minority interests reduces the amount of goodwill, or increases it in the case of a loss.

Dividends paid to minority interest holders translate into an increase in goodwill.

Subsequent changes in the fair value of these options are also recognized in goodwill.

1.19.2. Obligations under finance leases

As provided in IAS 17, leasing arrangements are considered finance leases when all of the risks and rewards inherent to ownership are, in substance, transferred to the lessee. At inception, finance leases are recognized as a debt offsetting an asset of an identical amount, corresponding to the lower of the fair value of the property and the discounted net present value (NPV) of future minimum payments due under the contract.

Lease payments made subsequently are treated as debt service and allocated to repayment of the principal and interest, based on the rate stipulated in the contract or the discount rate used to value the debt.

1.19.3. Other interest-bearing debt

This heading includes:

- Interest-bearing advances from customers. Interest-bearing advances from customers are accounted for as borrowings; non interest-bearing advances are considered operating liabilities.
- Loans from financial institutions.
- Short-term bank facilities.

Interest-bearing debt is recognized at amortized cost using the effective interest method.

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

1.20. Translation of foreign currency denominated transactions

Foreign currency denominated transactions are translated by group companies into their functional currency at the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate prevailing on the last day of the period. Foreign exchange gains and losses are then recognized:

- in operating income when related to operating activities: trade accounts receivable, trade accounts payable, etc.
- in financial income when related to loans or borrowings.

However, currency translation differences relating to the long-term financing of foreign subsidiaries are not recognized in income, but rather directly in translation reserves in consolidated equity until the subsidiary concerned is divested.

1.21. Derivative instruments and hedge accounting

1.21.1. Risks hedged and financial instruments

The AREVA group uses derivative instruments to hedge foreign exchange risks, interest rate risks and the price of commodities. The derivative instruments used include mostly forward currency contracts, currency and interest rate swaps, currency options and commodity options.

The risks hedged relate to receivables, borrowings and firm commitments in foreign currencies, planned transactions in foreign currencies, and planned sales and purchases of commodities.

1.21.2. Accounting for derivative instruments

As provided in IAS 39, derivative instruments are initially recognized at fair value and subsequently revalued at the end of each period until settled.

Accounting methods vary depending on whether the derivative instruments are designated as fair value hedges or cash flow hedges or do not qualify for hedge accounting.

Fair value hedges

This designation covers hedges of firm commitments in foreign currencies: procurement, sales, receivables and debt. The hedged item and the derivative instrument are revalued simultaneously through the income statement.

Cash flow hedges

This designation covers hedges of probable future cash flows: planned procurement and sales in foreign currencies, planned purchases of commodities, etc.

The highly probable hedged item is not valued in the balance sheet. Only the derivative hedge is revalued at the end of each accounting period. The portion of the gain or loss that is considered effective is recognized directly in equity under the heading "Deferred unrealized gains and losses", on an after-tax basis. Only the ineffective portion of the hedge impacts income for the period.

The amount accumulated in equity is transferred to income when the hedged item impacts the income statement, i.e. when the hedged transaction is settled and recognized in the financial statements.

Derivative instruments not qualifying for hedge accounting

When derivative instruments do not qualify for hedge accounting, fair value gains and losses are recognized immediately in the income statement.

1.21.3. Presentation of derivative instruments in the balance sheet and the income statement

Presentation in the balance sheet

Derivative instruments used to hedge risks on commercial transactions are reported under operating assets and liabilities. Derivative instruments used to hedge risks related to loans and borrowings are reported under the heading "Financial assets or Borrowings".

Presentation in the income statement

The spot component of fair value gains and losses on derivative instruments and hedged items relating to operating activities is recognized under the heading "Other operating income and expenses". The discount / premium component is recognized under the heading "Financial income".

For loans and borrowings denominated in foreign currencies, fair value gains and losses on hedging instruments and hedged items are reported under the heading "Financial income".

1.22. Income tax

Since January 1, 1983, AREVA has had regulatory approval to submit a consolidated tax return under article 209-5 of the French tax code. Renewal of this tax status was requested for the 2005 to 2007 period. The consolidated tax amount is reported under the heading "Income tax", whether a tax expense or a tax credit (except for tax related to discontinued operations).

5.5. Notes to the consolidated financial statements

Note 1. Accounting principles

Tax related to operations discontinued or sold during the year, if any, is reported under the heading "Net income from discontinued operations".

As provided in IAS 12, deferred taxes are determined according to the liability method. The current tax rate or the rate known at the balance sheet date as applicable at the time of anticipated reversal of temporary differences between the net carrying amount and the tax basis of assets and liabilities is applied to all such differences. Deferred taxes are not discounted to net present value.

Temporary taxable differences generate a deferred tax liability.

Temporary deductible differences, tax loss carry-forwards, and unused tax credits generate a deferred tax asset equal to the probable amounts recoverable in the future. Deferred tax assets are analyzed case by case, based on income projections for the next three to five years.

Deferred tax assets and liabilities are netted for each taxable entity if the entity is allowed to offset its current tax receivables against its current tax liabilities.

Deferred tax liabilities are recorded for all taxable temporary differences of subsidiaries, associates and partnerships, unless AREVA is in a position to control the timing of reversal of the temporary differences and it is probable that such reversal will not take place in the near future.

Tax accounts are reviewed at the end of each accounting year, in particular to take into account changes in tax laws and the possibility that amounts recognized will be recovered.

Deferred taxes are recognized through profit and loss, unless they concern items recognized directly in equity, in which case deferred taxes are also recognized directly in equity.

NOTE 2. CONSOLIDATION SCOPE

2.1. Consolidated companies (French / foreign)

(number of companies)	2006		2005		2004	
	Foreign	French	Foreign	French	Foreign	French
Consolidation method						
Full consolidation	127	82	120	78	159	90
Equity method	4	8	5	8	4	8
Proportionate consolidation	19	1	12	0	12	0
Subtotal	150	91	137	86	175	98
Total	241		223		273	

2.1.1 2006 transactions

The main changes in the scope of consolidation during the year were as follows:

Enrichment Technology Company (ETC)

On July 3, 2006, AREVA acquired a 50% interest in the Enrichment Technology Company (ETC) from Urenco and consolidated it on a proportionate basis as of that date. The European Union competition authorities had approved the deal beforehand, and a multilateral agreement to control the uranium centrifuge enrichment technology had been ratified by France, Germany, the Netherlands and the United Kingdom.

ETC combines Urenco's activities in the design and construction of uranium centrifuge enrichment equipment and facilities, along with related R&D. ETC will have sole responsibility for the partners' operations in this area. However, the partners will continue to compete with each other on the enrichment services market.

The acquisition of a 50% interest in ETC secures AREVA's access to the centrifuge equipment needed to build the new Georges Besse II uranium enrichment plant. In so doing, AREVA will be able to meet its long term commitments to customers by ensuring a smooth transition from the Georges Besse gaseous diffusion enrichment plant to the George Besse II centrifuge enrichment plant.

ETC reported 2005 sales revenue of €236 million and employs around 1,000 people, chiefly in its facilities in Capenhurst (United Kingdom), Almelo (the Netherlands), and Jülich and Gronau (Germany).

This transaction generated initial goodwill of €161 million, based on an acquisition price of €200 million. The fair value assessment of ETC's assets and liabilities had not been completed as of December 31, 2006. As a result, the corresponding goodwill will be finalized in the first half of 2007, as provided by IFRS 3.

La Mancha

On May 19, 2006, AREVA NC and La Mancha Resources Inc. signed a final agreement to combine their gold mining and exploration operations. The transaction closed on September 28, 2006.

La Mancha Resources Inc. is a Canadian company traded on the TSX / V stock exchange in Toronto. AREVA contributed its gold operations to La Mancha Resources Inc., including Cominor, SMI (in Côte d'Ivoire), AMC (in Sudan) and Mineraus (in Australia). In exchange for its contributions, AREVA received a 63.55% equity interest in La Mancha.

This transaction generated goodwill of €15 million and a dilution gain of €17 million.

Sfarsteel

On September 8, 2006, AREVA NP acquired all of the share capital of Sfarsteel, a group specialized in forgings, machining, mechanics and welding with plants near Le Creusot, France. Sfarsteel reported 2006 sales revenue of €41 million. With the worldwide Nuclear industry revival gaining momentum, AREVA seeks to consolidate its procurement capabilities in heavy components, especially forgings.

This transaction generated goodwill of €101 million, based on an acquisition price of €170 million after revaluation of production assets, buildings and intangible assets.

Ritz High Voltage

AREVA T&D entered into an agreement with the German group Ritz setting financial and legal terms for the acquisition of its high voltage instrument transformer operations.

Ritz High Voltage is a world leader in instrument transformers, with sales revenue of some €50 million and a workforce of close to 500 employees.

The group will capitalize on product and regional synergies with AREVA T&D's instrument transformer business, particularly in strategic countries such as China and the United States, to become the world leader in this business.

The acquisition is consistent with AREVA T&D's targeted acquisition strategy aimed at strengthening each of its product lines.

This transaction generated goodwill of €6 million, based on an acquisition price of €34 million.

5.5. Notes to the consolidated financial statements

Note 2. Consolidation scope

REpower

AREVA increased its equity interest in REpower by subscribing to a capital increase for that company and by acquiring shares on the market. These transactions bring AREVA's holding to 29.99%.

2.1.2. 2005 transactions

The main changes in the scope of consolidation during the year were as follows:

Disposal of FCI

AREVA's Connectors business, held by FCI, was originally built by AREVA NP (formerly Framatome ANP) through a series of acquisitions dating as far back as the end of the 1980s. After the connectors market suffered a setback, with a significant impact on FCI's financial statements in 2001-2002, AREVA decided to help with the recovery of this subsidiary. The support provided for the restructuring of production facilities between 2001 and 2004 allowed FCI to return to profitability in 2004.

AREVA received numerous expressions of interest from potential buyers after indicating to the market that FCI was not a strategic asset for the group. In June 2005, a decision was made to solicit offers formally, and a multi-phase process was initiated to select potential buyers. AREVA contacted 36 prospects, including industrial groups and investment funds.

On September 5, 2005, the top three candidates submitted firm and final offers to acquire 100% of FCI's share capital. On September 19, 2005, AREVA signed a sales agreement with Bain Capital after receiving a positive opinion from AREVA's Works Council and approval from the Supervisory Board, meeting on the same day. The share transfer agreement closed on November 3, 2005, after all conditions precedent had been satisfied.

The shares were sold to Bain Capital for €582 million, or €4.10 per share.

Acquisition of AREVA T&D India and Pakistan

During the month of August 2005, the transmission and distribution business consolidated in Alstom Ltd (India) was transferred to AREVA T&D after all remaining conditions precedent were satisfied. On August 3, 2005, 80% of the shares of AREVA T&D Pakistan were transferred to AREVA T&D Holding.

Disposal of T&D operations in Australia and New Zealand

Pursuant to the agreement of December 22, 2004, AREVA T&D and Transfield Services signed a contract for the purchase of AREVA T&D's telecommunications and electrical services operations in Australia and New Zealand. The purchase price was set at €95 million. The transaction closed in April 2005 after all regulatory authorizations were received and conditions precedent satisfied. These operations were consolidated by AREVA until the date of the disposal. The disposal did not have a material impact on consolidated net income for 2005.

These operations concern outsourced engineering and maintenance services provided to owners of major infrastructures and industrial companies operating in the electricity, heavy industry, telecommunication and related infrastructure sectors. They are not part of AREVA T&D's core businesses.

STMicronics

Following the repurchase of its own shares by FT1CI, AREVA's stake in FT1CI increased from 79% to 100% in August 2005. The repurchase was financed by a sale of STMicronics shares held indirectly by France Telecom. As a result of this change, AREVA's percentage of control over STMicronics fell from 13.9% to 10.9%.

REpower

In September 2005, the group acquired 21.2% of REpower, which has been consolidated under the equity method since that date.

5.5. Notes to the consolidated financial statements

Note 2. Consolidation scope
Note 3. Sales revenue

2.2. Impact on the financial statements of changes in the consolidation scope and methods

In 2006, 2005 and 2004, changes in the consolidation scope and methods had the following impacts on consolidated sales revenue and operating income:

Deconsolidated companies

<i>(in millions of euros)</i>	2006	2005	2004
Sales revenue	6	102*	14
Operating income	0	6*	(4)

* Excluding the impact of the FCI disposal, recognized as a discontinued operation.

The deconsolidation of these companies did not have a significant impact on sales revenue for 2006.

Newly consolidated companies and change in consolidation method

<i>(in millions of euros)</i>	2006	2005	2004
Sales revenue	102	113	3,243
Operating income	7	33	34

The impact on sales revenue of newly consolidated companies, either as a result of an acquisition or a move to full or proportionate consolidation, is presented below:

<i>(in millions of euros)</i>	2006*	2005*	2004*
ETC	44		
Sfarsteel	30		
Ritz	12		
AREVA T&D India Ltd		83	
AREVA T&D			3,186
Other	16	30	57
Total	102	113	3,243

* Sales revenue recognized by the group for the year.

NOTE 3. SALES REVENUE

<i>(in millions of euros)</i>	2006	2005	2004
Sales accounted for according to the percentage of completion method	3,613	3,708	2,541
Other sales of goods and services			
- Sales of goods	3,982	3,447	3,429
- Sales of services	3,268	2,970	3,851
Total	10,863	10,125	9,821

Sales revenue for 2004, 2005 and 2006 do not include any significant revenue from exchanges of goods or services for current or future consideration other than cash.

The table below reports data on contracts recognized according to the percentage of completion method, as of December 31, 2006:

<i>(in millions of euros)</i>	
Amount of costs incurred and profits recognized, net of losses recognized, through December 31, 2006	17,078
Customer advances	3,571
Amounts withheld by customers	20

5.5. Notes to the consolidated financial statements

Note 4. Personnel expenses and operating leases

Note 5. Depreciation, amortization and impairment of property, plant and equipment and intangible assets and provisions impacting operating income

NOTE 4. PERSONNEL EXPENSES AND OPERATING LEASES

The group has elected to present its income statement based on the destination of income and expense items. Additional information is provided in Notes 4 and 5.

<i>(in millions of euros, except workforce)</i>	2006	2005	2004
Payroll expenses	(3,245)	(3,120)	(3,166)
Employees at the end of the year	61,111	58,760	57,909
Operating leases	114	104	85

Payroll expenses include salaries and related social security contributions, excluding retirement benefits.

NOTE 5. DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AND PROVISIONS IMPACTING OPERATING INCOME

<i>(in millions of euros)</i>	2006	2005	2004
Net amortization of intangible assets	(103)	(97)	(83)
Net depreciation of property, plant and equipment	(377)	(396)	(406)
Impairment of intangible assets	(17)	-	-
Impairment of property, plant and equipment	-	(1)	-
Impairment of goodwill	-	-	(9)

<i>(in millions of euros)</i>	2006	2005	2004
Provisions, net of reversals	(320)	(132)	409

NOTE 6. RESTRUCTURING, EARLY RETIREMENT AND OTHER OPERATING INCOME AND EXPENSES

Restructuring and early retirement costs

<i>(in millions of euros)</i>	2006	2005	2004
Restructuring and early retirement costs	(131)	(138)	(205)

As of December 31, 2006, restructuring and early retirement costs represented €61 million for the Transmission & Distribution division and €70 million for the nuclear business.

As of December 31, 2005, they represented €102 million for the Transmission & Distribution division and €36 million for the Nuclear business.

Other non-current operating income and expenses

<i>(in millions of euros)</i>	2006	2005	2004
Operating income and expenses directly related to operating activities	(91)	(4)	(103)
Goodwill impairment losses	-	-	(9)
Impairment of other assets	(17)	(1)	-
Gains (losses) on disposals of equity interests and assets other than financial assets	51	(8)	36
Other extraordinary income and expenses	1	(47)	2
Other non-current operating income and expenses	(56)	(61)	(75)

As of December 31, 2005, other non-recurring income and expenses included mostly:

- Expenses relating to items valued in connection with the T&D business acquisition, but which are not related to current to current operations.
- A contingency provision regarding a possible penalty for violation of competition rules in the Transmission and Distribution industry.

5.5. Notes to the consolidated financial statements

Note 7. Net financial income

NOTE 7. NET FINANCIAL INCOME

<i>(in millions of euros)</i>	2006	2005	2004
Net borrowing costs	(29)	16	27
Income from cash and cash equivalents	50	59	54
Gross borrowing costs	(78)	(43)	(27)
Other financial income and expenses	126	(29)	(30)
Share related to end-of-life-cycle operations	17	(32)	(2)
Income from disposal of securities earmarked for end-of-life-cycle obligations	107	26	21
Dividends received	16	33	29
Interest on debt to the CEA	-	-	(20)
Interest income on receivables from the CEA	9	5	-
Impairment of securities	-	-	62
Discount reversal on end-of-life-cycle operations	(115)	(96)	(94)
Share not related to end-of-life-cycle operations	109	3	(28)
Foreign exchange gain (loss)	10	(5)	0
Income from disposals of securities and change in value of securities held for trading	118	92	38
Dividends received	73	29	30
Impairment of financial assets	8	5	7
Interest income on prepayments received (Back End contracts)	(41)	(42)	(39)
Other financial expenses	(22)	(26)	(23)
Other financial income	18	8	15
Financial income from pensions and other employee benefits	(56)	(59)	(56)
Net financial income (expense)	97	(13)	(3)

As of December 31, 2006, the net gain on sales of securities included in the share related to end-of-life-cycle operations includes €27 million, corresponding to the reversal of lasting impairment of securities sold, compared with €16 million as of December 31, 2005.

As of December 31, 2004, financial income related to assets earmarked to cover end-of-life-cycle operations includes €62 million, corresponding to the reversal of a provision for impairment of securities.

Income from disposal of securities not related to end-of-life-cycle operations includes:

- As of December 31, 2006: €112 million from the disposal of Société Générale shares;
- As of December 31, 2005: €25 million from the disposal of Assystem shares and €59 million from the disposal of ERA shares;
- As of December 31, 2004: mainly the sale of Total shares.

NOTE 8. INCOME TAXES

Analysis of income tax expense

<i>(in millions of euros)</i>	2006	2005	2004
Current taxes (France)	(11)	15	(51)
Current taxes (other countries)	(98)	(102)	(91)
Total current taxes	(109)	(87)	(142)
Deferred taxes	58	(59)	18
Total income tax expense	(51)	(146)	(124)

Reconciliation of income tax expense and income before taxes

<i>(in millions of euros)</i>	2006	2005	2004
Net income attributable to equity holders of the parent	649	1,049	451
Less: income from disposal of operations	-	(598)	(31)
Minority interests	24	94	139
Share in net income of equity associates	(220)	(153)	(128)
Tax expense (income)	51	146	124
Income before tax	504	538	555
Theoretical tax income (expense)	(173)	(185)	(193)
Reconciliation:			
Impact of tax consolidation	(69)	38	61
Transactions taxed at a reduced rate	51	39	63
Permanent differences	140	(38)	(55)
Effective tax income (expense)	(51)	(146)	(124)

Tax rates used in France

<i>(in percent)</i>	2006	2005	2004
Tax rate	34.43	34.43	34.93

Permanent differences

<i>(in millions of euros)</i>	2006	2005	2004
Parent / subsidiary tax treatment and inter-company dividends	(4)	(4)	(3)
Impact of permanent differences for tax purposes	(14)	3	(7)
Impact of internal / inter-company transactions	(5)	(10)	(30)
Other permanent differences ⁽¹⁾	163	(27)	(15)
Total permanent differences	140	(38)	(55)

(1) Other permanent differences for 2006 include mainly:

- The impact of the 2006 amended Finance Law: 75.
- Recognition of deferred tax assets on prior year losses: 68.

5.5. Notes to the consolidated financial statements

Note 8. Income taxes

Effective tax rate

<i>(in millions of euros)</i>	2006	2005	2004
Operating income	407	551	558
Net financial income (expense)	97	(13)	(3)
Other income	-	-	-
Total income subject to tax	504	538	555
Tax expense	(51)	(146)	(124)
Effective tax rate	10.12%	27.14%	22.34%

Deferred tax assets and liabilities

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Deferred tax assets	873	892	439
Deferred tax liabilities	1,124	865	611
Net deferred tax assets and liabilities	(251)	27	(172)

Main categories of deferred tax assets and liabilities

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Tax impact of temporary differences related to:			
Intangible assets, PP&E and non-current financial assets	(391)	(112)	(4)
Working capital assets	(114)	(31)	(25)
Provisions for pension obligations	262	274	247
Provisions for restructuring	42	54	29
Tax-driven provisions	(355)	(387)	(381)
Provisions for end-of-life-cycle obligations	(372)	(331)	(206)
Valuation differences	(7)	17	(12)
Impact of loss carry-forwards	570	559	87
Other temporary differences	114	(16)	93
Net deferred tax assets and liabilities	(251)	27	(172)

Deferred tax asset and liability reversal schedule

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005
Reversal after more than 12 months	(286)	3
Reversal in 12 months or less	35	24

5.5. Notes to the consolidated financial statements

Note 8. Income taxes

Note 9. Net income from discontinued operations

Change in consolidated deferred tax assets and liabilities

<i>(in millions of euros)</i>	2006	2005
As of January 1	27	(172)
Tax on continuing operations, recognized in the income statement	58	(59)
Tax on discontinued operations	-	419
Tax recognized directly in equity	(307)	(85)
Change in consolidated group	(16)	(95)
Currency translation adjustments	(13)	19
As of December 31	(251)	27

Deferred taxes recognized directly in equity

<i>(in millions of euros)</i>	2006	2005
Change in method	1	7
IAS 32-39 impacts	(308)	(92)
Net deferred taxes recognized directly in equity	(307)	(85)

Deferred tax assets not recognized

<i>(in millions of euros)</i>	2006	2005
Tax credits	113	57
Tax losses	128	282
Other temporary differences	-	-
Total deferred tax assets not recognized	241	339

NOTE 9. NET INCOME FROM DISCONTINUED OPERATIONS**2006**

There were no significant disposals in 2006.

2005

Net income from discontinued operations for 2005 was €598 million, corresponding to the following items:

- Net income from discontinued operations* (FCI) for the period January 1, 2005 - November 3, 2005 (date of disposal): €70M
- Gain on the disposal transaction itself: €109M
- Tax impact: €419M

* Including release to income of currency translation reserves and retained earnings.

The consolidated gain of €109 million on the disposal transaction corresponds to the difference between the sale price (€582 million) and the fair value of the equity transferred to the buyer (€459 million), net of disposal expenses (€14 million).

The tax impact corresponds, firstly, to the recognition of the short-term tax loss as an asset (€382 million), available to offset profits from other operations of the group and, secondly, to the reversal of deferred tax liabilities related to tax consolidation (€37 million).

2004

The net after-tax income from discontinued operations corresponds to FCI's net income.

5.5. Notes to the consolidated financial statements

Note 10. Goodwill

NOTE 10. GOODWILL

Goodwill as of December 31, 2006 was as follows:

<i>(in millions of euros)</i>	December 31, 2005	Acquisitions	Disposals	Minority interest put options	Currency translation adjustments and other	December 31, 2006
Nuclear divisions	1,596	292	(1)	143	(22)	2,008
Front End	185	177	-	-	(9)	352
Reactors and Services	298	115	(1)	0	(14)	399
Back End	-	-	-	-	-	-
Other nuclear - AREVA	1,114	-	-	143	-	1,257
Transmission & Distribution division	499	5	-	-	3	507
Total	2,095	297	(1)	143	(19)	2,515

The increase in goodwill comes mainly from:

- Acquisition of 50% of the shares of ETC, which specializes in the design, fabrication and construction of uranium enrichment equipment and facilities using centrifuge technology (€161 million);
- Acquisition of Sfarsteel, which specializes in forging, machining and welding (€101 million);
- Acquisition of shares in La Mancha (€15 million);
- Acquisition of the high voltage measurement transformer business from Ritz (€6 million);

The fair value assessment of ETC's assets and liabilities had not been completed as of December 31, 2006. As a result, the corresponding goodwill will be finalized in the first half of 2007.

The heading "Other nuclear - AREVA" corresponds, firstly, to goodwill recognized when AREVA was established in 2001 and, secondly, to the difference between the value of put options held by minority interests in AREVA ANP and the value of the corresponding minority interests (see Note 25). The revaluation of these options as of December 31, 2006 triggered an increase in goodwill of €143 million.

Goodwill as of December 31, 2005 was as follows:

<i>(in millions of euros)</i>	January 1, 2005	Acquisitions	Disposals	Minority interest put options	Currency translation adjustments and other	December 31, 2005
Nuclear divisions	1,378	36		164	18	1,596
Front End	191			(6)		185
Reactors and Services	243	36			18	298
Back End	-					-
Other nuclear - AREVA	944			170		1,114
Transmission & Distribution division	564	(3)	(45)		(17)	499
Connectors division	264		(300)		36	0
Total	2,206	33	(345)	164	37	2,095

5.5. Notes to the consolidated financial statements

Note 10. Goodwill

The increase in goodwill comes mainly from:

- the acquisition of Swedish company Uddcomb, which specializes in engineering, project management and review, as well as in repair services for the Nuclear industry (€14.5 million); and
- the acquisition of a business specializing in the maintenance of Nuclear power plant instrumentation and control systems from Siemens (€21.5 million).

The disposal of T&D operations in Australia and New Zealand resulted in a reduction in goodwill of €45 million. Acquisition of T&D's operations in India and Pakistan generated a small adjustment to goodwill recognized when AREVA T&D was acquired in 2004.

In addition, final amendments to the T&D acquisition agreement with Alstom and the integration of assets that had not been transferred contributed to a reduction in goodwill of €17 million.

An additional €170 million in goodwill was recognized to reflect the change in valuation of put options held by minority interests in AREVA NP as of December 31, 2006.

Put options held by minority interests in Eurodif expired without being exercised. The corresponding goodwill, in the amount of €6 million, was cancelled by offset against the corresponding minority interests.

Goodwill impairment tests

The group performed goodwill impairment tests as of December 31, 2005 and 2006 for all cash-generating units with goodwill balances, except for:

- goodwill resulting from the recognition of put options held by minority shareholders of AREVA NP, since the options themselves are valued based on the recoverable value of the company;
- goodwill resulting from the acquisition of a 50% equity interest in ETC in July 2006, since the acquisition cost of this equity interest had not been allocated to identifiable assets, liabilities and contingent liabilities of the company as of December 31, 2006, and the final amount of goodwill was therefore not determined as of that date.

As indicated in Note 1.10, these tests compare the net carrying amount of cash generating unit (CGU) assets with the recoverable amount, determined using the discounted cash flow method.

The following assumptions were used to determine the net present value of the cash flows to be generated by the CGUs:

	Discount rate after tax	Equivalent discount rate before tax	Standard annuale growth rate	Number of years of forecast datas
As of December 31, 2006				
Front End division				
Mining	10.25%	17.4%	not applicable	not applicable
Fuel	8.25%	11.8%	2%	5
Reactors and Services division	7.75%	9.7 to 11.3%	2%	5
Transmission & Distribution division	10.00%	14.1 to 14.5%	2%	5
As of December 31, 2005				
Front End division Fuel	9%	13%	2%	5
Reactors and Services division	8%	10.25 to 11.5%	2%	5
Transmission & Distribution division	9%	13%	2%	3

Impairment tests for mining operations are based on forecast data for the entire period, from mining at existing mines to marketing of the corresponding products (i.e. through 2014 for gold mining operations), rather than on a pro forma year.

These tests did not lead to the recognition of an impairment.

In addition, sensitivity analyses showed that a discount rate of 1% higher or a growth rate for the pro forma year of 1% lower than the abovementioned rates would not have led to the recognition of an impairment since the recoverable value of the cash generating units is greater than the net carrying amount of their component assets in all instances.

5.5. Notes to the consolidated financial statements

Note 11. Intangible assets

NOTE 11. INTANGIBLE ASSETS**2006**

<i>(in millions of euros)</i>	December 31, 2006			December 31, 2005	January 1, 2005
	Gross	Amortization and impairment	Net	Net	Net
Pre-mining expenses	650	(231)	419	413	319
Research and development expenses	189	(20)	169	71	-
Other	1,126	(540)	587	278	277
Total	1,966	(791)	1,175	761	597

<i>(in millions of euros)</i>	Pre-mining expenses	R&D expenses	Other	Total
Gross amount as of December 31, 2005	630	81	782	1,493
Internally generated assets	-	109	3	112
Acquired assets	86	-	375	461
Disposals	(11)	-	(27)	(38)
Currency translation adjustments	(63)	(4)	(8)	(74)
Change in consolidated group	8	1	25	35
Other changes	-	2	(24)	(23)
Gross amount as of December 31, 2006	650	189	1,126	1,966
Depreciation, depletion, amortization and provisions as of December 31, 2005	(217)	(10)	(504)	(732)
Net increase in depreciation / Impairment ⁽¹⁾	(47)	(9)	(64)	(120)
Disposals	11	-	24	36
Currency translation adjustments	21	-	4	25
Change in consolidated group	(2)	-	-	(3)
Other changes	3	-	-	3
Depreciation, depletion, amortization and provisions as of December 31, 2006	(231)	(20)	(540)	(791)
NCA as of December 31, 2005	413	71	278	761
NCA as of December 31, 2006	419	169	587	1,175

(1) € (17) million in impairment of intangible assets was recognized as of December 31, 2006.

As of December 31, 2006, assets acquired principally in France, Canada and Kazakhstan concern the *Enrichment* business unit (€352 million) and the *Mining* business unit (€67 million).

These relate to the acquisition of the right to use ultracentrifugation technology from Urenco and to mine development expenses. The right to use the technology is amortized over 30 years.

Changes in the consolidated group pertain to the acquisitions of La Mancha and Sfarsteel.

Other intangible assets as of December 31, 2006 mainly include assets in progress (€361 million), R&D expenses (€169 million), concessions and patents (€99 million) and software (€41 million).

5.5. Notes to the consolidated financial statements

Note 11. Intangible assets

2005

(in millions of euros)	NCA at 1 / 1 / 05	Additions	Disposals	Amortization	Currency translation adjustments	Other changes	NCA at 12 / 31 / 05
Pre-mining expenses	319	58	0	(23)	60	(2)	413
Research and development expenses	0	80	0	(10)	1	0	71
Other	277	61	(0)	(68)	8	1	278
Total	597	199	(0)	(101)	69	(1)	761

Most increases for 2005 concern programs in Finland, Canada, France and Kazakhstan, in the *Plants* business unit (€85 million), the *Mining* business unit (€58 million) and the *Enrichment* business unit (€26 million).

As of December 31, 2005, other intangible assets primarily comprised licenses and patents (€115 million) and software (€51 million).

They include capitalization of R&D expenses for various projects in accordance with IAS 38 and development expenses at mining sites.

Capitalized pre-mining expenses

(in millions of euros)	NCA at 12 / 31 / 05	Additions	Disposals	Amortization / Impairment	Currency translation adjust- ments	Other changes	NCA at 12 / 31 / 06
Uranium	400	81		(44)	(41)		397
Gold	12	5		(2)	(1)	8	22
Total	413	86		(47)	(42)	8	419

(in millions of euros)	NCA at 1 / 1 / 05	Additions	Disposals	Amortization	Currency translation adjustments	Other changes	NCA at 12 / 31 / 05
Uranium	305	53	0	(16)	60	(2)	400
Gold	14	5	0	(7)	0	0	12
Total	319	58	0	(23)	60	(2)	412

Exploration expenses (included in research and development expenses in the income statement)

(in millions of euros)	2006	2005	2004
Uranium	27	14	13
Gold	3	2	3
Total	30	16	16

5.5. Notes to the consolidated financial statements

Note 12. Property, plant and equipment

NOTE 12. PROPERTY, PLANT AND EQUIPMENT**2006**

<i>(in millions of euros)</i>	Land	Buildings	Plant, equipment and tooling	End-of-life-cycle asset	Other	In process	Total
Gross amount as of December 31, 2005	208	1,897	16,725	613	757	271	20,471
Additions	3	35	90	-	42	415	585
Disposals	(10)	(190)	(31)	-	(75)	(2)	(308)
Currency translation adjustments	(5)	(26)	(48)	(2)	(10)	(11)	(102)
Change in consolidated group	4	30	136	-	2	5	177
Other changes	5	49	(701)	62	50	(202)	(737)
Gross amount as of December 31, 2006	205	1,795	16,171	674	766	477	20,086
Depreciation and provisions as of December 31, 2005	(78)	(1,208)	(14,600)	(451)	(591)	(2)	(16,928)
Depreciation / Impairment ⁽¹⁾	(3)	(63)	(224)	(29)	(60)	-	(378)
Disposals	5	172	36	-	73	-	286
Currency translation adjustments	1	9	22	-	6	-	37
Change in consolidated group	(0)	1	(54)	-	-	-	(53)
Other changes	-	(1)	767	3	(5)	-	764
Depreciation and provisions as of December 31, 2006	(75)	(1,089)	(14,052)	(476)	(577)	(2)	(16,271)
Net carrying amount as of December 31, 2005	131	688	2,125	163	166	269	3,542
Net carrying amount as of December 31, 2006	130	706	2,118	198	188	474	3,814

(1) No impairment of PP&E was recognized as of December 31, 2006.

Other changes in 2006 relate mainly to an exchange with the CEA of land and buildings erected at the Marcoule and Pierrelatte sites.

In 2006, the net value of finance lease contracts capitalized was €33 million (€31 million in 2005).

5.5. Notes to the consolidated financial statements

Note 12. Property, plant and equipment

2005

<i>(in millions of euros)</i>	Land	Buildings	Plant, equipment and tooling	End-of-life-cycle asset	Other	In process	Total
Gross amount as of January 1, 2005	238	2,047	17,328	585	848	277	21,324
Additions	1	17	87	0	31	280	415
Disposals	(15)	(40)	(91)	0	(56)	(15)	(217)
Currency translation adjustments	8	49	112	3	19	12	204
Change in consolidated group	(23)	(198)	(877)	0	(110)	(47)	(1,255)
Other changes	(1)	21	165	26	25	(236)	0
Gross amount as of December 31, 2005	208	1,897	16,725	613	757	271	20,471
Depreciation and provisions as of January 1, 2005	(81)	(1,259)	(15,036)	(423)	(661)	0	(17,459)
Depreciation / Impairment ⁽¹⁾	(1)	(71)	(313)	(18)	(62)	0	(466)
Disposals	4	28	85	0	51	0	168
Currency translation adjustments	(1)	(17)	(62)	0	(14)	0	(95)
Change in consolidated group	2	105	709	0	88	0	905
Other changes	1	5	19	(10)	6	(2)	19
Depreciation and provisions as of December 31, 2005	(78)	(1,208)	(14,600)	(451)	(591)	(2)	(16,928)
Net carrying amount as of January 1, 2005	157	789	2,292	162	188	277	3,865
Net carrying amount as of December 31, 2005	131	688	2,125	163	166	269	3,542

(1) €(1) million in impairment of PP&E was recognized as of December 31, 2005.

Changes in the consolidated group primarily concern the disposal of FCI for negative €350 million.

Depreciation periods for the main nuclear facilities, which do not exceed the service life of the plants under normal economic conditions, are as follows:

- 2010 for the Tricastin enrichment plant at Pierrelatte (Eurodif),
- 2025 for the used fuel treatment plant at La Hague (AREVA NC),
- 2027 for the recycling and MOX fuel fabrication plant at Marcoule (Melox).

In 2005, the group completed a study of the service life of the La Hague and Melox plants. Veritas performed an independent review validating the study. The study confirmed that the facilities will be able to operate over the abovementioned periods, taking into account their designs, operating modes and lessons learned from similar facilities, and subject to a regular maintenance and upgrades program. In addition, the facilities' economic lives are consistent with EDF's public commitment regarding its used fuel treatment and recycling policy and the timeframe of the contract currently under discussion with this customer. Consequently, effective January 1, 2005, the group decided to extend the depreciation period through 2025 instead of 2017 at La Hague and through 2027 instead of 2025 at Melox.

5.5. Notes to the consolidated financial statements

Note 13. End-of-life-cycle operations

NOTE 13. END-OF-LIFE-CYCLE OPERATIONS

The table below summarizes the AREVA balance sheet accounts affected by the treatment of end-of-life-cycle operations and their financing.

ASSETS (in millions of euros)	December 31,	December 31,	January 1,	LIABILITIES	December 31,	December 31,	January 1,
	2006	2005	2005*		2006	2005	2005*
End-of-life-cycle asset	2,289	2,208	2,177	Provisions for end-of-life cycle operations	4,585	4,490	4,332
- AREVA share ⁽¹⁾	198	163	162	- funded by AREVA	2,494	2,444	2,317
- third party share ⁽²⁾	2,091	2,045	2,015	- funded by third parties ⁽²⁾	2,091	2,045	2,015
Assets earmarked for end-of-life-cycle operations ⁽³⁾	2,986	2,798	2,508				

*Including IAS 39.

(1) amount of total provision to be funded by AREVA still subject to amortization.

(2) amount of the provision to be funded by third parties.

(3) portfolio of financial assets and receivables earmarked to fund AREVA's share of the total provision.

End-of-life-cycle asset

In addition to the value of its property, plant and equipment, AREVA recognizes the deferred portion of the group's share of end-of-life-cycle operations, such as Nuclear facility dismantling, decontamination, etc. The group's share of this adjustment account asset is amortized according to the same schedule as

the underlying property, plant and equipment. An adjustment account asset is also recognized for the third party share of end-of-life-cycle operations, corresponding to the share of dismantling and waste retrieval and packaging operations to be financed by third parties. Conversely, a provision is established to cover total estimated end-of-life-cycle costs as soon as a facility starts up, including any share to be funded by third parties.

(in millions of euros)	Group share			Third party share	December 31, 2006	December 31, 2005	January 1, 2005
	Gross	Amortization	Net				
Dismantling	674	(476)	198	1,588	1,786	1,715	1,695
Waste retrieval and packaging				503	503	493	482
Total	674	(476)	198	2,091	2,289	2,208	2,177

5.5. Notes to the consolidated financial statements

Note 13. End-of-life-cycle operations

2006

<i>(in millions of euros)</i>	NCA as of January 1, 2006	Increases	Decreases	Changes to and reversals of amortization and provisions	Discounting reversals	Other changes	NCA as of December 31, 2006
Group share	163	69	(7)	(29)		1	198
Third party share	2,045		(48)		96	(2)	2,091
Total	2,208	69	(55)	(29)	96	(1)	2,289

2005

<i>(in millions of euros)</i>	NCA as of January 1, 2005	Increases	Decreases	Changes to and reversals of amortization and provisions	Discounting reversals	Other changes	NCA as of December 31, 2005
Group share	162	5	-	(18)	0	14	163
Third party share	2,015	0	(41)	0	74	(3)	2,045
Total	2,177	5	(41)	(18)	74	11	2,208

The net end-of-life-cycle asset totaled €2.289 billion as of December 31, 2006, compared with €2.208 billion as of December 31, 2005.

The third party share of the end-of-life-cycle asset mainly corresponds to funding expected from EDF for the La Hague site and from the CEA for the Pierrelatte site. This heading increases based on discounting reversals and decreases based on work performed.

The third party share of costs associated with waste retrieval and packaging correspond to the funding expected from EDF for its share of the commitment for the La Hague site. These assets will be recovered when AREVA and EDF sign an agreement finalizing the terms and conditions of payment. In effect, when waste retrieval and packaging obligations are covered by contractual commitments from third parties regarding future costs, no liability or corresponding end-of-life-cycle asset is recognized. The share of waste retrieval and packaging work already completed and to be funded by EDF is included in work in-process.

Assets earmarked for end-of-life-cycle operations

This heading consists of the following:

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005*
Receivables related to decommissioning	113	129	110
Earmarked assets	2,873	2,669	2,398
Total	2,986	2,798	2,508

* Including IAS 39.

Receivables related to decommissioning as of December 31, 2006 include a receivable resulting from the signature of a contract in December 2004 under which the CEA agreed to fund a share of facility decommissioning expenses at the La Hague and

Cadarache plants. This receivable, which bears interest at a rate of approximately 6%, totaled €113 million as of December 31, 2006 (before value added tax). This receivable has no set due date.

5.5. Notes to the consolidated financial statements

Note 13. End-of-life-cycle operations

The portfolio of assets earmarked to fund end-of-life-cycle expenses includes the following:

<i>(in millions of euros)</i>	December 31, 2006	December 31 2005	January 1, 2005
At market value			
Publicly traded shares	718	570	977
FCP actions	1,001	973	833
Bond and money market mutual funds	1,154	1,126	588
Total	2,873	2,669	2,398
By region			
Euro zone	2,381	2,164	1,972
Non-euro Europe	492	502	424
Other	-	2	1
Total	2,873	2,669	2,398

Purpose of earmarked portfolio

As a Nuclear facility operator, the AREVA group has a legal obligation to secure and decommission its facilities when they are shut down permanently, in whole or in part. AREVA must also sort and package waste and scrap from past operations or from facility decommissioning, based on applicable regulations, for the disposal of final waste.

To meet its share of this obligation, the group has segregated part of its liquidities to cover future facility decommissioning and waste disposal expenses. A portfolio of assets earmarked to pay for these expenses was thus established.

This portfolio was constructed based on a budget of disbursements. These operations are scheduled to take place, for the most part, during the 2025-2060 timeframe. Accordingly, the portfolio is managed with long-term objectives.

The portfolio is invested in bonds and in European equities, including direct or indirect holdings in publicly traded French companies and in independently managed European equity mutual funds. As of December 31, 2006, the portfolio comprised 60% equities and 40% bonds.

Allocations by asset class and changes in allocations over time are consistent with asset allocation strategies reviewed by AREVA's Cleanup and Decommissioning Fund Monitoring Committee.

AREVA relies on outside advisors to monitor portfolio management with a long-term perspective and to ensure that the overall approach is consistent with the group's objective. Overall portfolio performance is benchmarked to the MSCI Equity Europe index for its equity component and to the FTSE euro zone Government Bond aggregate index for its interest rate component.

5.5. Notes to the consolidated financial statements

Note 13. End-of-life-cycle operations

Publicly traded shares

AREVA's portfolio of publicly traded shares is shown below:

<i>Securities held</i>	Number of shares	Market value at December 31, 2006	Market value at December 31, 2005	Market value at January 1, 2005
AGF	-		-	46
Suez	-		-	447
Michelin	1,774,225	129	84	89
Saint-Gobain	6,328,000	403	318	280
Schneider	2,220,782	187	167	114
Total publicly traded shares		718	570	977

The fund managers must follow strict investment guidelines at all times, listed below:

Composition of bond mutual funds

Bond mutual funds must invest:

- a minimum of 80% of their assets in euro-denominated bonds;
- no more than 20% of their assets in bonds denominated in US dollars or in non-euro zone European Union currencies, in which case the foreign exchange risk must be hedged.
- No equities may be held by bond mutual funds.

Risk assessment

Each fund's sensitivity to interest rate fluctuations is currently between a minimum of 0 and a maximum of 5. Average sensitivity as of December 31, 2006 was 2.1⁽¹⁾. The securities selected must be rated by Moody's and / or Standard & Poor's in accordance with the table below:

	Moody's	S&P
0 - 1 year	P1	A1
1 - 4 years	Aa3	AA-
4 - 7 years	Aa1	AA+
> 7 years	Aaa	AAA

(1) While portfolio sensitivity is currently limited, this may evolve towards a longer duration based on strategic research and tactical allocation of the portfolio's rate component.

Derivatives

The sole purpose of derivatives is to hedge existing positions. Total nominal commitments may not exceed the fund's net assets.

Fund valuation

The bond funds' net asset value is determined by valuing the securities held by each fund at market value on the last day of the period.

Dedicated equity funds

Composition of equity funds

Some of the assets earmarked to fund future Cleanup and dismantling operations are invested, with a long-term objective, in equity funds dedicated to AREVA. The funds are fully invested in equities. Cash from transactions is held only on a temporary basis. One mutual fund representing 2% of the portfolio's total value is invested in French equities. All other funds invest at least 90% of their assets in equities of E.U companies. No single security accounts for more than 5% of the total assets of dedicated equity funds.

5.5. Notes to the consolidated financial statements

Note 13. End-of-life-cycle operations

Risk assessment

The performance of mutual funds invested in European securities, other than French securities, is benchmarked to the MSCI Europe ex France net dividend reinvested index. The performance of the mutual funds invested in French securities is benchmarked to the MSCI France net dividend reinvested index. The tracking error for mutual funds as a whole is between 2 and 3 over the long-term. Fund trends therefore closely track the index.

Derivatives

The sole purpose of derivatives is to hedge existing positions. Total nominal commitments may not exceed the fund's net assets.

Fund valuation

The funds are valued based on their net asset value, corresponding to the market value of the securities held by each fund on the last day of the period.

The table below presents the allocation by sector of all equity mutual funds included in the portfolio:

Sectors, in%	All funds
Energy	10%
Base products	6%
Manufacturing	7%
Cyclical consumer goods	8%
Non-cyclical consumer goods	12%
Health	9%
Finance	31%
Information technologies	4%
Telecom	7%
Utilities	6%
Total	100%

Provisions for end-of-life-cycle operations

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Dismantling of Nuclear facilities	3,371	3,262	3,154
Waste retrieval and packaging	1,215	1,228	1,177
Provisions for end-of-life-cycle operations	4,585	4,490	4,332

<i>(in millions of euros)</i>	NCA as of December 31, 2005	Reversals (when risk has materialized): expenses for the year	Discounting reversal	Change in assumptions, budgets, etc.	NCA as of December 31, 2006
Dismantling provision	3,262	(58)	155	13	3,371
Provision for waste retrieval and packaging	1,228	(11)	54	(57)	1,215
Total	4,490	(69)	209	(44)	4,585

<i>(in millions of euros)</i>	NCA as of January 1, 2005	Reversals (when risk has materialized): expenses for the year	Discounting reversal	Change in assumptions, budgets, etc.	NCA as of December 31, 2005
Dismantling provision	3,154	(33)	143	(2)	3,262
Provision for waste retrieval and packaging	1,177	(4)	51	4	1,228
Total	4,332	(37)	194	2	4,490

5.5. Notes to the consolidated financial statements

Note 13. End-of-life-cycle operations

Nature of the commitments

As a Nuclear operator, the AREVA group has a legal obligation to secure and decommission its facilities when they are shut down permanently. The group must also retrieve and package, in accordance with prevailing standards, the various waste types generated by operating activities which could not be processed during treatment. Group facilities subject to these obligations include facilities in the Front End of the fuel cycle, in particular Eurodif's enrichment plant at Pierrelatte and the fuel fabrication facilities, but they are predominantly facilities at the Back End of the fuel cycle, including the treatment plants at La Hague and the Melox and Cadarache MOX fuel fabrication plants.

Under certain circumstances, essentially in the case of used fuel treatment services, customers have agreed to fund a portion of the cost related to decommissioning operations and to the disposal of final waste, of which they remain the owners. For AREVA, this has the effect of transferring the financial responsibility for decommissioning and for waste retrieval and packaging from the group to third parties.

In December 2004, the CEA, EDF and AREVA NC signed an agreement regarding the Marcoule plant. The CEA will assume the responsibilities of owner-operator of the site and will be responsible for funding the site *Cleanup* effort. This agreement does not cover final waste disposal costs. Accordingly, provisions for the Marcoule site include only AREVA NC's share of waste removal and final waste disposal costs.

The agreement provides for the payment of a final consideration to the CEA decommissioning fund by EDF and AREVA NC corresponding to their respective financial obligations. AREVA NC's obligation is €427 million (subject to escalation from January 2004). This amount was recorded as a provision in the 2003 financial statements and subsequently paid in full, half at the end of 2004 and half in the beginning of 2005.

In addition, to optimize their operations, AREVA NC and the CEA completed the following transactions in 2006:

- an exchange of land and buildings: the CEA acquired ownership of the Marcoule facilities while AREVA NC agreed to take ownership of the Pierrelatte facilities, after dismantling in some cases;
- transfer of the Marcoule plant operating license to the CEA.

Determination of provisions for end of life-cycle operations

Dismantling

Decommissioning obligations are calculated facility by facility as follows:

The group's dismantling standards correspond to the following final condition: buildings are decontaminated where they stand and all Nuclear waste areas are decommissioned to conventional waste status. This corresponds to a decommissioning level of level 2 to level 3 of the International Atomic Energy Agency (IAEA) scale, which is currently being revised.

Detailed decommissioning and waste management cost estimates for back-end facilities were prepared by SGN. As prime contractor for the construction of the majority of the group's treatment and recycling facilities, this engineering firm was judged to be the most qualified to select methods for the decommissioning of these facilities. To do so, SGN developed software to estimate dismantling operations to be performed at back-end plants of AREVA and CEA. This software was certified by Veritas.

Eurodif prepared the decommissioning cost estimates for the enrichment business.

The estimates are revised annually to take inflation into account. These expenses are then allocated by year, adjusted for inflation and discounted to present value, as explained in Note 1.18. A provision is then recognized based on the present value. The discounting reversal is recognized in "Net financial expense".

As of December 31, 2005 and 2006, the estimated rates applied to facilities located in France were the following:

- Inflation rate: 2%
- Discount rate: 5%.

Cost estimates will be updated if applicable regulations change or substantial technological developments are anticipated. As required by French Program Law No. 2006-739 of June 28, 2006 on the sustainable management of radioactive materials and waste, the group will submit a report every three years on cost estimates and calculation methods for provisions, in addition to an annual report update.

Waste retrieval and packaging

Some waste from fuel treatment performed under older contracts could not be processed on site, as packaging facilities were not yet in service at that time. This waste must now be retrieved and packaged with methods and technologies approved by

5.5. Notes to the consolidated financial statements

Note 13. End-of-life-cycle operations

the French safety authorities. Some of these methods require additional studies.

In 2004, the group performed a detailed review of its obligations in this area:

Operations funded by third parties are handled in the same way as for other types of contracts. These operations are included in services to optimize waste packaging routinely performed for customers at the La Hague plant. The customers retain ownership of the packaged waste and must bear the cost of final disposal. In December 2004, the group executed an agreement with the CEA formalizing its obligations. The cost of these operations is thus not included in the provision for end-of-life-cycle operations or in the corresponding third-party asset as of December 31, 2004. Upon receipt, the CEA's payment will be recognized as an advance. It will then be released to sales revenue as the work is performed. The same procedure will apply to EDF's share, once an agreement between the parties is signed.

Cost evaluations are based on technical assumptions and planning schedules.

Capital costs for waste retrieval are estimated based on a preliminary design and on group estimates of operating costs for waste retrieval and packaging. The provision recognized to cover these expenses is calculated on a present value basis using the same principles and rates as for dismantling costs.

Provision for end-of-life-cycle operations, before discounting

Provisions for end-of-life-cycle operations before discounting (subject to escalation from the date of closing):

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Dismantling of Nuclear facilities	7,290	7,053	6,814
Waste retrieval and packaging	1,982	2,106	1,444
Total	9,272	9,159	8,258

EDF / AREVA NC negotiations

EDF and AREVA NC embarked on framework negotiations to establish:

Firstly:

- The legal and financial terms of a transfer to AREVA NC of EDF's current financial obligations with respect to dismantling operations at the La Hague site (including, conceivably, payment of a lump sum to settle EDF's long-term commitment). At the end of September 2003, the parties reached agreement on their respective shares of funding for the dismantling costs for the La Hague plant.

Final waste disposal

AREVA recognizes a provision for radioactive waste expenses for which the group is responsible.

These expenses include:

- the group's share of the cost of monitoring disposal facilities in the Manche and Aube regions, which receive or will receive low-level, short-lived waste;
- the shipment and underground disposal of low-level, long-lived waste (graphite) owned by the group;
- the shipment and disposal of medium- and high-level waste covered by the French law of December 30, 1991 (now included in articles L. 542-1 et seq. of the French Environmental Code). The provision is based on the assumption that a deep geological repository will be built.

Concerning this last heading, a working group established in 2004 at the request of the Ministry of Industry's Department of Energy and Raw Materials (DGEMP) issued its report during the second half of 2005. AREVA reviewed the report of the working group and adopted a reasonable cost estimate of €14.1 billion for the deep geological repository, including allowances for contingencies.

- EDF's and AREVA NC's respective shares of obligations for the retrieval and packaging of waste at the La Hague and Saint-Laurent-des-Eaux sites.

Secondly:

- The financial terms of the future used fuel treatment contract beyond 2007.

Considering the global nature of this negotiation, AREVA did not modify in its financial statements, the respective shares of dismantling expenses allocated to the parties as of December 31, 2005. Based on available information, this is not expected to have any significant impact on the group's financial statements or financial position.

NOTE 14. EQUITY ASSOCIATES

Change in investments in equity associates

<i>(in millions of euros)</i>	2006	2005
Investments in equity associates as of January 1	1,288	1,313
Share in net income of equity associates	219	153
Dividends	(27)	(29)
Currency translation adjustments	(43)	34
Acquisitions	49	27
Disposals		(2)
Other changes	35	(209)
Investments in equity associates as of December 31	1,521	1,288

Other changes correspond for the most part to a reduction in the investment in STMicroelectronics, subsequent to the disposal by France Télécom of its interest in that company (see below).

Investments in equity associates (by associate)

December 31, 2006 <i>(in millions of euros)</i>	% of control	Share in net income of equity associates	Investment in associates, excluding goodwill	Goodwill	Investment in associates, including goodwill
STMicroelectronics	10.91	98	862	43	905
Eramet	26.20	106	454	35	489
REpower	29.99	2	56	23	79
Other equity associates		13	48		48
Total		220	1,420	101	1,521

December 31, 2005 <i>(in millions of euros)</i>	% of control	Share in net income of equity associates	Investment in associates, excluding goodwill	Goodwill	Investment in associates, including goodwill
STMicroelectronics ⁽¹⁾	10.94	38	788	43	831
Eramet	26.25	104	356	35	391
REpower	21.20	0	21	7	27
Other equity associates		11	38		38
Total		153	1,203	85	1,288

(1) In 2004, STMicroelectronics Holding NV was the sole owner of STMicroelectronics Holding II B.V., which in turn held 30.8% of STMicroelectronics. STMicroelectronics Holding NV is 45.2% owned by FT1CI, in which AREVA holds a 79% interest, and which is fully consolidated. AREVA controlled 13.9% of STMicroelectronics and had an equity interest of 11% as of December 31, 2004. In August 2005, France Télécom sold investment in STMicroelectronics. As a result, AREVA controls 100% of FT1CI as of December 31, 2005.

5.5. Notes to the consolidated financial statements

Note 14. Equity associates

January 1, 2005 (in millions of euros)	% of control	Share in net income of equity associates	Investment in associates, excluding goodwill	Goodwill	Investment in associates, including goodwill
STMicroelectronics ⁽¹⁾	13.9%	74	922	59	981
Eramet	26.2%	48	268	35	303
REpower					
Other equity associates		6	29		29
Total		128	1,219	94	1,313

(1) In 2004, STMicroelectronics Holding NV was the sole owner of STMicroelectronics Holding II B.V., which in turn held 30.8% of STMicroelectronics. STMicroelectronics Holding NV is 45.2% owned by FT1CI, in which AREVA holds a 79% interest, and which is fully consolidated. AREVA controlled 13.9% of STMicroelectronics and had an equity interest of 11% as of December 31, 2004. In August 2005, France Télécom sold its investment in STMicroelectronics. As a result, AREVA controls 100% of FT1CI as of December 31, 2005.

The final impact of STMicroelectronics' first-time adoption of IFRS is included in the share in net income of company in 2006 (see Note 1.2, Accounting principles) in the amount of €15 million.

The shareholders' agreement renewed on March 17, 2004, among AREVA, France Télécom (through August 2005) and Finmeccanica establishes the rules governing relations between the parties and seeks to improve the liquidity of their indirect investments in the company and preserve a stable and balanced shareholders' base. It provides AREVA with significant influence over STMicroelectronics.

Summary data on associates

(in millions of euros)	STMicroelectronics*	Eramet*	REpower*
Total assets	12,643	3,416	275
Total liabilities	3,943	1,431	175
Shareholders' equity	8,700	1,985	100
Sales revenue	8,882	2,712	335
Net income	348	377	(6)

* Information reported in accordance with IFRS (December 31, 2005)

Fair value of investments in publicly traded equity associates

(in millions of euros)	December 31, 2006			December 31, 2005			January 1, 2005		
	% of control	Investment in equity associates	Fair value at stock market price	% of control	Investment in equity associates	Fair value at stock market price	% of control	Investment in equity associates	Fair value at stock market price
STMicroelectronics	10.91	905	1,397	10.94	831	1,507	13.89	981	1,804
Eramet	26.20	489	820	26.25	391	547	26.25	303	447
REpower	29.99	79	190	21.20	27	40			
Total		1,473	2,407		1,249	2,094		1,284	2,252

5.5. Notes to the consolidated financial statements

Note 15. Other non-current financial assets

NOTE 15. OTHER NON-CURRENT FINANCIAL ASSETS

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Available-for-sale securities	2,096	1,976	1,114
Loans to equity associates	30	32	38
Other non-current financial assets	215	355	318
Derivatives on financing activities	34	2	21
Total	2,376	2,365	1,491

Available-for-sale securities

Changes during the year were as follows:

<i>(in millions of euros)</i>	December 31, 2006
January 1, 2006	1,976
Acquisitions	13
Disposals	(119)
Lasting impairment	-
Changes in fair value recognized directly in equity	219
Change in consolidated group, currency translation and miscellaneous	7
December 31, 2006	2,096

Available-for-sale securities are as follows:

<i>(in millions of euros)</i>	Number of shares as of December 31, 2006	December 31, 2006	December 31, 2005	January 1, 2005
Publicly traded shares (at market value)				
- Total	7,350,064	402	390	295
- Alcatel	2,597,435	28	27	30
- Société Générale	-	-	176	126
- Assystem ⁽¹⁾	-	-	-	89
- Suez	27,627,000	1,084	727	-
- Safran (formerly Sagem)	30,772,945	541	622	483
Investment in privately held companies		41	34	91
Total		2,096	1,976	1,114

(1) The value recognized for Assystem Brime as of January 1, 2005 includes redeemable share subscription warrants (BSAR).

5.5. Notes to the consolidated financial statements

Note 15. Other non-current financial assets

Available-for-sale securities include mostly shares of publicly traded companies held by AREVA, including shares of Safran and Suez.

- Shares of Suez held by AREVA on January 1, 2005 were included in the portfolio of assets earmarked to finance end-of-life-cycle operations (see Note 13). Suez filed a Combined Public Offer on August 9, 2005 for the shares of its subsidiary Electrabel and performed a share capital increase with retention of preferential subscription rights on the same date. AREVA subscribed to this share increase and now holds 2.18% of the share capital and 1.98% of the voting rights of the company. After the transaction, the shares were reclassified in Other non-current financial assets.

The shares of Société Générale were sold in 2006.

The shares of Assystem Brime were sold during the first half of 2005.

As of December 31, 2006, the heading "Investments in privately held companies" includes mostly investments in companies owning interests in mineral deposits.

Changes in this heading in 2005 concern the disposal of a 7.8% equity interest held by AREVA in Energy Resources of Australia, an Australian uranium *Mining* company. This disposal generated a €59 million gain, recognized in financial income.

Other non-current financial assets

As of December 31, 2006, this heading included mostly:

- a €141 million deposit with the US Customs Service in connection with alleged dumping (€159 million at the end of 2005).

Usec

In 2001, the United States Department of Commerce (DOC) ordered that countervailing duties be levied on enrichment services imported to the United States from France, Germany, the Netherlands and the United Kingdom. This action followed complaints filed in December 2000 by the United States *Enrichment* Corporation (USEC) against Eurodif and Urenco for dumping and unfair subsidies. The level of countervailing duties applied to Eurodif exports to the United States led to \$186 million being deposited with the US Customs Service at the end of 2006, recoverable once the case has been adjudicated (see Note 33). Considering the group's degree of confidence regarding the outcome of the case, no provision has been recognized in connection with this litigation or for the deposits made with the US Customs Service.

As of January 1 and December 31, 2005, this heading included mostly:

- a €150 million down-payment to the shareholders of Urenco for the acquisition of an interest in ETC paid in 2006; and
- a €159 million deposit with the US Customs Service in connection with alleged dumping.

5.5. Notes to the consolidated financial statements

Note 16. Inventories and in process
 Note 17. Accounts receivable and related accounts

NOTE 16. INVENTORIES AND IN PROCESS

<i>(in millions of euros)</i>	December 31, 2006			December 31, 2005			January 1, 2005		
	Gross	Impairment	Net	Gross	Impairment	Net	Gross	Impairment	Net
Raw materials and other supplies	713	(162)	551	692	(171)	521	669	(188)	481
Goods in process	655	(42)	613	546	(19)	527	497	(14)	483
Services in process	566	(100)	466	577	(89)	488	498	(89)	409
Intermediate and finished products	698	(22)	676	765	(28)	737	794	(41)	753
Total	2,633	(326)	2,306	2,580	(307)	2,273	2,458	(332)	2,126

Inventories and work-in-process:

at cost		2,038		2,048		1,713
at fair value net of disposal expenses		268		225		299
		<u>2,306</u>		<u>2,273</u>		<u>2,012*</u>

* Excluding FCI (€114M).

NOTE 17. ACCOUNTS RECEIVABLE AND RELATED ACCOUNTS

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Gross	3,654	3,856	3,358
Impairment	(50)	(63)	(67)
Net carrying amount	3,604	3,793	3,291

Change in impairment of accounts receivable and related accounts

January 1, 2006	(63)
Change in consolidated group	-
Charge	(13)
Reversal (when risk has materialized)	15
Reversal (when risk has not materialized)	12
Other (conversion)	(1)
December 31, 2006	(50)

The gross value of Trade accounts receivable and related accounts includes €371 million in receivables maturing in more than one year.

As of December 31, 2006, Trade accounts receivable and related accounts include receivables in the amount of €1.141 billion on contracts recognized according to the percentage of completion method (€1.248 billion as of January 1, 2005).

5.5. Notes to the consolidated financial statements

- Note 18. Other operating receivables
 Note 19. Cash and cash equivalents
 Note 20. Other current financial assets

NOTE 18. OTHER OPERATING RECEIVABLES

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
French State	323	263	225
Miscellaneous accounts receivable	655	554	590
Financial instruments	122	77	141
Other	20	20	21
Total	1,121	914	977

Miscellaneous account receivables include advances and down payments to suppliers of €276 million at the end of 2006 and receivables from employees and social security organizations.

Other operating receivables include €5 million in receivables maturing in more than one year.

The heading "Financial instruments" includes the fair value of derivatives hedging of commercial transactions and the fair value of the firm commitments hedged.

NOTE 19. CASH AND CASH EQUIVALENTS

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Short term investments (initial maturity of less than 3 months)	690	1,227	788
Cash and current accounts	272	257	267
Net value	962	1,484	1,055

Short-term investments with initial maturities of less than three months consisted mostly of negotiable debt instruments and short-term cash mutual funds.

NOTE 20. OTHER CURRENT FINANCIAL ASSETS

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Short term investments with maturities greater than 3 months	248	245	229
Other current financial assets and derivatives on financing activities	44	19	34
Total	292	264	263

Short term investments with maturities greater than three months include bonds and negotiable mid-term instruments, some of which serve as security for expenses to be incurred under sales contracts for which customer advances have been received, and balanced equity / bond funds.

NOTE 21. EQUITY

Share capital

As of December 31, AREVA's share capital was held as follows:

	December 31, 2006	December 31, 2005	December 31, 2004
CEA	78.9%	78.9%	78.9%
French State	5.2%	5.2%	5.2%
Caisse des dépôts et consignations	3.6%	3.6%	3.6%
Erap	3.2%	3.2%	3.2%
Total	1.0%	1.0%	1.0%
Calyon and employee shareholders	1.6%	1.6%	1.6%
EDF	2.5%	2.5%	2.5%
Holders of shares with voting rights	96.0%	96.0%	96.0%
Holders of investment certificates	4.0%	4.0%	4.0%
Total	100.0%	100.0%	100.0%

The par value of the AREVA SA share and of the investment certificate is €38.00.

Currency translation reserves

Currency translation reserves totaled negative €25 million in 2006 (positive €83 million in 2005). This decrease reflects changes in the value of the US dollar exchange rate for the most part.

Earnings per share

The average number of shares and investment certificates used to calculate earnings per share in 2006 was 35,442,701 (including 1,429,108 investment certificates), unchanged from previous years.

Share option plan

The group does not have a share option plan.

5.5. Notes to the consolidated financial statements

Note 22. Minority interests

Note 23. Employee benefits

NOTE 22. MINORITY INTERESTS

The largest minority interests were as follows:

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
STMicroelectronics	-	-	216
Eurodif	166	141	87
Other	128	87	66
Total	294	228	369

In August 2005, France Télécom sold its residual interest in FT1CI, which holds STMicroelectronics. As a result, there are no residual minority interests in STMicroelectronics.

In addition, as provided in IAS 32 and mentioned in Note 1.19.1, put options held by Siemens in respect of its investment in AREVA NP are recognized as borrowings (see Note 25), and the corresponding minority interests are canceled. The difference between the value of these options and the minority interests canceled is recognized as goodwill (see Note 10).

NOTE 23. EMPLOYEE BENEFITS

Group companies, in accordance with laws and practices prevailing in the various countries where they operate, may pay retirement bonuses to their retiring employees based on their compensation and seniority. Long-service jubilee payments and early retirement pensions are sometimes due in France and in Germany, while supplemental pensions may contractually guarantee a given level of income to certain employees. Certain group companies also grant other post-retirement benefits, such as the reimbursement of medical expenses.

These defined benefit plans are recognized in accordance with the accounting method defined in Note 1.16.

Each year, independent actuaries determine the group's commitments as of the year-end.

In some companies, these obligations are covered in whole or in part by insurance policies or external retirement funds. In such cases, the obligations and the covering assets are valued independently. The difference between the obligation and the assets is either a funding surplus or a deficit. A provision is recognized in the event of a deficit and an asset is recognized in the event of a surplus, subject to specific conditions.

Individual Training Entitlement (*Droit Individuel de Formation*) is not included in provisions for group employee benefits, reported below.

5.5. Notes to the consolidated financial statements

Note 23. Employee benefits

Provisions recognized on the balance sheet

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Provisions for pension obligations and other employee benefits	1,122	1,096	1,031
Including pension plan assets	(0)	(1)	(10)
Including local pension plan assets	(28)	(42)	(33)
Including plans reviewed by the group's actuaries	1,094	1,053	988
Retirement bonuses	179	157	146
Supplemental retirement benefits	180	184	239
Early retirement benefits	511	490	418
Medical expenses and accident / disability insurance	200	196	162
Job-related awards	24	26	24

The information below concerns plans reviewed by the group's actuaries.

CATS, CASA and CASAIC plans are included in early retirement plans.

The main actuarial assumptions used in determining the group's obligations are as follows:

	2006	2005	2004
Inflation	2%	2%	2%
Discount rate			
Euro zone	4.25%	4.25%	4.5%
US dollar zone	5.5%	6%	6%
Canadian dollar zone	5%	5.5%	6%
Expected average return on plan assets			
Euro zone	5 to 6.25%	5 to 6.25%	5.5%
US dollar zone	7%	7%	7.31%
Canadian dollar zone	7.4%	7.4%	7.04%
Pension benefit increases	1.3%	1.3%	1.3%
Annual social security ceiling increase (before inflation)	+0.5%	+0.5%	+0.5%

- Mortality tables

	2006	2005	2004
France			
- Annuity	Mortality tables	Mortality tables	Mortality tables
- Lump sum payment	INSEE Men / Women 2000- 2002	TV 88-90	TV 88-90
Germany	Heubeck 2005	Heubeck 2005	Heubeck 1998

- Retirement age: 63 for management personnel, 61 for non-management personnel (in France).
- Average attrition is assumed to occur among employees in each group company at a declining rate reflecting age brackets.

5.5. Notes to the consolidated financial statements

Note 23. Employee benefits

- Salary increase assumptions, net of inflation (weighted average based on the number of employees in each company):

	Management personnel			Non-management personnel		
	2006	2005	2004	2006	2005	2004
< 30 years	2.62%	3.45%	3.54%	1.98%	2.05%	2.06%
30-39 years	2.02%	2.78%	2.70%	1.75%	1.80%	1.80%
40-49 years	1.42%	2.12%	2.06%	1.50%	1.55%	1.55%
50-54 years	1.02%	1.68%	1.70%	1.38%	1.42%	1.42%
55 years or more	0.78%	1.41%	1.50%	1.24%	1.26%	1.26%

The assumed rate of salary increase reflects changes in the consolidated group.

- Assumed rate of increase in medical expenses in the United States

Year	
2006	9%
2007	8.5%
2008	8%
2009	7.5%
2010	7%
2011	6.5%
2012+	6%

- Contributions / benefits anticipated for 2007

The contributions / benefits to be paid by the company are estimated at €120 million.

Plan assets

Europe

Type of asset	2006	2005	2004
Cash	6%	5%	19%
Bonds	63%	64%	67%
Equities	29%	28%	11%
Real estate	2%	3%	3%

United States

Type of asset	2006	2005	2004
Cash	3%	3%	0%
Bonds	39%	37%	41%
Equities	58%	60%	58%
Real estate	0%	0%	0%

Effective return on plan assets	2006	2005	2004
Europe	6.32%	9.30%	5.69%
United States	11.15%	5.33%	8.71%

The returns expected on assets are calculated taking into account:

- financial asset allocations by type of investment;
- average future return assumptions by category of asset.

The group's pension assets do not include financial instruments of the AREVA group. The pension plans' real estate assets do not include real property owned by AREVA.

Net carrying amount of retirement obligations

**As of December 31,
2006**
(in millions of euros)

	Retirement bonuses	Supplemental retirement benefits		Early retirement benefits		Medical expenses	Job-related awards	Total	Total	Total
		Outsourced	In-house Outsourced management	Outsourced	In-house Outsourced management					
Benefit obligation	325	686	129	790	345	218	24	1,801	716	2,517
Fair value of plan assets	(82)	(532)	-	(364)	-	-	-	(978)	-	(978)
Unrecognized actuarial gains / losses	(71)	(69)	(27)	(112)	(21)	(31)	-	(252)	(79)	(331)
Unrecognized past service cost	7	(6)	-	(100)	(27)	12	-	(99)	(15)	(114)
Plan assets recognition limit	-	-	-	-	-	-	-	-	-	-
Total net obligation	179	79	102	214	296	200	24	472	622	1,094

2007 Social Security budget law

The impact of the Social Security budget law published in the *Journal Officiel* no. 296 of December 22, 2006 was estimated and is included in the figures above.

This impact represents a €17 million increase in actuarial debt corresponding to an actuarial loss of €24 million and a €7 million gain in respect of past services.

**As of December 31,
2005**
(in millions of euros)

	Retirement bonuses	Supplemental retirement benefits		Early retirement benefits		Medical expenses	Job-related awards	Total	Total	Total
		Outsourced	In-house Outsourced management	Outsourced	In-house Outsourced management					
Benefit obligation	294	602	125	736	369	212	26	1,605	732	2,364
Fair value of plan assets	(85)	(442)	0	(348)	0	0	0	(853)	0	(875)
Unrecognized actuarial gains / losses	(52)	(73)	(27)	(117)	(9)	(31)	-	(237)	(67)	(309)
Unrecognized past service cost	0	(1)	0	(111)	(30)	15	-	(112)	(15)	(127)
Plan assets recognition limit	-	-	-	-	-	-	-	-	-	-
Total net obligation	157	86	98	161	330	196	26	403	650	1,053

5.5. Notes to the consolidated financial statements

Note 23. Employee benefits

As of December 31, 2004*(in millions of euros)*

	Retirement bonuses	Supplemental retirement benefits	Early retirement benefits	Medical expenses	Job-related awards	Total	Total	Total		
	Outsourced	In-house Outsourced management	In-house Outsourced management	In-house Outsourced management	In-house Outsourced management	Outsourced management	In-house Outsourced management			
Benefit obligation	270	554	201	707	352	196	24	1,531	773	2,304
Fair value of plan assets	(79)	(452)	0	(343)				(874)		(874)
Unrecognized actuarial gains / losses	(45)	(42)	(21)	(136)	(15)	(32)		(223)	(68)	(291)
Unrecognized past service cost	0	(2)	1	(120)	(27)	(2)		(123)	(28)	(151)
Plan assets recognition limit										
Total net obligation	146	58	181	108	310	162	24	311	677	988

Actuarial experience gains and losses since IFRS adoption**Actuarial losses (gains) by year, in millions of euros**

2004	Benefit obligations	36
	Plan assets	26
	Total	62
2005	Benefit obligations	(24)
	Plan assets	(6)
	Total	(30)
2006	Benefit obligations	6
	Plan assets	(12)
	Total	(6)

IFRS opening balances as of January 1, 2004 were as follows (in millions of euros):

Benefit obligation	1,773
Plan assets	(851)
Unrecognized past service cost	(159)
Opening provision under IFRS	763

5.5. Notes to the consolidated financial statements

Note 23. Employee benefits

Total expense for the year

2006 <i>(in millions of euros)</i>	Retirement bonuses	Supplemental retirement benefits	Early retirement benefits	Medical expenses	Job-related awards	Total
Current service cost	15	23	35	6	1	80
Interest on obligation	13	36	47	10	1	107
Expected return on plan assets	(4)	(30)	(17)	-	-	(51)
Actuarial gains or losses recognized in the year	2	3	3	-	(1)	7
Past service cost	-	(26)	37	(1)	-	10
Plan curtailment or termination	(6)	-	(14)	(2)	-	(22)
Total expense for the year	20	6	90	13	1	131

In 2006, the past service cost reflects:

- the establishment of a new early retirement plan for T&D SA, in the amount of €25 million;
- changes to AREVA NP's pension plan in Germany, generating a gain of €27 million.

Plan curtailments and terminations were affected, among other things, by the transfer of some Marcoule site employees to the CEA, generating a reversal of €18 million.

2005 <i>(in millions of euros)</i>	Retirement bonuses	Supplemental retirement benefits	Early retirement benefits	Medical expenses	Job-related awards	Total
Current service cost	14	20	48	5	1	87
Interest on obligation	12	31	49	10	1	103
Expected return on plan assets	(4)	(25)	(17)	0	0	(45)
Actuarial gains or losses recognized in the year	2	3	17	(6)	2	18
Past service cost	0	0	12	(2)	0	10
Plan creation, curtailment or termination	(4)	(16)	43	0	1	24
Total expense for the year	20	13	152	7	5	197

2004 <i>(in millions of euros)</i>	Retirement bonuses	Supplemental retirement benefits	Early retirement benefits	Medical expenses	Job-related awards	Total
Current service cost	12	26	65	3	1	107
Interest on obligation	13	40	51	9	1	113
Expected return on plan assets	(5)	(29)	(19)	0	0	(52)
Actuarial gains or losses recognized in the year	0	0	10	0	1	11
Past service cost	0	0	12	0	0	13
Plan creation, curtailment or termination	(2)	(2)	(7)	0	3	(8)
Total expense for the year	18	34	112	13	6	183

5.5. Notes to the consolidated financial statements

Note 23. Employee benefits

Change in the defined benefit obligation**At December 31, 2006**

<i>(in millions of euros)</i>	Retirement bonuses	Supplemental retirement benefits	Early retirement benefits	Medical expenses	Job-related awards	Total
DBO as of December 31, 2005	294	727	1,105	212	26	2,364
Current service cost	15	23	35	6	1	80
Cost escalation	13	36	47	10	1	107
Employee contributions	-	6	-	-	-	6
Past service cost	(7)	(26)	25	-	-	(8)
Acquisitions and disposals	(1)	56	3	-	-	58
Change in consolidation scope	8	30	-	2	-	40
Curtailments / terminations	(9)	-	(21)	(2)	-	(32)
Benefits paid during the year	(10)	(26)	(79)	(5)	(3)	(123)
Actuarial gains and losses	22	11	21	1	(1)	54
Actuarial gains and losses	-	(23)	-	(6)	-	(29)
DBO as of December 31, 2006	325	815	1,135	218	24	2,517

Changes in plan assets

<i>(in millions of euros)</i>	2006
Changes in asset values	
Opening balance	875
Expected return	51
Actuarial differences	12
Employer contributions	112
Employee contributions	6
Benefits paid	(123)
Acquisitions and disposals	36
Change in consolidated group	26
Currency translation adjustments	(17)
Net carrying amount as of December 31	978

Change in provision estimated by the group's actuaries

<i>(in millions of euros)</i>	2006	2005
Change in the provision		
Restated opening balance	1,053	988
Currency translation adjustment	(13)	17
Change in consolidated group	35	(46)
Total expense	131	197
Contributions collected / benefits paid	(112)	(103)
Benefit obligation as of December 31	1,094	1,053

Changes in the consolidated group in 2006 include the following:

- acquisition of ETC (€19 million), Ritz (€2 million) and Sfarsteel (€2 million);
- inclusion of actuarial gains and losses for nine plans that were previously estimated in-house or that were not consolidated (€13 million in all).

5.5. Notes to the consolidated financial statements

Note 24. Other provisions

NOTE 24. OTHER PROVISIONS

<i>(in millions of euros)</i>	January 1, 2006	Charge*	Reversal (when risk has materialized)	Reversal (when risk has not materialized)	Reclassifications, changes in consolidated group / currency translation adjustment	December 31, 2006
Restoration of <i>Mining</i> sites and mill decommissioning	66	13	(17)		1	63
Provision for site clean-up and reclamation of other industrial sites	25	16	(1)		9	49
Other non-current provisions	91	29	(18)		10	112
Restructuring and layoff plans	165	74	(67)	(5)	(39)	128
Provisions for ongoing <i>Cleanup</i>	67	11	(4)	(5)	12	81
Provisions for customer warranties	236	98	(52)	(45)	4	241
Provisions for losses to completion	93	452	(26)	(4)	55	570
Accrued costs	417	112	(108)	(41)	75	455
Other	353	169	(118)	(34)	(57)	313
Current provisions	1,331	916	(375)	(134)	50	1,788
Total provision	1,422	945	(393)	(134)	60	1,900

* Including a discount reversal of €7 million as of December 31, 2006.

<i>(in millions of euros)</i>	January 1, 2005	Charge	Reversal (when risk has materialized)	Reversal (when risk has not materialized)	Reclassifications, changes in consolidated group / currency translation adjustment	December 31, 2005
Restoration of mining sites and mill decommissioning	57	15	(24)		18	66
Provision for site clean-up and reclamation of other industrial sites	10	13	(1)	0	3	25
Other non-current provisions	66	29	(25)	0	21	91
Restructuring and layoff plans	234	82	(78)	(26)	(47)	165
Provisions for ongoing <i>Cleanup</i>	74	7	(7)	(0)	(7)	67
Provisions for customer warranties	228	90	(55)	(52)	25	236
Provisions for losses to completion	91	45	(36)	(11)	4	93
Accrued costs	437	67	(83)	(6)	3	417
Other	241	217	(40)	(37)	(27)	353
Current provisions	1,305	508	(299)	(133)	(49)	1,331
Total provision	1,371	537	(324)	(133)	(28)	1,422

5.5. Notes to the consolidated financial statements

Note 24. Other provisions

As of December 31, 2006, other provisions were as follows:

	2006	2005
Contingencies on contracts	21	27
Provisions for litigation	55	43
Provisions for tax risk	16	37
Provisions for fines and penalties	41	92
Other loss provisions	82	44
Other contingency provisions	98	110
Total	313	353

Provisions for restructuring and layoff plans

The provisions for restructuring total €128 million in 2006. They include €80 million for layoff plans and €48 million for site closures and related expenses.

These provisions, including a layoff plan spending schedule and the personnel involved, are indicated below.

<i>(in millions of euros)</i>	Site closure and related costs	Layoff plan	Layoff plan, spending forecast		
			2007	2008	2009
Company					
AREVA	10				
AREVA NC	5	6	4	1	1
AREVA T&D	31	72	50	11	11
AREVA NP	2	2	2		
AREVA TA					
Total	48	80	56	12	12

Layoff provisions are generally recognized when plans are presented to employee representatives. Layoff plans may concern total or gradual activity terminations, changes in employee assignments or, to a lesser extent, negotiated departures.

Provisions for losses to completion

Contract to build the Olkiluoto 3 EPR

The Olkiluoto 3 EPR (OL3) is the first Generation III+ reactor under construction anywhere in the world. Current difficulties in performing this turnkey contract with customer TVO of Finland relate to:

- management of the process specific to this project requiring approval of all technical documentation prior to fabrication and adjustments in response to specific requests;

- the “first of a kind” nature of the reactor, resulting in technical challenges and difficulties in meeting ambitious deadlines;
- the need to requalify subcontractors.

The AREVA / Siemens consortium is engaged in discussions with the customer to define measures to rectify the situation.

The consortium also reserved its rights to indemnification for cost overruns related to delays that it considers attributable to TVO. TVO had not responded to this notification as of the year end and had submitted its own claims to the consortium. The group has rejected these claims as without merit.

The provision recognized by the group in 2006 reflects the increase in costs and contingencies for this project. This increase takes into account performance difficulties and the extension of the construction period.

5.5. Notes to the consolidated financial statements

Note 24. Other provisions

Note 25. Borrowings

Remaining uncertainties regarding project costs concern, in particular, contract risks and adherence to the current schedule.

To limit these uncertainties for the EPR export program, the group bought an insurance policy covering losses to completion on sales contracts for these EPRs, subject to a deductible and a maximum coverage amount.

Provisions for contract completion

Provisions for contract completion totaled €455 million as of December 31, 2006. These provisions correspond to additional services, such as waste storage or processing, that must be rendered under a contract after margins on the activity have already been recognized under the company's accounting method.

NOTE 25. BORROWINGS

<i>(in millions of euros)</i>	Long-term borrowings	Short-term borrowings	December 31, 2006	December 31, 2005	January 1, 2005**
Put options of minority shareholders	1,117		1,117	1,076	931
Interest-bearing advances	0	548	548	497	449
Loans from financial institutions	238	78	316	286	322
Short-term bank facilities and non-trade current accounts (credit balances)	-	61	61	65	109
Financial instruments	-	3	3	38	4
Miscellaneous debt *	52	22	74	55	69
Total borrowings	1,407	712	2,119	2,016	1,883
<i>*Including finance lease obligations</i>	39	3	42	39	39

**Including IAS 32 and 39.

Put options of minority shareholders

The shareholders' agreement signed in 2001 between Framatome SA (absorbed by AREVA in 2001) and Siemens provides for the exercise of a put option by Siemens in respect of shares it holds in AREVA NP, representing 34% of the share capital, and a call option by AREVA in respect of AREVA NP shares held by Siemens, under the following terms and conditions.

First, the put and call may be exercised after a deadlock, as defined in the shareholders' agreement, in particular if it becomes impossible to make certain decisions, such as shutting down a site, changing the bylaws, etc., or if Siemens does not approve the financial statements for two consecutive years.

Secondly, the shareholders' agreement provides that after 11 years, i.e. from 2012, the parties may exercise the put and the call unconditionally.

Accordingly, Siemens will be free to exercise a put option enabling it to sell all its shares to AREVA, based on an expert valuation, and AREVA will be free to exercise a call option enabling it to buy all AREVA NP shares held by Siemens, based on an expert valuation.

Commitments to purchase minority interests held by Siemens in AREVA NP SAS are included in borrowings at the put option, exercise price, estimated at the net present value of future cash flows. This value is adjusted on December 31 of each year.

5.5. Notes to the consolidated financial statements

Note 25. Borrowings

The following assumptions were used to value the option held by Siemens as of December 31, 2005 and December 31, 2006:

	After-tax discount rate	Growth rate of pro forma year	Number of years of forecast data
As of December 31, 2006	7.77%	2%	5
As of December 31, 2005	7.48%	2%	5

As of December 31, 2006, the use of a discount rate of 0.5% higher or 0.5% lower than the rate actually used changes the option value by negative €118 million or positive €141 million respectively.

Borrowings by maturity, currency and type of interest rate:

<i>(in millions of euros)</i>	December 31, 2006
Maturing in one year or less	712
Maturity 1-2 years	19
Maturity 2-3 years	6
Maturity 3-4 years	5
Maturity 4-5 years	237
Maturing in more than five years	1,139
Total	2,119

<i>(in millions of euros)</i>	December 31, 2006
Euro	1,797
US dollar	16
Canadian dollar	239
Other	67
Total	2,119

<i>(in millions of euros)</i>	December 31, 2006
Fixed rate borrowings	178
Floating rate borrowings	821
Total	999
Siemens put option	1,117
Framepargne liquidity agreement	-
Financial instruments	3
Total	2,119

Maturities of financial assets and borrowings as of December 31, 2006 ⁽¹⁾

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total
Financial assets ⁽²⁾	1,063	136	33	-	-	23	1,254
Including fixed rate assets	0	136	33	-	-	23	192
Including floating rate assets ⁽³⁾	1,007	-	-	-	-	-	1,007
Including non interest-bearing borrowings	56	-	-	-	-	-	56
(Borrowings)	(712)	(19)	(6)	(5)	(237)	(1,139)	(2,119)
Including fixed rate borrowings	(126)	(19)	(6)	(5)	(5)	(17)	(178)
Including floating rate borrowings	(584)	-	-	-	(232)	(5)	(821)
Including non interest-bearing borrowings	(3)	-	-	-	-	(1,117)	(1,120)
Net exposure before hedging	351	117	27	(5)	(237)	(1,116)	(864)
Share exposed to fixed rates	(126)	117	27	(5)	(5)	6	14
Share exposed to floating rates	423	-	-	-	(232)	(5)	186
Interest free share	53	-	-	-	-	(1,117)	(1,064)

(1) Nominal amounts converted into euros.

(2) Cash and other current financial assets.

(3) Maturities < 3 months are considered floating rate.

Guarantees and covenants

No assets have been pledged to secure borrowings or debt, except for assets financed under finance lease arrangements.

Covenants

Certain loan agreements to finance group subsidiaries include covenants requiring compliance with predetermined ratios. This was the case until November 2006 for a CAD228 million loan (as of December 31, 2005) granted to AREVA NC Resources Inc.

This financing arrangement expired in November 2006 and was replaced with a new line of credit for CAD350 million. The loan documentation does not include covenants.

5.5. Notes to the consolidated financial statements

Note 26. Advances and prepayments received

Note 27. Other liabilities

NOTE 26. ADVANCES AND PREPAYMENTS RECEIVED

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Advances and prepayments on orders	3,248	3,631	3,234
Customer advances and prepayments invested in non-current assets	937	1,040	1,092
Total	4,185	4,671	4,326

This account comprises non-interest bearing operating and capex advances received from customers pursuant to contractual commitments. The advances are reimbursed by deduction from sales invoiced under these contracts, which primarily concern sales of fuel, used fuel treatment and recycling services, and AREVA T&D's *Systems* operations. Interest-bearing advances are recognized in Borrowings.

Only advances and prepayments effectively collected are recognized as a liability.

Trade advances and prepayments comprise amounts received from customers under contracts which do not provide financing for major non-current assets. In the case of long-term contracts,

the amount recognized in the balance sheet represents the net balance of advances and prepayments received and sales invoiced or recognized on a percentage of completion basis; it also includes interest income calculated on cash surpluses generated by these advances and prepayments, the amount of which is determined on an individual contract basis.

Customer advances and prepayments invested in non-current assets comprise amounts received from customers and used to finance capital expenditures for the performance of long-term contracts to which they have subscribed.

NOTE 27. OTHER LIABILITIES**Operating liabilities**

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1 2005
Taxes and social security liabilities (excluding income tax)	1,052	1,031	936
Financial instruments	107	121	136
Other operating liabilities	490	492	473
Total	1,650	1,644	1,545

The heading Financial instruments includes the fair value of derivatives hedging of commercial transactions and the fair value of the firm commitments hedged.

As of December 31, 2006, operating liabilities by maturity were as follows:

- Maturity < 1 year: €1.544 billion
- Maturity 1-5 years: €65 million
- Maturity > 5 years: €41 million

5.5. Notes to the consolidated financial statements

Note 27. Other liabilities

Note 28. Net cash from operating activities and net cash flow from discontinued operations

Non-operating liabilities

<i>(in millions of euros)</i>	December 31, 2006	December 31, 2005	January 1, 2005
Total	23	1	354

Non-operating liabilities as of January 1, 2005 include the residual balance of the final consideration due to the CEA (see Note 13) of €212 million.

This debt had been repaid by December 31, 2005.

NOTE 28. NET CASH FROM OPERATING ACTIVITIES AND NET CASH FLOW FROM DISCONTINUED OPERATIONS**Change in working capital requirement (WCR)**

<i>(in millions of euros)</i>	2006	2005	2004
Change in inventories and work-in-process	(14)	(228)	(9)
Change in trade accounts receivable and other receivables	(270)	(486)	(286)
Change in trade accounts payable and other liabilities	440	172	361
Change in customer advances and prepayments received	(383)	239	276
Change in advances and prepayments made	(61)	(14)	(39)
Change in Forex hedge of WCR	(55)	31	-
Total	(344)	(286)	303

Net cash from discontinued operations (FCI)

As of December 31, 2005, this item includes:

<i>(in millions of euros)</i>	2005
Proceeds from FCI disposal, net of disposal expenses	568
Negative FCI cash position transferred	285
Total	853

The cash position transferred was as follows:

<i>(in millions of euros)</i>	2005
FCI cash position as of January 1, 2005	(283)
Cash from operating activities	60
Cash from (used in) investing activities	(63)
Cash from (used in) financing activities	(19)
Currency translation impact	20
FCI cash position at the date of disposal	(285)

5.5. Notes to the consolidated financial statements

Note 29. Related party transactions

NOTE 29. RELATED PARTY TRANSACTIONS

Transactions between the parent company and its subsidiaries, which are related parties, were eliminated on consolidation and are not presented in this Note.

Transactions between the group and other related parties are as follows:

<i>(in millions of euros)</i>	December 31, 2006	
	CEA	STMicroelectronics
Sales	543	1
Purchases	90	-
Loans to / receivables from related parties	529	-
Borrowings from related parties	381	-
Guarantees given to related parties	-	-
Guarantees received from related parties	-	-

<i>(in millions of euros)</i>	December 31, 2005	
	CEA	STMicroelectronics
Sales	574	9
Purchases	24	-
Loans to / receivables from related parties	532	-
Borrowings from related parties	240	-
Guarantees given to related parties	1	-
Guarantees received from related parties	-	-

<i>(in millions of euros)</i>	December 31, 2004	
	CEA	STMicroelectronics
Sales	495	-
Purchases	485	-
Loans to / receivables from related parties	283	-
Borrowings from related parties	318	-
Guarantees given to related parties	-	-
Guarantees received from related parties	-	-

Following the disposal of FCI, the value of transactions with STMicroelectronics is not material.

Relations with government-owned companies

The group has business relationships with government-owned companies, in particular EDF. Transactions with EDF include sales of uranium, enrichment services and Nuclear fuel, maintenance and sales of equipment for Nuclear reactors, and used fuel transportation, storage, treatment and recycling services. Ongoing negotiations with EDF are described in Note 13. End-of-life-cycle operations.

Compensation of key executives

<i>(in millions of euros)</i> <i>(amounts recognized)</i>	2006	2005	2004
Short-term benefits and termination allowances	3,127	3,916	3,069
Post-employment benefits	69	66	109
Other long-term benefits	-	-	-
Total	3,196	3,982	3,178

Key executives include members of the Executive Board and the Supervisory Board. Short-term benefits and termination allowances include compensation paid by the group and by the CEA (€517,000 in 2006). In 2005, they also included an allowance recognized in provisions during the year and paid out in 2006.

5.5. Notes to the consolidated financial statements

Note 30. Greenhouse gas emission allowances

Note 31. Derivative instruments

NOTE 30. GREENHOUSE GAS EMISSION ALLOWANCES

The table below shows the CO₂ allowances received by AREVA group companies in 2006, actual emissions, and allowances sold on the Powernext market.

<i>(in metric tons of CO₂)</i>	2006	2005
Allowances received by AREVA	128,440	173,518
Actual emissions	97,765	133,703
Excess of allowances over emissions	30,675	39,815
Allowances sold on the Powernext market	23,000	39,500

Proceeds from sales of these allowances, which were less than a half a million euros, were recognized to income under the heading "Other current operating income".

NOTE 31. DERIVATIVE INSTRUMENTS**General objectives**

The group uses derivative instruments to manage its exposure to currency and interest rate risk, fluctuations in commodity prices, and changes in the price of certain publicly traded securities. Excluding specific situations (notably comprehensive foreign exchange hedges used for proposals), these instruments are documented and eligible for treatment as hedges under IAS 39.

- Management of interest rate risk and commodity price risk is centralized at parent company level. Foreign exchange risk is also usually managed by the parent company on behalf of the subsidiaries. The few subsidiaries that manage their foreign exchange exposure directly implement their strategy in concurrence with the parent company.
- Hedging operations by subsidiaries are initiated exclusively through the group's trading desk, except when operating, regulatory or tax considerations require otherwise.

Foreign exchange risk management

The group trades currencies on forward markets and uses derivative products (foreign exchange swaps, currency swaps, and exchange rate options) to hedge or manage:

- The positions of subsidiaries exposed to foreign exchange risk as a result of firm off-balance sheet commitments (customer orders, procurement) or highly probable future cash flows (budgeted sales or purchases). For certain contracts, the foreign exchange risk during the proposal phase is hedged by specific insurance

contracts (e.g. Coface contracts) or on a comprehensive basis within the Group. Firm commitments are systematically hedged as soon as they are identified. Other exposure may be identified through an annual or multi-annual budget process, in which case the risk hedged corresponds to a certain percentage of the estimated budget. Risks are hedged for a maximum period of three years.

- The balance sheet exposure on inter-company loans to subsidiaries made in currencies other than the functional currency.

Foreign currency cash positions are managed using currency swaps.

Interest rate risk management

The group uses several types of financial instruments, as required by market conditions, to allocate its debt between fixed rate and floating rate obligations and to manage its investment portfolio. The group primarily uses swaps for debt management and cash management purposes. Interest rate futures are used to manage medium-term investments.

Commodity risk management

The group uses financial instruments, including forward sales and purchases, commodity swaps and options, to reduce its exposure to commodity price volatility for commodities used in manufacturing, especially copper, aluminum and silver. All hedging activities are budget-based.

5.5. Notes to the consolidated financial statements

Note 31. Derivative instruments

Equity risk

To manage its long-term investment positions, the group may elect to use puts and calls backed by equities held in the portfolio. No such transaction was pending as of December 31, 2005.

Counterparty risk

The group controls the counterparty risk associated with these instruments by centralizing commitments and reviewing annually procedures specifying the limits of the counterparty risk for each type of instrument. To minimize the risk of default, the group's trading desk deals only with counterparties rated A1 / p1 or higher (short term ratings) or A / a2 (long term ratings) by Standard & Poor's and Moody's. The limits allowed for each counterparty are determined based on its rating and the maturity of the instrument traded.

Liquidity risk

Given the group's positive net cash position (excluding Siemens' put), AREVA was not exposed to liquidity risk as of the date of publication of this document.

Market value of financial instruments

The market value of financial instruments was provided by counterparty banks and financial institutions for commodity transactions or calculated using standard methods based on market conditions at the year-end for currency transactions.

5.5. Notes to the consolidated financial statements

Note 31. Derivative instruments

<i>(in millions of euros)</i>	Nominal value of contracts				Market value of contracts ⁽¹⁾			Total
	Nominal value of contracts	Cash flow hedges	Fair value hedges	Not formally documented	Cash flow hedges	Fair value hedges	Not formally documented	
Forward Forex transactions								
US dollars for euros	(453)	(35)	(341)	(77)	3	15	3	21
Pounds sterling for euros	(62)	30	(67)	(25)	0	(1)	0	(2)
Swiss francs for euros	60	4	43	13	0	(1)	(1)	(2)
Brazilian reals for US dollars	(41)		(41)		-	1	-	1
Singapore dollars for euros	18		18		-	0	-	0
Other	(176)	23	(208)	10	0	8	(1)	7
Total	(654)	22	(597)	(80)	3	22	1	26
Currency swaps								
US dollars for euros	(549)	(16)	(336)	(197)	2	2	1	5
Mexican pesos for euros	(48)		(48)		-	0	-	0
Pounds sterling for euros	(27)		(22)	(6)	-	0	0	0
Canadian dollars for euros	(21)	(1)	(21)	0	0	1	0	1
Australian dollars for euros	53		53		-	0	-	0
Other	(53)		(61)	9	-	0	0	0
Total	(645)	(17)	(434)	(193)	2	3	1	6
Currency options								
Euros for US dollars	29	29			0	-	-	0
Other currencies	(5)	(5)			0	-	-	0
Total	25	25	0	0	0	-	-	0
Currency swaps								
Variable rate swap - Borrower – US dollars	149		149		-	8	-	8
Variable rate swap - Borrower – Canadian dollars	220		220		-	16	-	16
Total	368	0	368	0	-	24	-	24
Grand total	(906)	29	(663)	(273)	5	49	2	56

(1) Gain / (loss).

Financial instruments transacted to hedge calls for tenders in foreign currencies comprise the bulk of the hedge positions reported as “Not formally documented” in accordance with IFRS.

5.5. Notes to the consolidated financial statements

Note 31. Derivative instruments

<i>(in millions of euros)</i>	Notional amount of contracts by maturity as of December 31, 2006						Total	Market value
	2007	2008	2009	2010	2011	> 5 years		
FOREIGN EXCHANGE INSTRUMENTS								
Currency swaps - borrower								
US dollars for euros	565	79	28	6		0	678	8
Canadian dollars for euros	103						103	3
Pounds sterling for euros	78	3					81	0
Mexican pesos for euros	55						55	0
US dollars for Canadian dollars	28						28	0
Qatar riyals for US dollars	19						19	0
Australian dollars for euros	0						0	0
Other currencies	66	3	1				70	0
Currency swaps - lender								
US dollars for euros	110	16	1	3			129	(3)
Canadian dollars for euros	82	0		0			82	(3)
Pounds sterling for euros	54	0					54	0
Australian dollars for euros	53						53	0
Swiss francs for euros	25	0	3				28	0
US dollars for Swiss francs	9						9	0
Mexican pesos for euros	7						7	0
Other currencies	27						27	0
Forward transactions - buyer								
US dollars for euros	110	10	2	0	0		122	(4)
Swiss francs for euros	69	8	1	0			78	(2)
Pounds sterling for euros	50	1					50	1
Singapore dollars for euros	27	0	0				28	0
Yens for euros	26	14	7				46	(4)
Saudi Arabian riyals for euros	10	10	2				22	0
Brazilian reals for US dollars	10						10	0
Other currencies	105	28	3	0	1	0	137	(2)
Forward transactions - seller								
US dollars for euros	288	96	30	27	12	10	463	17
Pounds sterling for euros	87	25	1				113	(2)
US dollars for pounds sterling	59	13	21	2			95	10
Qatar riyals for US dollars	39						39	0
Brazilian reals for US dollars	39	11	0	1			50	1
US dollars for euros (Coface contracts)	87	19	7				113	8
US dollars for Mexican pesos	34	0					35	1
Qatar riyals for euros	24						24	2
US dollars for Swiss francs	23	6	0				29	0
Swiss francs for euros	15	2					17	1
Singapore dollars for euros	10	0	0				10	0
Canadian dollars for euros (Coface contracts)	2	2					5	0
Other currencies	120	28	7	0			155	2

5.5. Notes to the consolidated financial statements

Note 31. Derivative instruments

<i>(in millions of euros)</i>	Notional amount of contracts by maturity as of December 31, 2006						Total	Market value
	2007	2008	2009	2010	2011	> 5 years		
CURRENCY OPTIONS								
Calls - buyer								
Euros for US dollars	22						22	0
Calls - seller								
US dollars for Canadian dollars	5						5	0
Puts - buyer								
Pounds sterling for yen	3						3	0
Puts - seller								
Euros for US dollars	7						7	0
US dollars for Swiss francs	3						3	0
Currency swaps								
Variable rate swap - borrower – US dollars	60	73	16				149	8
Variable rate swap - borrower – Canadian dollars	55	58	107				220	16

Notional amounts in foreign currency have been converted into euros based on year-end closing exchange rates.

<i>(in millions of euros)</i>	Notional amount of contracts by maturity as of December 31, 2006						Total	Market value
	2007	2008	2009	2010	2011	> 5 years		
INTEREST RATE INSTRUMENTS								
Interest rate swaps - fixed receiver								
Fixed rate lender – euros for Canadian dollars	38						38	4

<i>(in millions of euros)</i>	Market value of contracts ⁽¹⁾				Total
	Nominal value of contracts	Cash flow hedges	Fair value hedges	Non-allocated (Trading)	
FORWARD TRANSACTIONS					
Aluminum		18	2		2
Silver		0	0		0
Copper		90	4		4
Grand total		108	6		6

(1) Gain / (loss).

5.5. Notes to the consolidated financial statements

Note 31. Derivative instruments

<i>(in millions of euros)</i>	Notional amount of contracts by maturity as of December 31, 2006						Total	Market value
	2007	2008	2009	2010	2011	> 5 years		
COMMODITIES								
Copper								
Forward transactions - buyer	109	5					114	0
Forward transactions - seller	24						24	4
Silver								
Forward transactions - buyer	0						0	0
Forward transactions - seller								
Aluminum								
Forward transactions - buyer	18						18	2
Forward transactions - seller	0						0	0

Framépargne liquidity guarantee

The Framépargne mutual fund included in the AREVA group savings plan held 257,809 shares of the company as of December 31, 2006. The liquidity of these shares, which are not publicly traded, is guaranteed as provided by the law on employee savings plans. This guarantee is given to Framépargne by an independent financial institution. To allow this commitment to take effect, AREVA gave a value guarantee to the financial institution covering the same period. As of December 31, 2006, this guarantee covers 302,766 shares sold by Framépargne to the financial institution. As required by IAS 32 and 39 on financial instruments, this commitment is recognized as a derivative on treasury shares and revalued to fair value at the balance sheet

date. A financial asset of €10.3 million was recognized for this purpose under the heading "Other current financial assets" in the consolidated financial statements for the years ended December 31, 2006. This derivative does not qualify for hedge accounting and, accordingly, all changes in value are recognized through the income statement.

This financial asset is equal to the difference between the average purchase price of the shares acquired by the independent financial institution and the sale price, estimated based on the latest available expert valuation. As AREVA's commitment is valued based on the latest available price determined by the expert, no additional off-balance sheet commitment is recognized for the balance of the guarantee.

5.5. Notes to the consolidated financial statements

Note 32. Commitments given or received

NOTE 32. COMMITMENTS GIVEN OR RECEIVED

<i>(in millions of euros)</i>	December 31, 2006	Less than one year	1 to 5 years	More than 5 years	December 31, 2005	December 31, 2004
COMMITMENTS GIVEN	3,085	1,425	1,167	493	3,076	2,430
Operating commitments given	2,676	1,253	972	451	2,689	2,131
Contract guarantees given	2,524	1,186	920	417	2,463	1,992
Other operating guarantees	152	67	52	34	227	139
Commitments given on financing	49	21	21	7	49	51
Other commitments given	360	151	174	35	337	247
COMMITMENTS RECEIVED	883	329	247	307	900	701
Operating commitments received	436	315	71	50	427	250
Commitments received on collateral	13	6	-	7	36	15
Other commitments received	434	8	176	250	437	436
RECIPROCAL COMMITMENTS	781	228	512	41	907	1,254

The group's off-balance sheet commitments are presented by economic purpose: operating commitments, commitments related to financing, and other types of commitments. This breakdown relates to commitments given and commitments received. A third type of commitment is recognized: reciprocal commitments. This last type of commitment corresponds to commitments given by the group in consideration for a warranty from a third party.

The amounts above only include commitments that the group considers valid as of the date of closing. Accordingly, these commitments do not include construction contracts currently under negotiation.

Commitments given

The value of commitments given is comparable to that of 2005.

Operating commitments represent 87% of all commitments given. Two-thirds of such guarantees are performance guarantees.

In addition, the group gave a parent company guarantee to TVO for the full value of the contract for the construction of an EPR reactor in Finland. The group received a counter-guarantee from Siemens corresponding to this supplier's share of the TVO contract. The net commitment given by the group is in the range of €1.5 billion to €2 billion. It is not included in the summary table.

AREVA gave a specific guarantee in respect of ownership of FCI shares sold to Bain Capital. This amount, which is capped at the sale price of €582 million, is not included in the summary table.

Commitments received

Commitments received include the maximum value of vendor warranties received from Alstom following the group's acquisition of the Transmission & Distribution division.

The agreement to purchase AREVA T&D includes two types of vendor warranties: a general warranty and specific warranties, as indicated below:

- a 10-year environmental warranty with a trigger threshold of €12 million;
- a tax warranty for periods during which returns may be audited;
- a warranty for specific contracts, litigation or technical defects providing for full indemnification by Alstom, item by item.

The general warranty applies in cases of misrepresentation. It has a threshold of €19 million and is capped at €175 million. No claim may be submitted under the general warranty since March 31, 2006. AREVA has notified Alstom of several events which may be subject to indemnification, to be determined case by case when the amount of the loss is known. The most significant events are described in Note 33.

5.5. Notes to the consolidated financial statements

Note 32. Commitments given or received
 Note 33. Disputes and contingent liabilities

Reciprocal commitments

Reciprocal commitments as of December 31, 2006 mainly include future minimum payments to be made on operating leases, as follows.

(in millions of euros)

December 31, 2006	Less than one year	1 to 5 years	More than 5 years	December 31, 2005
547	100	406	41	266

The drop in value of reciprocal commitments partly due to the expiration of the commitment to acquire an interest in ETC. AREVA had given a commitment to the shareholders of Urenco to acquire 50% of their shares in the British company ETC. This commitment, not to exceed €396 million, is in addition to the €150 million down payment AREVA made when the memorandum of agreement was signed. This amount is recognized in the balance sheet under the heading "Other non-current financial assets". This off-balance sheet commitment was extinguished in 2006 when the ETC shares were acquired.

- AREVA–Siemens shareholders' agreement

The shareholders' agreement signed in 2001 between Framatome SA (absorbed in 2001 by AREVA) and Siemens provides for the exercise of a put option (by Siemens in respect of Framatome ANP shares held by it) and a call option (by Framatome in respect of AREVA NP shares

held by Siemens) under the following terms and conditions.

First, the put and call may be exercised after a deadlock, as defined in the shareholders' agreement, in particular if it becomes impossible to make certain decisions, such as shutting down a site, changing the bylaws, etc., or if Siemens does not approve the financial statements for two consecutive years.

Secondly, the shareholders' agreement provides that after 11 years, i.e. from 2012, the parties may exercise the put and the call unconditionally. Siemens will be free to exercise a put option enabling it to sell all its shares to AREVA, based on an expert valuation, and AREVA will be free to exercise a call option enabling it to buy all AREVA NP shares held by Siemens, based on an expert valuation. For this reason, Siemens' put option has been reported under the heading "Borrowings" (see Note 25).

NOTE 33. DISPUTES AND CONTINGENT LIABILITIES

Complaint regarding former mining sites in the Limousin region

Three associations have filed a complaint for alleged waste dumping and damage to fish life in the vicinity of former *Mining* sites near Bessines, France. The lower criminal court of Limoges heard the case on June 24, 2005. In a decision rendered on October 14, 2005, the court ruled completely in favor of AREVA NC on all counts. The decision of the court regarding alleged criminal conduct cannot be appealed.

The plaintiffs have appealed the component of the ruling denying civil damages. On May 24, 2006, the case was reheard by the Court of Appeal of Limoges, ruling on damages only.

On June 28, 2006, the criminal appellate division of the Limoges Court of Appeal confirmed the Limoges lower criminal court's ruling of October 14, 2005 and denied the appellants' claim on procedural grounds.

Two of the three associations have filed an appeal of the June 28 ruling with the Court of Cassation. On October 3, 2006, the Court of Cassation ruled that the appeals filed by these associations could not be received on procedural grounds, thus putting an end to proceedings begun almost eight years ago.

ISF2

The ISF2 project concerns the construction of a dry storage unit for Nuclear fuel from RBMK reactors in Ukraine.

In May 2004, the customer wrote to AREVA NP advising that the condition of the assemblies did not comply with the contractual documents. Without prejudicing the contractual positions of each party, and independently of pending commercial and financial negotiations, a memorandum of understanding was signed on July 17, 2004 by the three parties, that is AREVA NP, the customer's representative (PMU) and the plant, thus demonstrating their desire to cooperate to resolve this issue.

At the customer's request, AREVA NP drafted a technical solution taking into account the possibility that the customer may not be able to establish the actual condition of the fuel assemblies (contractual responsibility of the customer). In November 2004, this solution was presented to the donor countries in the presence of all interested parties (EBRD, AREVA NP, customer and Ukrainian safety authorities).

In July 2005, the cost estimate for the solution proposed by AREVA NP was presented to the meeting of donor countries. At their request, the EBRD performed a technical and financial audit.

5.4. Consolidated financial statements

Note 33. Disputes and contingent liabilities

Concurrently, the contract was suspended by mutual agreement among the parties for an initial three-month period and specific work was undertaken under a service contract to continue the most critical tasks during this interim period. This work was stopped at the end of June 2006.

In the spring of 2006, the Ukrainian party proposed a new technical solution to process all of the fuel assemblies in good condition or with water inside the cladding. The solution, involving the use of a drying process offered by a US company, was presented at the meeting of donor countries held on June 27, 2006, and several countries agreed in principle to its use, including the Ukraine and the United States.

After the meeting, the US company having been solicited to take over the entire project, AREVA NP initiated discussions with the EBRD to terminate the contract amicably and cooperate with the US company by providing short-term technical assistance, thus allowing to become more familiar with the project.

At a meeting held on December 14, 2006, the donor countries (including the Ukraine) officially approved AREVA NP's withdrawal, scheduled to take place in 2007. A contract termination agreement is being drawn up that will include terms and conditions to which both parties have agreed.

Usec litigation

In 2001, the United States Department of Commerce (DOC) ordered that countervailing duties be levied on enrichment services imported to the United States from France, Germany, the Netherlands and the United Kingdom. This action followed complaints filed in December 2000 by the United States *Enrichment Corporation* (USEC) against Eurodif and Urenco for dumping and unfair subsidies. The level of countervailing duties applied to Eurodif exports to the United States led to a deposit of \$186 million with the US Customs Service at the end of 2006, recoverable once the case has been adjudicated.

Eurodif's defense included administrative proceedings before the US DOC and a legal proceeding before the US Court of International Trade (CIT):

- In February 2003, Eurodif asked the DOC to revise provisional countervailing duties paid in 2001 and 2002. Final administrative decisions revising these duties were issued in July and September 2004. The revision reduced the level of the countervailing duties by approximately 80% compared with the provisional amount. The final amount of the duties relating to the 2004 deposit was communicated in August 2006.
- In April 2002, Eurodif appealed the DOC decision before the US Court of International Trade (CIT).
- The CIT issued favorable rulings validating Eurodif's legal analysis in March 2003 and in September 2003.

- On March 3, 2005, the US Court of Appeal for the Federal Circuit (CAFC), which is the ultimate level of appeal, issued a ruling in favor of Eurodif, thus terminating all legal proceedings and the anti-dumping and subsidy protection measures implemented by the DOC. The CAFC confirmed its ruling during re-hearings on September 9, 2005. The court remanded the case to the CIT, which in turn ordered the DOC to comply with these decisions in January 2006.

- In April 2006, all parties renounced their right to appeal on matters other than the "goods vs. services" issue.

After remanding the case to the DOC on several occasions:

- the CIT affirmed the DOC's proposal to rescind the order mandating countervailing duties. USEC appealed this decision on July 18. The US government did not appeal.
- On August 3, the CIT affirmed a second determination proposed by the DOC regarding the anti-dumping proceedings. This determination excludes uranium enrichment contracts from the scope of the order. USEC appealed this decision before the CAFC on September 19.

Ongoing investigations

After an investigation carried out by the European Commission into alleged anti-competition practices between GIS (Gas Insulated Switchgear) suppliers, the Commission imposed a series of fines on the 11 companies participating in the cartel. The investigation began in May 2004 when ABB submitted a request for immunity as provided in the 2002 communication on clemency. On January 24, 2007, consistent with its case law, the Commission fined the parent companies of the companies involved, including Alstom, which received an €11 million fine. It also held Alstom jointly liable with AREVA T&D SA for the payment of a €54 million fine. The other companies of the group penalized – i.e. AREVA, AREVA T&D holding and AREVA T&D AG – are jointly liable with AREVA T&D SA for €25.5 million and will not be fined more than €25 million for their own joint liability with that subsidiary.

The decision does not specify the respective obligations of Alstom and AREVA for payment of the abovementioned €54 million fine.

Irrespective of the amount, AREVA will ask Alstom to reimburse AREVA's loss, as provided in the vendor warranties granted when AREVA acquired the T&D division.

This investigation generated additional, although less critical, investigations by competition authorities in Hungary, the Czech Republic, Brazil and other countries, which are currently less active. In Hungary, authorities ruled in favor of AREVA's position. The Czech Republic levied a fine of €5.6 million on AREVA T&D in early February 2007.

5.5. Notes to the consolidated financial statements

Note 33. Disputes and contingent liabilities

Note 34. Events subsequent to year end

Administrative sanctions against a Mexican subsidiary of AREVA T&D

Proceedings were instigated by Mexican authorities against a subsidiary of AREVA T&D in 2004 for anti-competition practices, which could lead to this company not being allowed to bid on public contracts in Mexico.

A court decision exonerating AREVA T&D was rendered on August 11, 2005. However, the local authority concerned has handed down a new decision which is identical to the first decision to prevent AREVA T&D SA de CV from gaining access to public contracts in Mexico. Proceedings have been initiated to ensure enforcement of the court's ruling and suspend the administrative measure until a new court decision, if any, is issued on the merits.

NOTE 34. EVENTS SUBSEQUENT TO YEAR END

Bid on REpower

On February 5, 2007, the AREVA group made a public offer to acquire in cash all the shares of REpower *Systems* AG that the group does not already own. REpower is a wind turbine manufacturer based in Hamburg, Germany. Currently, AREVA owns more than 29.9% of REpower and has been a partner and strategic investor in the company since September 2005. The bid was to remain in effect until March 7, 2007 at midnight CET, unless extended.

AREVA offered €105 per share, thus valuing REpower at more than €850 million. This price represented:

- a 17% premium over the closing price on January 19, 2007, i.e. the last day of trading before the bid was announced; and
- a 44% premium over the average share price during the three-month period before January 19, 2007.

Suzlon, a competitor of REpower, partnered with Martifer, REpower's second largest shareholder with 25.4% of the company's share capital, to make a competing bid of €126 per share, all in cash. The German market authorities approved the bid on February 28, 2007.

In view of this offer, AREVA raised its bid price to €140 per share on March 15. It also acquired additional shares, thus increasing its interest to slightly more than 30%. The higher bid values REpower's capital at €1.137 billion and represents:

- an 11.1% premium compared with Suzlon's bid;
- a 33.3% premium compared with the price offered initially by AREVA.

Suzlon then raised its bid to €150 per share on April 10.

The bid expires at midnight CET on April 20, 2007, unless extended.

5.5. Notes to the consolidated financial statements

Note 35. Main consolidated companies

NOTE 35. MAIN CONSOLIDATED COMPANIES

FC: full consolidation

PC: proportionate consolidation

EM: equity method

Name of unit or controlling entity	Business reg. no.	December 31, 2006		December 31, 2005		
Company name, legal form, corporate office	Country	Business reg. no.	Method	%	Method	%
NUCLEAR POWER						
AREVA NC SA	France	305 207 169	FC	100	FC	100
AREVA NP SAS - 92400 Courbevoie	France	428 764 500	FC	66	FC	66
AREVA NP GmbH - 91058 Erlangen	Germany		FC	66	FC	66
AREVA NP, Inc. - Corporate	USA		FC	66	FC	66
AREVA TA SA - 91190 Gif-sur-Yvette	France	772 045 879	FC	83.58	FC	83.58
CEZUS SA - 92400 Courbevoie	France	71 500 763	FC	66	FC	66
Euriware SA	France	320 585 110	FC	100	FC	100
Eurodif SA - 78140 Velizy-Villacoublay	France	723 001 889	FC	59.65	FC	59.65
FBFC SNC - 92400 Courbevoie	France	300 521 754	FC	66	FC	66
Melox 78140 Velizy-Villacoublay	France	378 783 237	FC	100	FC	100
La Mancha	Canada		FC	63.55	-	-
Enrichment Technology Company Ltd	UK		PC	50	-	-
TRANSMISSION & DISTRIBUTION						
AREVA T&D de Energia Ltda	Brazil		FC	100	FC	100
AREVA T&D Energietechnik GmbH	Germany		FC	100	FC	100
AREVA T&D Enerji Endustrisi A.S	Turkey		FC	100	FC	100
AREVA T&D Inc.	USA		FC	100	FC	100
AREVA T&D India Ltd	India		FC	66	FC	66
AREVA T&D SA	France	389 191 800	FC	100	FC	100
AREVA T&D AG	Switzerland		FC	100	FC	100
AREVA T&D UK Ltd	UK		FC	100	FC	100
HOLDING COMPANY AND OTHER OPERATIONS - INVESTMENTS						
AREVA SA - 75009 Paris	France	712 054 923	FC	100	FC	100
Eramet	France	632 045 381	EM	26.20	EM	26.25
REpower	Germany		EM	29.99	EM	21.20
STMicroelectronics	Netherlands		EM	10.91	EM	10.94

5.6. AREVA SA 2006 financial statements

5.6.1. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the company financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the company financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the company financial statements. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In accordance with our appointment as Statutory Auditors at your Annual General Meeting, we hereby report to you for the year ended December 31, 2006 on:

- the audit of the financial statements of AREVA (*Société des Participations du Commissariat à l'Energie Atomique*) attached to this report,
- The justification of our assessments, and
- the specific procedures and disclosures required by law.

These financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements, based on our audit.

I - Opinion on the financial statements

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

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the company as of December 31, 2006, and the results of its operations for the year then ended in accordance with rules and accounting principles generally accepted in France.

II - Justification of assessments

Pursuant to the provisions of Article L.823-9 of the French Commercial Code governing the justification of our assessments, we draw your attention to the following:

Equity associates were valued in accordance with the accounting methods described in the note "Accounting policies, rules and methods – Long-term investments" to the financial statements. As part of our procedures, we reviewed the appropriateness of these accounting methods as well as the reasonableness of the assumptions adopted and of the resulting valuations.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and therefore contribute to the expression of the unqualified opinion expressed in the first part of this report.

III - Specific procedures and disclosures

We have also performed the other procedures required by law, in accordance with professional standards applicable in France.

We have no comment to make as to:

- the fair presentation and consistency with the financial statements of the information given in the report of the Executive Board and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of information given in the management report relating to compensation and benefits paid to executive officers as well as to commitments given in their favor upon taking, leaving or changing functions or subsequent thereto.

Pursuant to French law, we assured ourselves that the information relating to the identity of the holders of share capital was presented in the management report.

Neuilly-sur-Seine and Paris La Défense, March 23, 2007

The Statutory Auditors

Deloitte & Associés

Mazars & Guérard

Salustro Reydel
Memeber of KPMG International

Pascal Colin

Jean-Paul Picard

Thierry Blanchetier

Denis Marangé






5.6. AREVA SA 2006 financial statements

5.6.2. BALANCE SHEET

ASSETS

	2006			2005 Net
	Gross	Depreciation / Amortization provisions	Net	
<i>(in thousands of euros)</i>				
Subscribed capital not issued				
NON-CURRENT ASSETS				
Intangible assets				
Start-up costs				
Research and development expenses				
Concessions, patents, licenses, software and similar rights	2,193	1,778	415	402
Goodwill ⁽¹⁾				
Other intangible assets				
Intangible assets in progress				
Advances and prepayments				
Property, plant and equipment				
Land	303	99	204	540
Buildings	3,185	2,947	238	372
Plant, equipment and tooling	296	256	40	42
Other PP&E	13,751	4,513	9,238	8,885
PP&E in progress	12,926		12,926	2,486
Advances and prepayments				
Long term investments ⁽²⁾				
Equity associates	2,904,094	6,054	2,898,040	2,883,691
Loans to equity associates	897,235	145	897,090	466,816
Long-term financial portfolio				
Other long-term securities	7,590	2,072	5,518	4,428
Loans	5		5	26
Other long-term investments	14,459		14,459	268,077
Total fixed assets	3,856,037	17,864	3,838,173	3,635,763
CURRENT ASSETS				
Inventories and work-in-process				
Raw materials and other supplies				
Goods and services in process				
Intermediate and finished products				
Goods				
Prepayments and advances on orders	813		813	5,170
Accounts receivable ⁽³⁾				
Trade accounts receivable and related accounts	61,596	2,628	58,968	59,663
Other accounts receivable	174,146	8,879	165,267	182,420
Subscribed capital – issued and not paid				
Marketable securities				
Treasury shares				
Other securities	761,921		761,921	1,290,201
Cash instruments	813		813	452
Cash and cash equivalents	1,081,184		1,081,184	709,500
Prepaid expenses ⁽³⁾	10,474		10,474	4,911
Total current assets	2,090,947	11,507	2,079,440	2,252,316
Deferred charges				
Loan redemption premium				
Unrealized foreign exchange losses	159		159	17
Grand total	5,947,143	29,371	5,917,772	5,888,096
<i>(1) Including lease agreements.</i>				
<i>(2) Including maturities of less than one year (gross).</i>			4,431	14
<i>(3) Including maturities of more than one year (gross).</i>			0	0

Cash and cash equivalents include non-trade current accounts totaling €1,053,502K.

SHAREHOLDERS' EQUITY AND LIABILITIES

<i>(in thousands of euros)</i>	2006 Net	2005 Net
SHAREHOLDERS' EQUITY		
Share capital (including capital issued and paid: 1,346,823)	1,346,823	1,346,823
Additional paid-in capital, merger premiums, share premiums	328,289	328,289
Revaluation adjustments		
Equity method adjustment		
Reserves		
- Legal reserve	134,682	134,682
- Reserves provided in the by-laws or by contract		
- Regulated reserves	3,304	3,304
- Other reserves	6,403	6,403
Retained earnings	182,649	184,518
Net income for the year	280,209	347,951
Investment subsidies		
Tax-driven provisions	7	546
Total shareholders' equity	2,282,366	2,352,515
OTHER SHAREHOLDERS' EQUITY		
Proceeds from issue of participating shares		
Advances subject to covenants		
Other shareholders' equity		212,647
Total other shareholders' equity	0	212,647
PROVISIONS FOR CONTINGENCIES AND LOSSES		
Provisions for contingencies	18,087	44,230
Provisions for losses	178,700	100,804
Total provisions for contingencies and losses	196,787	145,034
DEBT ⁽¹⁾		
Convertible bond issues		
Other bond issues		
Bank borrowings ⁽²⁾	18,836	5,122
Miscellaneous loans and borrowings ⁽³⁾	3,302,982	3,077,724
Trade advances and prepayments on orders in progress		
Trade accounts payable and related accounts	63,461	49,726
Taxes and social security taxes	22,023	18,666
Accounts payable on non-current assets and related accounts	5,687	682
Other liabilities	23,579	25,924
Cash instruments	1,979	48
Deferred income		
Total borrowings	3,438,546	3,177,891
Unrealized foreign exchange gains	72	8
Total shareholders' Equity and Liabilities	5,917,772	5,888,096
	354	360,000
	3,438,192	2,817,891
	18,836	5,122
<i>(1) Including maturities of more than one year (a).</i>		
<i>(1) Including maturities of less than one year (a).</i>		
<i>(2) Short-term bank facilities and bank credit balances.</i>		
<i>(3) Including equity loans.</i>		
<i>(a) Excluding trade advances and prepayments.</i>		

Miscellaneous loans and borrowings include non-trade current liabilities totaling €3,267,211K.

5.6. AREVA SA 2006 financial statements

5.6.3. INCOME STATEMENT

<i>(in thousands of euros)</i>	2006			2005
	France	Export	Total	Total
OPERATING INCOME ⁽¹⁾				
Sales of goods				
Sales of products				
Sales of services	114,423		114,423	97,983
Net sales	114,423		114,423	97,983
Production in inventory				
Self-constructed assets				
Net partial proceeds from long-term transactions				
Operating subsidies				
Reversal of provisions and transfer of expenses			342	819
Other income			24	238
Total operating income			114,789	99,040
OPERATING EXPENSES ⁽²⁾				
Purchases of goods				
Change in inventory				
Purchases of raw materials and other supplies				
Change in inventory				
Other purchases and expenses ^(a)			165,139	138,248
Taxes and related expenses			(689)	7,903
Salaries and other compensation			18,917	18,782
Social security taxes			11,101	12,230
Amortization, depreciation and provisions:				
- On non-current assets: depreciation and amortization			2,141	1,987
- On non-current assets: charge to provisions				
- On current assets: charge to provisions			2,622	156
- For contingencies and losses: charge to provisions			10,075	171
Other expenses			1,046	1,147
Total operating expenses			210,352	180,623
Current operating loss			(95,563)	(81,583)
Share of net income from joint operations				
Profit allocated or loss transferred				
Loss allocated or profit transferred			0	184
FINANCIAL INCOME				
From equity associates ⁽³⁾			240,830	151,804
From other marketable securities and capitalized receivables ⁽³⁾			3,693	464
Other interest and related income ⁽³⁾			243,758	85,008
Reversal of provisions and transfer of expenses			14,424	82,244
Foreign exchange gains			213,844	141,685
Net income from disposals of marketable securities			5,572	
Total financial income			722,121	461,204
FINANCIAL EXPENSES				
Amortization and provisions			6,871	6,043
Interest and related expenses ⁽⁴⁾			157,723	156,076
Foreign exchange losses			211,964	153,988
Net loss on disposal of marketable securities			91	
Total financial expenses			376,649	316,108
Net financial income			345,472	145,097
Income before exceptional items and tax			249,909	63,329

5.6.3. INCOME STATEMENT (CONTINUED)

	2006	2005
EXCEPTIONAL ITEMS		
From financial management transactions	2,451	2,084
From capital or non-current asset transactions	41,424	634,536
Reversal of provisions and transfer of expenses	36,848	2,205,943
Total exceptional items	80,723	2,842,562
EXCEPTIONAL EXPENSES		
From financial management transactions	20,615	621
From capital or non-current asset transactions	47,182	2,579,773
Amortization, depreciation and provisions	75,441	75,037
Total exceptional expenses	143,238	2,655,430
Exceptional items	(62,515)	187,132
Employee profit-sharing	-	-
Income tax	92,816	(97,489)
Total income	1,010,448	3,402,807
Total expenses	730,239	3,054,856
Net income	280,209	347,951

(A) Including:

- Finance lease payments (property)
- Finance lease payments (real estate)

(1) Including income from prior years

(2) Including expenses from prior years

(3) Including income from related entities

(4) Including interest paid to related entities

320,402 168,063

93,842 156,076

5.6. AREVA SA 2006 financial statements

5.6.4. CASH FLOW STATEMENT

<i>(in thousands of euros)</i>	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	280	348
Net depreciation and amortization	2	2
Net provisions	55	(74)
Loss on disposals of non-current assets and investment securities	(3)	(186)
Non-deductible interest on perpetual subordinated bonds	(3)	(3)
Change in trade advances and prepayments	4	(24)
Change in trade accounts receivable and other receivables	8	70
Change in trade accounts payable and other operating liabilities	14	28
Other	(95)	-
Total cash flow from operating activities (I)	263	162
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in PP&E and intangible assets	(13)	(5)
Investment in long-term Notes and investments	(921)	(727)
Repayment of loans to equity associates	438	3
Loans and security deposits	(11)	0
Disposals of PP&E and intangible assets	4	3
Disposals and reduction of long-term Notes and investments	188	638
Net change in non-current asset receivables and debt	6	1
Other		
Total cash flow used in investing activities (II)	(311)	(88)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid by AREVA	(350)	(340)
Change in borrowings	0	0
Total cash flow used in financing activities (III)	(350)	(340)
Change in investment securities		
Change in net cash (I + II + III)	(398)	(265)
Net cash at the beginning of the year (A)	(1,226)	(961)
Net cash at the end of the year (B)	(1,624)	(1,226)
Change in net cash (B - A)	(398)	(265)
Change in investment securities		
Net change in cash position	(398)	(265)

5.7. Notes to the corporate financial statements

The Notes hereunder supplement the balance sheet before appropriate of earnings for the year ended December 31, 2006, showing total assets of €5,917,772K, and the income statement, showing net income of €280,209K. These statements are for the twelve-month period beginning January 1 and ending December 31, 2006.

These Notes include:

Highlights of the year and:

- Accounting policies, rules and methods
- Notes to the balance sheet
- Notes to the income statement
- Additional information

These Notes and tables are an integral component of the financial statements approved by AREVA's Supervisory Board.

5.7.1. SCOPE OF BUSINESS

AREVA is a services and financial holding company. Services provided include centralized cash management and consulting and support services for the group.

5.7.2. HIGHLIGHTS OF THE YEAR

5.7.2.1. Perpetual subordinated debt (TSDI)

AREVA NP issued 250 perpetual subordinated securities with a par value of \$1,000,000 on November 15, 1991, which were subscribed directly by financial institutions. AREVA paid the last interest installment on November 15, 2006 and indicated in December 2006 that it wanted to buy back the securities from Lilly, the company holding the TSDI, for \$1,000.

The conclusion of this transaction allowed AREVA to recognize the value of the perpetual subordinated securities in income, less related assets (deposit, share of cumulative non-deductible interest), giving net financial income of €95,384K.

5.7.2.2. REpower

AREVA increased its equity interest in REpower by subscribing to a share capital increase for that company and by acquiring shares on the market. These transactions bring AREVA's holding to 29.99% as of the end of 2006.

5.7.3. ACCOUNTING POLICIES, RULES AND METHODS

5.7.3.1. Rules and methods concerning balance sheet accounts

The financial statements of AREVA SA for the year ended December 31, 2006 were prepared in accordance with French accounting standards as defined and amended by regulation 99-03 of April 29, 1999 published by the French accounting board.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets appear on the balance sheet at cost, in accordance with regulation 2004-06 of the French accounting board.

Depreciation and amortization is calculated under the most appropriate method for the asset category.

The maximum depreciation periods are as follows:

- 3 years for off-the-shelf software,
- 25 years for buildings,
- 10 years for building improvements and office furniture, and
- 5 years for office equipment, computers and transportation equipment.

Each asset is subject to an individual depreciation schedule. A provision may be recorded when a specific asset's book value exceeds its value in use.

Long-term investments

Long-term investments are recognized on the balance sheet at cost on the day of contribution or acquisition. The acquisition cost includes the purchase price plus costs directly related to the purchase, such as commissions paid to acquire securities.

A provision for impairment of equity associates is recorded when their original cost exceeds their value in use, determined security by security.

The provision is computed based on the group's interest in each associate's equity (or consolidated equity for first-tier companies) as of year-end. However, this valuation also takes into account events or positions subsequent to year-end, when they are known before closing, as well as each subsidiary's estimated profitability or market value.

Receivables and debt

Receivables and debt are recorded at nominal value. Receivables may be written down to reflect potential collection difficulties based on information available at closing.

Receivables and debt in foreign currencies are translated and recorded in euros based on exchange rates in effect at year-end.

Unrealized gains and losses are recorded on the balance sheet as currency translation differences.

Receivables and debt in foreign currencies whose exchange rates have been hedged are recorded in euros based on the hedged rate. Unrealized foreign exchange losses are recognized through a contingency provision.

Marketable securities

Marketable securities are valued at the lower of acquisition cost and current value. A provision for impairment is recorded when the valuation as of the end of the period shows an overall loss by class of securities. The current value is equal to the average closing market price of the securities for the last month of the period.

A provision for impairment of other cash investments, such as debt instruments that are not publicly traded, is recorded separately when warranted.

Other shareholders' equity

As indicated in the highlights of the year, perpetual subordinated securities included in equity at the beginning of the year were removed from the balance sheet when the transaction was unwound in 2006.

Provisions for contingencies and losses

AREVA SA records provisions for contingencies and losses, for instance to cover restructuring or litigation expenses.

Contingent liabilities represent obligations that are neither probable nor certain at the date of closing, or obligations that are probable but where no resource is likely to be expended. Contingent liabilities are not recognized in provisions, but rather disclosed in the Notes (see Note 5.7).

AREVA recorded a provision for deferred tax liability to recognize the expected use of tax losses that the French subsidiaries are entitled to apply against future profits, as provided under French tax consolidation rules (see Note 1.3).

AREVA's provisions for contingencies and losses are consistent with French accounting board rules on liabilities dated December 7, 2000 (CRC 2000-06).

Pension commitments

The financial statements reflect all of AREVA's pension, retirement and related benefit commitments, both for active personnel and for retirees, net of any plan assets and unrecognized gains covering the liabilities.

For defined contribution plans, payments by the group are recorded as expenses for the period to which they relate.

For defined benefit plans, benefit costs are estimated using the projected credit unit method. Under this method, accrued pension benefits are allocated among service periods based on the plan vesting formula. If services in subsequent years result in accrued benefit levels that are substantially higher than those of previous years, the company must allocate the accrued benefits on a straight-line basis. The amount of future benefit payments to employees is determined based on salary trend assumptions, retirement age and mortality, discounted to present value based on interest rates for long-term bonds from AAA issuers.

Actuarial gains and losses are spread over the average expected remaining working life of personnel taking part in these plans for the portion exceeding the largest of the following values by more than 10%:

- the present value of the defined benefit obligation at the balance sheet opening date,
- the fair value of plan assets at the balance sheet opening date.

The costs of plan changes are allocated over the vesting period.

5.7.3.2. Cash flow statement

AREVA has adopted the indirect method of presentation, which starts with net income for the period. Cash consists of the following items: cash and cash equivalents, bank credit balances, short-term investments with maturities of less than three months and current accounts.

5.7.3.3. Tax data

AREVA received a renewal of regulatory approval to submit a consolidated tax return under Article 209-5 of the French Tax Code for the period 2005 / 2007. All French and foreign companies owned 50% or more are included in the tax consolidation scope.

Under the rules governing consolidated tax returns, the income tax expense is computed based on the group's consolidated taxable income rather than on taxable income reported by AREVA SA.

AREVA has also elected to adopt the provisions of Articles 223A *et seq.* of the French Tax Code concerning tax integration. The provisions of the tax integration agreements signed between AREVA and its tax-integrated subsidiaries are subject to common law.

5.7. Notes to the corporate financial statements

5.7.4. NOTES TO THE BALANCE SHEET

5.7.4.1. Non-current assets

BOX A		Gross value at the beginning of the year	Increases		
			Revaluations	Additions	
Intangible assets					
	Start-up costs and R&D expenses	Total I	-	-	-
	Other intangible assets	Total II	1,960	-	543
Property, plant and equipment in progress					
	Land		638	-	-
	Buildings erected on owned land		2,590	-	-
	Buildings erected on third party land		-	-	-
	Building facilities, fixtures and improvements		2,859	-	-
	Plant, equipment and tooling		301	-	18
	Miscellaneous facilities, fixtures and improvements		8,662	-	1,500
	Transportation equipment		106	-	51
	Office equipment, computer equipment and furniture		3,224	-	446
	Property, plant and equipment in progress		2,486	-	10,440
	Advances and prepayments		-	-	-
		Total III	20,865		12,455
Long-term Notes and investments					
	Equity associates		2,898,337		52,494
	Other long-term securities		6,173		1,421
	Loans and other long-term investments		735,461		880,374
		Total IV	3,639,971		934,289
Grand total		(I + II + III + IV)	3,662,796		947,287

BOX B			Decreases		Gross value at the end of the year	Revaluation of initial value
			Reclassifications	Disposals		
Intangible assets						
	Start-up costs and R&D expenses	(I)	-	-	-	-
	Other intangible assets	(II)	310	-	2,193	-
Property, plant and equipment in progress						
	Land		-	335	303	-
	Buildings erected on owned land		-	867	1,723	-
	Buildings erected on third party land		-	-	-	-
	Building facilities, fixtures and improvements		-	1,397	1,462	-
	Plant, equipment and tooling		-	23	296	-
	Miscellaneous facilities, fixtures, and improvements		-	99	10,063	-
	Transportation Equipment		-	33	124	-
	Office equipment, computer equipment and furniture		-	107	3,563	-
	Recyclable packaging and miscellaneous		-	-	-	-
	Property, plant and equipment in progress		-	-	12,926	-
	Advances and prepayments		-	-	-	-
		Total III		2,861	30,460	-
Long-term investments						
	Equity associates		-	46,737	2,904,095	-
	Other long-term securities		-	4	7,590	-
	Loans and other long-term investments		-	704,136	911,699	-
		Total IV		750,877	3,823,384	-
Grand total		(I + II + III + IV)	310	753,738	3,856,037	-

5.7. Notes to the corporate financial statements

Property, plant and equipment

The decrease in Land, Buildings and AAI Buildings primarily reflects the disposal of the rue des Minimes site in Courbevoie in October 2006.

The increase primarily reflects the establishment of corporate offices at rue La Fayette in central Paris and at the AREVA Tower in Paris-La Défense.

The increase reported under this heading relates chiefly to the acquisition of shares of REpower *Systems* AG and to the subscription of new shares issued by that company, for a total of €49.324 million. As a result of these transactions, AREVA holds a 29.99% interest in REpower.

The decrease primarily reflects the sale of AREVA T&D Inc shares to AREVA T&D Holding at their historical cost, as recognized on the balance sheet.

Long-term investments

Equity associates in the amount of €2,904,094K are essentially comprised of the following holdings:

• AREVA NC	€703,929K
• Suez	€646,303K
• AREVA T&D Holding	€500,000K
• Eramet	€291,693K
• AREVA NP	€277,638K
• Cere	€251,541K

The “heading loans and other long-term investments” includes:

	December 31, 2005	Increases	Decreases	December 31, 2006
Loans to equity associates	467,358	867,605	437,728	897,235
Loans	26		21	5
Other long-term investments	268,077	12,769	266,388	14,459

Loans to equity associates concern medium-term loans made to certain group companies, mainly:

- €468,463K to AREVA T&D Holding
- €57,707K (USD76,000K) to AREVA NC, Inc. Corporate
- €41,153K (USD54,205K) to UG Germany
- €216,708K (CAD314,592K) to AREVA Resources Canada, Inc.
- €50,738K (GBP34,071K) to AREVA T&D UK

Other long-term investments mainly include:

- Security deposits related to regular leases for the AREVA Tower in Courbevoie and the rue Lafayette offices in central Paris representing €8 million as of December 31, 2006.
- AREVA’s equity interest in European Liability Insurance for the Nuclear Industry (Elini), a mutual insurance company, representing €6.741 million as of December 31, 2006.

Decreases under this heading include notably:

- A deposit and non-deductible interest recovered when the subordinated debt arrangement was settled, representing €64.717 million and €49.604 million respectively.
- The repayment by AREVA NC of a €150 million advance made to acquire ETC shares, settled after AREVA NC acquired 50% of the shares held by Urenco in ETC.

5.7. Notes to the corporate financial statements

5.7.4.2. Depreciation and amortization

Balance and transactions during the year

BOX A Depreciable assets		Gross value at the beginning of the year	Charge	Reversal	Gross value at the end of the year
Intangible assets					
Start-up costs and R&D expenses	Total I	-	-	-	-
Other intangible assets	Total II	1,558	530	310	1,778
Property, plant and equipment in progress					
Land		99	0	0	99
Buildings erected on owned land		2,361	43	828	1,576
Buildings erected on third party land		-	-	-	-
Building facilities, fixtures and improvements		2,716	46	1,391	1,371
Plant, equipment and tooling		259	20	23	256
Miscellaneous facilities, fixtures and improvements		1,839	1,001	17	2,823
Transportation equipment		62	15	8	69
Office equipment, computer equipment and furniture		1,206	486	70	1,621
Recyclable packaging and miscellaneous		-	-	-	-
	Total III	8,541	1,610	2,336	7,815
Grand total	(I + II + III)	10,100	2,140	2,647	9,593

Allocation of depreciation and amortization

BOX B Depreciable assets		Straight line depreciation	Declining balance	Exceptional depreciation	Provisions, accelerated depreciation subject BOX C	
					Charge	Reversal
Intangible assets						
Start-up costs and R&D expenses	(I)	-	-	-	-	-
Other intangible assets	(II)	530	-	-	-	-
Property, plant and equipment in progress						
Land		-	-	-	-	-
Buildings erected on owned land		43	-	-	-	-
Buildings erected on third party land		-	-	-	-	-
Building facilities, fixtures and improvements		46	-	-	-	-
Plant, equipment and tooling		20	-	-	-	-
Miscellaneous facilities, fixtures and improvements		1,001	-	-	-	-
Transportation equipment		15	-	-	-	-
Office equipment, computer equipment and furniture		486	-	-	-	-
Recyclable packaging and miscellaneous		-	-	-	-	6
	Total III	1,611	-	-	0	6
Grand total	(I + II + III)	2,141	-	-	0	6

5.7.4.3. Cash and marketable securities

Headings	December 31, 2006	December 31, 2005
Investment securities - equities (gross book value)	143,075	143,075
Investment securities - equities (impairment)	-	-
Other marketable securities (gross book value)	618,846	1,147,126
Other marketable securities (impairment)	-	-
Cash instruments	813	452
Cash and cash equivalents	1,081,184	709,500
Total	1,843,918	2,000,153

Marketable securities, comprised mainly of negotiable debt instruments and Total shares, totaled €761,921K as of December 31, 2006.

Unrealized gains on marketable securities totaled €258,606K at year end.

Cash and cash equivalents include current accounts totaling €1,053,502K.

5.7.4.4. Provisions recorded on the balance sheet

	Amount at the beginning of the year	Charge	Decrease (utilized)	Decrease (not utilized)	Amount at year-end
Tax-driven provisions					
Provisions for capital investment	58	-	58	-	0
Accelerated depreciation subject to favored tax status	13	-	-	6	7
Other tax-driven provisions	476	-	-	476	0
Total I	547	0	58	482	7
Provisions for contingencies and losses					
Provisions for litigation	20,426	258	20,350	76	258
Provisions for foreign exchange losses	2,396	143	2,380	-	159
Provisions for pension and similar benefits	1,404	213	-	-	1,617
Provisions for taxes	99,394	67,827	-	-	167,221
Other provisions for contingencies and losses	21,413	17,218	-	11,099	27,532
Total II	145,033	85,659	22,730	11,175	196,787
Provisions for impairment					
Intangible assets	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-
Investment in equity securities	-	-	-	-	-
Equity associates	14,646	1,409	8,976	1,025	6,054
Other long-term investments	2,288	2,112	542	1,641	2,217
Inventories and work-in-process	-	-	-	-	-
Trade accounts receivable	25	2,622	-	-	2,647
Other	7,543	3,207	-	1,871	8,879
Total III	24,502	9,350	9,518	4,537	19,797
Grand total	(I + II + III)	170,082	95,009	32,306	16,194
Including charges / reversals					
- operating	-	12,697	-	171	-
- financial	-	6,871	2,922	8,560	-
- exceptional	-	75,441	29,384	7,463	-

5.7. Notes to the corporate financial statements

Provisions for contingencies and losses

The provisions include mostly a deferred liability related to AREVA's use of certain of its subsidiaries' tax losses in the consolidated tax return (€167,221K).

Reversals of provisions for contingencies and losses include:

- the reversal of a provision for tax liability regarding a tax audit adjustment for 2000 and 2001, representing €19.804 million;

- the reversal of a provision for a share price guarantee concerning Framépargne (€4,424K).

Charges to provisions include:

- a charge to provisions for deferred tax, of €67.827 million;
- a €9.862 million provision for the transfer of the company's corporate offices to 33, rue La Fayette, Paris 75009.

Provisions for impairment

- Provisions for impairment of Equity associates include the reversal of a provision concerning Établissements Pierre Mengin, a company liquidated during the year.

- The heading Provision for impairment of other long-term Notes and investments includes:

	December 31, 2005	Charge	Reversal	December 31, 2006
Loans to equity associates	542	145	542	145
Other long-term securities	1,746	1,967	1,640	2,072

Provisions for impairment of "Other long term securities" include a €1.321 million provision concerning Emertec, a private equity mutual fund.

5.7.4.5. Statement of receivables and liabilities**Statement of receivable**

BOX A	Gross amount	Maturity < 1 year	Maturity > 1 year
Non-current assets			
Loans to equity associates	897,235	4,200	893,035
Loans ^{(1) (2)}	5	-	5
Other long-term investments	14,459	231	14,228
Current assets			
Doubtful trade accounts	2,808	2,808	-
Other trade accounts receivable	58,788	58,788	-
Loans of securities	-	-	-
Accounts receivable from employees and related accounts	24	24	-
Social security administration and other social institutions	-	-	-
Income tax	0	0	-
Value added tax	28,882	28,882	-
Other taxes and similar payments	41,707	41,707	-
Miscellaneous	80	80	-
Associates	61,932	61,932	-
Miscellaneous accounts receivable	31,047	31,047	-
Prepaid expenses	10,474	10,474	-
Total	1,147,441	240,173	907,268
(1) Including loans granted during the year	0		
(2) Including repayments during the year	0		

Statement of liabilities

BOX B	Gross amount	Maturity < 1 year	Maturity 1-5 years	Maturity > 5 years
Convertible bond issues	-	-	-	-
Other bond issues	-	-	-	-
Bank borrowings:				
- maturity at inception: one year or less	18,836	18,836	-	-
- maturity at inception: more than one year	-	-	-	-
- Miscellaneous loans and borrowings	-	-	-	-
Trade accounts payable and related accounts	63,461	63,461	-	-
Accounts payable to employees and related accounts	7,290	7,290	-	-
Social security administration and other social institutions	3,552	3,552	-	-
Income tax	2,576	2,576	-	-
Value added tax	7,091	7,091	-	-
Covered bonds	-	-	-	-
Other taxes and similar payments	1,514	1,514	-	-
Accounts payable on non-current assets and related accounts	5,687	5,687	-	-
Associates	3,302,982	3,302,628	354	-
Other liabilities	25,558	25,558	-	-
Loans of securities	-	-	-	-
Unearned income	-	-	-	-
Total	3,438,546	3,438,192	354	-

Bank borrowings correspond to bank account credit balances.

Other liabilities include €11,496K corresponding to debt related to tax integration current accounts.

5.7.4.6. Accrued income

(Order 83-1020 of November 29, 1983 – Article 23)

Accrued income included in the following balance sheet accounts

	As of December 31, 2006	As of December 31, 2005
Loans to equity associates	35,337	24,641
Other long-term securities	-	-
Loans	-	-
Other long-term investments	-	-
Trade accounts receivable and related accounts	8,157	10,595
Other accounts receivable	43,142	120,406
<i>including State - other accounts receivable</i>	<i>41,325</i>	<i>119,956</i>
Marketable securities	188	1,200
Cash and cash equivalents	-	703
Total	86,824	157,545

Accrued income included in "Cash and cash equivalents" represents interest receivable on non-trade current accounts.

5.7. Notes to the corporate financial statements

5.7.4.7. Accrued expenses

(Order 83-1020 of November 29, 1983 – Article 23)

Accrued expenses included in the following balance sheet accounts

	December 31, 2006	December 31, 2005
Convertible bond issues	-	-
Other bond issues	-	-
Bank borrowings	-	-
Miscellaneous loans and borrowings	959	1,839
Trade accounts payable and related accounts	32,985	44,501
Taxes and employee-related liabilities	11,301	11,268
Accounts payable on non-current assets and related accounts	4,903	656
Other liabilities	6,837	2,034
Total	56,985	60,298

Accrued expenses included in “Miscellaneous loans and borrowings” represent interest payable on non-trade current accounts.

5.7.4.8. Share capital

(Order 83-1020 of November 29, 1983 – Article 24-12)

Category	Par value	Number of shares			At year-end
		Beginning of year	Issued during the year	Redeemed during the year	
Shares	0.04	34,013,593	0	0	34,013,593
Investment certificates	0.04	1,429,108	0	0	1,429,108

5.7.4.9. Shareholders' equity excluding share capital

<i>(in thousands of euros)</i>	As of December 31, 2005	Increases	Decreases	As of December 31, 2006
Merger premiums	184,357	-	-	184,357
Consolidation goodwill	143,932	-	-	143,932
Legal reserve	134,682	-	-	134,682
Regulated reserves	2	-	-	2
Blocked reserves	3,302	-	-	3,302
Available reserves	6,403	-	-	6,403
Retained earnings	184,518	-	1,869	182,649
Net income for the year	347,951	280,209	347,951	280,209
Tax-driven provisions	546	-	539	7
Total	1,005,693	280,209	350,359	935,543

On May 2, 2006, the Annual General Meeting of Shareholders decided to distribute dividends in the amount of €349,819K out of 2005 net income (€347,951K) and retained earnings (€1,869K).

5.7.4.10. Data on related parties

(Decree 83-1020 of November 29, 1983 – Article 24-15)

Balance sheet accounts

	Transactions with		Debt or receivables evidenced by an instrument
	Related parties	Equity investments	
LONG-TERM INVESTMENTS			
Equity associates	1,881,446	-	-
Loans to equity associates	897,235	-	-
Loans	1	-	-
Other long-term securities	-	-	-
Other long-term investments	18	-	-
Total long-term notes and investments	2,778,700	-	-
ACCOUNTS RECEIVABLE			
Trade accounts receivable and related accounts	58,588	-	-
Subscribed capital – issued and not paid	69,642	-	-
Total accounts receivable	128,230	-	-
Marketable securities		-	-
Non-trade current accounts	1,038,168	-	-
LIABILITIES			
Non-trade current accounts	3,265,804	-	-
Trade advances and prepayments on orders in progress		-	-
Trade accounts payable and related accounts	49,211	-	-
Other liabilities	13,325	-	-
Total liabilities	3,328,340	-	-

Income statement accounts

	Transactions with		Debt or receivables evidenced by an instrument
	Related parties	Equity investments	
Financial income and expenses			
Financial income	384,219	-	-
Financial expenses	206,898	-	-
Total	591,117	-	-

5.7. Notes to the corporate financial statements

5.7.4.11. Five-year financial summary

(in thousands of euros)

Performance indicator	2002	2003	2004	2005	2006
1 – Share capital at year-end					
Share capital	1,346,823	1,346,823	1,346,823	1,346,823	1,346,823
Number of ordinary shares outstanding	34,013,593	34,013,593	34,013,593	34,013,593	34,013,593
Number of investment certificates outstanding	1,429,108	1,429,108	1,429,108	1,429,108	1,429,108
2 – Activities and income for the year					
Sales revenue	73,133	36,046	86,583	97,983	114,423
Income before tax, employee profit-sharing and calculated expenses (depreciation, depletion, amortization and provisions)	1,084,311	598,720	306,817	(1,952,579)	298,559
Income tax	17,662	(56,566)	(30,444)	(97,489)	92,816
Income after tax, employee profit-sharing and calculated expenses (depreciation, depletion, amortization and provisions)	216,230	372,444	301,555	347,951	280,209
Net income distributed ⁽¹⁾	219,745	219,745	339,896	349,819	-
3 – Earnings per share (in euros)					
Income after tax, employee profit-sharing and before calculated expenses	30	18	10	(53)	9
Income after tax, employee profit-sharing and calculated expenses (depreciation, depletion, amortization and provisions)	6	11	9	10	8
Dividend per share ⁽¹⁾	6	6	10		-
4 – Personnel					
Number of salaried employees at year end	189	197	161	184	144
Total compensation for the year	18,337	17,726	16,582	17,751	17,715
Payroll taxes and other benefit expenses	6,826	8,005	8,526	9,073	8,172

(1) For 2006: pending decision by the Annual General Meeting of Shareholders.

5.7.5. NOTES TO THE INCOME STATEMENT

5.7.5.1. Current operating income

Reported sales include:

- Charge allocations to subsidiaries, corresponding to shared services and the right to use a trademark, for a total of €85,553K.

The trademark license fee is charged to all group entities at the rate of 0.5% of contributions to consolidated sales. The shared services fee is charged only to French consolidated entities, at the rate of 0.6% of contributions to consolidated sales.

- Proceeds from real estate operations (€16,312K)
- Charge allocation for personnel expenses (€2,886K)

Operating expenses reflect holding company activities and services provided to subsidiaries. The operating loss thus came to €95,563K.

5.7.5.2. Net financial income

Net financial income includes, among other items:

• Dividends from equity interests	€218,870K
• Total and Suez dividends	€40,810K
• Investment income	€17,101K
• Net expense on current accounts	€(19,694)K
• Reversal of provisions of a financial nature (Framépargne share price guarantee in particular)	€4,611K
• Financial expense on perpetual subordinated securities	€(9,667)K
• The net impact of the unwinding of the perpetual subordinated securities transaction	€95,384K

5.7.5.3. Exceptional items

Exceptional items include:

- the net charge to provisions for deferred tax for the year of €67.827 million.
- income from disposal of the Minimes real estate properties in Courbevoie (€2.824 million).

5.7.5.4. Income tax

AREVA's income tax for 2006, determined in accordance with the rules specific to tax consolidation, represented income of €92,344K. This includes tax income for 2006, adjustments to the tax expense reported for 2005, and taxes paid by tax-integrated subsidiaries.

AREVA recognized €434,683K in taxable consolidated income for the year, before offset of tax losses carried forward. Taxable income after offset is nil.

Accordingly, AREVA is not liable to any income tax for the year and will record income corresponding to tax savings under the tax consolidation and integration regimes, which accrue to AREVA as ultimate parent company.

The tax savings generated by the tax integration and tax consolidation regimes are:

- Tax integration: €85,361K
- Tax consolidation: €11,779K

Other items, representing negative € 4,796 K, relate to adjustments to the 2005 tax position and other adjustments to consolidated taxable income.

The tax income for the year therefore came to €92,344K.

The total impact of corporate income tax related events is €19,427K, after recognition of a net charge of €67,827K to provisions for deferred tax and a €5,090K provision for tax audit relating to previously sold FCI companies.

5.7. Notes to the corporate financial statements

5.7.6. ADDITIONAL INFORMATION

5.7.6.1. Employees

The company employed 144 people on December 31, 2006, as indicated in the following table:

	2006	2005	2004
Management	102	125	111
Supervisors	38	24	14
Support staff	4	35	36
Total	144	184	161

5.7.6.2. Pensions and other employee benefits

AREVA SA pays retirement bonuses to its retiring employees, based on their compensation and seniority.

This defined benefit plan is recorded in accordance with accounting methods defined in Note 5.7.3.1.

Each year, independent actuaries determine AREVA's commitments as of year-end.

Balance sheet reconciliation

<i>(in millions of euros)</i>	2006	2005
Provision for pension obligations and other employee benefits	1,617	1,404

The main actuarial assumptions used in determining the group's obligations are as follows:

	2006	2005
Inflation	2.00%	2.00%
Discount rate	4.25%	4.25%

- Mortality tables used: INSEE 2000-2002 Men / Women
- Retirement age: 63 for management personnel, 61 for non-management personnel

- Average attrition

	Management	Non-management
< 30 years	1.60%	1.60%
30-39	1.60%	1.60%
40-49	1.60%	1.60%
50-54	1.60%	1.60%
55 and above	0.00%	0.00%

- Assumed rate of salary increase, net of inflation

	Management	Non-management
< 30 years	1.50%	0.50%
30-39	1.50%	0.50%
40-49	1.50%	0.50%
50-54	1.50%	0.50%
55 and above	1.50%	0.50%

Net book value of benefit obligations

<i>(in thousands of euros)</i>	2006	2005
Benefit obligation	1,978	1,632
Fair value of plan assets		
Unrecognized actuarial gains / losses	(361)	(228)
Unrecognized past service cost		
Net benefit obligation	1,617	1,404

Change in the provision

<i>(in thousands of euros)</i>	2006	2005
Restated opening balance	1,404	1,234
Total expense	213	170
Contributions and benefits paid	0	0
Net book value as of December 31	1,617	1,404

5.7. Notes to the corporate financial statements

Total expense for the year

Expense recorded in 2005 and 2006

<i>(in thousands of euros)</i>	2006	2005
Current service cost	135	103
Interest cost	74	67
Expected return on plan assets		
Amortization of actuarial gains or losses	4	
Past service cost		
Plan creation, curtailment or liquidation		
Total expense for the year	213	170

5.7.6.3. Information on lease arrangements

No lease arrangements were recorded in 2006.

5.7.6.4. Company exposure to market risk**General objectives**

The group uses derivatives to manage its exposure to currency and interest rate risk, fluctuations in commodity prices, and changes in the price of certain publicly traded securities. Excluding specific situations (notably comprehensive foreign exchange hedges during proposals), these instruments generally qualify as hedges of the group's assets, liabilities and specific commitments.

Management of interest rate risk and commodity price risk is centralized in the parent company. Foreign exchange risk is usually managed by the parent company on behalf of the subsidiaries. The few subsidiaries that manage their foreign exchange exposure directly implement their strategy in concert with the parent company.

Hedging operations by the subsidiaries are initiated exclusively with the group's trading desk, except when operating, regulatory or tax constraints require otherwise.

Foreign exchange risk management

AREVA trades currencies on forward markets and uses derivative products (foreign exchange swaps, currency swaps and exchange rate options) to hedge or manage:

- The positions of subsidiaries exposed to foreign exchange risk as a result of firm off-balance sheet commitments (customer orders, procurement) or highly probable future cash flows (budgeted sales or purchases). Exposure is systematically hedged when it is incurred.
- For certain contracts, the foreign exchange risk during the proposal phase may be hedged by specific insurance contracts (e.g. Coface contracts) or on a comprehensive basis within the group. Other exposure may be identified through an annual or multi-year budget, in which instance the risk covered corresponds to a percentage of the estimated budget.
- The balance sheet risk on loans to subsidiaries made in currencies other than their own, or in a currency that is not the functional currency, when financing in the currency in which the subsidiaries operate has not been secured.

The group uses currency swaps to manage its foreign currency cash positions.

5.7. Notes to the corporate financial statements

AREVA <i>(in millions of euros)</i>	Notional amounts of contracts by maturity as of December 31, 2006						Total	Market value
	2007	2008	2009	2010	2011	> 5 years		
FOREIGN EXCHANGE INSTRUMENTS								
Currency swaps - Borrower								
US dollars for euros	384.5	78.6	28.3	5.7		0.2	497.3	9.9
Canadian dollars for euros	115.8						115.8	4.1
Pounds sterling for euros	88.4	3.0					91.4	(0.3)
Mexican pesos for euros	56.6						56.6	(0.2)
US dollars for Canadian dollars	29.3						29.3	(0.1)
Qatar riyals for US dollars	18.9						18.9	0.0
Other currencies	99.7	2.6	0.8				103.2	0.7
Currency swaps - Lender								
US dollars for euros	263.8	17.3	1.4	2.7	0.1		285.3	(5.9)
Canadian dollars for euros	95.0	0.2		0.2			95.4	(3.3)
Pounds sterling for euros	60.5	0.3					60.7	0.2
Australian dollars for euros	53.2						53.2	0.5
Swiss francs for euros	30.6	0.3	2.5				33.4	(0.4)
US dollars for Swiss francs	11.5						11.5	(0.1)
Other currencies	119.3		0.0				119.3	(0.5)
Forward transactions - Buyer								
US dollars for euros	353.5	99.7	31.8	30.9	12.3	9.8	538.1	(18.2)
Pounds sterling for euros	132.1	16.3	0.8				149.3	2.0
Swiss francs for euros	79.8	9.1	1.8	0.1			90.9	(2.7)
US dollars for pounds sterling	68.1	19.1	21.0	2.4			110.7	(11.1)
Singapore dollars for euros	49.7	0.5	0.1				50.3	(0.1)
Qatar riyals for US dollars	38.6						38.6	0.3
US dollars for Canadian dollars	29.4						29.4	0.5
US dollars for Mexican pesos	37.1	3.5					40.5	(0.9)
Japanese Yen for euros	28.9	15.4	6.9				51.2	(4.8)
Other currencies	197.2	51.7	10.1	0.7	0.6	0.3	260.7	(5.0)
Forward transactions - Seller								
US dollars for euros	353.5	104.0	33.3	27.6	12.3	9.6	540.4	19.2
Pounds sterling for euros	140.9	25.2	0.8				166.9	(2.3)
Swiss francs for euros	61.7	7.6	1.0	0.1			70.4	2.2
US dollars for pounds sterling	67.3	18.9	21.0	2.4			109.6	11.1
Singapore dollars for euros	46.4	0.5	0.1				47.0	0.2
US dollars for Mexican pesos	40.1	3.5					43.5	1.0
Qatar riyals for US dollars	38.6						38.6	(0.3)
Japanese Yen for euros	28.9	15.4	6.9				51.3	5.1
Qatar riyals for euros	25.1						25.1	2.0
Other currencies	180.3	53.8	10.3	1.0	0.6	0.3	246.2	1.9
Currency options								
Calls - Buyer								
Euros for US dollars	22.5						22.5	0.2
Pounds sterling for Canadian dollars								
Calls - Seller								
Euros for US dollars	22.5						22.5	(0.2)
US dollars for Canadian dollars	5.3						5.3	0.0
Puts - Buyer								
Pounds sterling for yen	2.7						2.7	
Puts - Seller								
Pounds sterling for yen	2.7						2.7	
Euros for US dollars	7						7.0	0.0
US dollars for Swiss francs	3						3.0	0.0
Euros for pounds sterling	4.0						4.0	0.0

Interest rate risk management

The group uses several types of financial instruments, as required by market conditions, to allocate its debt between fixed rates and floating rates and to manage its investment portfolio. The group primarily uses swaps for debt management and cash management purposes. Rate futures are used to manage medium term investments.

Commodity management risk

The group uses financial instruments, including forward sales / purchases and commodity swaps, to reduce its exposure to price volatility for commodities used in manufacturing its products, especially copper, aluminum and silver. All hedging activities are budget-based.

AREVA <i>(in millions of euros)</i>	Notional amounts by maturity date as of December 31, 2006						Total	Market value
	2007	2008	2009	2010	2011	> 5 years		
Commodities								
Gold								
Forward transactions - buyer								
Forward transactions - seller								
Options - Call buyer								
Copper								
Forward transactions - buyer	133.2	4.6					137.79	(4.1)
Forward transactions - seller	133.2	4.6					137.79	4.1
Options - Call buyer								
Options - Call seller								
Silver								
Forward transactions - buyer	0.3						0.32	0.2
Forward transactions - seller	0.3						0.32	(0.2)
Options - Call buyer								
Options - Put seller								
Aluminum								
Forward transactions - buyer	23.1						23.09	2.0
Forward transactions - seller	23.1						23.09	(2.0)
Options - Call buyer								
Options - Put seller								

Equity risk

To manage its long-term investment positions, the group may elect to use puts and calls backed by portfolio equities. No such transaction was pending as of the end of the year.

trading desk deals only with counterparties that signed the ISDA Master Agreement and are rated A1 / p1 or higher (short term ratings) or A / a2 (long term ratings) by Standard & Poor's and Moody's. The limits allowed for each counterparty are determined based on its rating and the maturity of the instruments traded.

Counterparty risk

The group controls the counterparty risk associated with these instruments by centralizing commitments and annually reviewing procedures specifying the limits of the counterparty risk for each type of instrument. To minimize the risk of default, the group's

Market value of financial instruments

The market value of financial instruments was provided by counterparty banks and financial institutions or calculated using standard methods based on market conditions at the year-end.

5.7. Notes to the corporate financial statements

5.7.6.5. Off-balance sheet commitments, excluding leases

The group has established a procedure to identify and confirm off-balance sheet items disclosed in these Notes. This procedure includes a definition of the main categories of commitments and their valuation methods. It also includes a method to collect and control the data, relying largely on confirmations from third parties.

5.7.6.5.1. Commitments given

<i>(in thousands of euros)</i>	Total	< 1 year	1-5 years	> 5 years
Total operating commitments given	341,754	273,867	53,463	14,423
Bid guarantees	199	199	-	-
Performance guarantees	266,737	201,516	50,798	14,423
Down payment guarantees	19,250	19,250	-	-
After-sales warranties	7,444	6,737	706	-
Other contract guarantees	48,002	46,166	1,836	-
Other operating commitments given	122	-	122	-
Total commitments given on financing	1,258,586	883,067	374,914	605
Guarantees and surety	1,257,187	882,307	374,276	605
Guarantees for waivers of warranty retentions	1,399	760	639	-
Total other commitments given	260,752	260,323	-	429
Financial recovery clauses	429	-	-	429
Vendor warranties	260,323	260,323	-	-
Total	1,861,092	1,417,257	428,378	15,457
Conditional guarantees	733,163	400,755	316,952	15,457
Guarantees payable on first demand	1,127,929	1,016,503	111,426	-

The group gave a parent company guarantee to TVO for the full value of the contract for construction of an EPR reactor in Finland. The group received a counter-guarantee from Siemens corresponding to this supplier's share of the TVO contract. The net commitment given by the group is in the range of €1.5 billion to €2 billion. This amount is not included in the summary table.

AREVA gave a guarantee in respect of ownership of FCI shares sold to Bain Capital. This amount, which is capped at the sale price of €582 million, is not included in the summary table.

5.7.6.5.2. Commitments received

<i>(in thousands of euros)</i>	Total	< 1 year	1- 5 years	> 5 year
Vendor warranties	425,000	-	175,000	250,000
Total commitments received	425,000	0	175,000	250,000

Commitments received include the capped amount of vendor warranties received from Alstom pursuant to acquisition of the Transmission & Distribution division.

5.7. Notes to the corporate financial statements

The agreement to purchase AREVA T&D includes two types of vendor warranties: a general warranty and specific warranties, as indicated below:

- a 10-year environmental warranty with a €12 million deductible;
- a tax warranty for periods during which returns may be audited;
- a warranty for specific contracts, litigation or technical defects providing for full indemnification by Alstom, item by item.

The general warranty applies in cases of misrepresentation. It has a threshold of €19 million and is capped at €175 million. No claim may be submitted under the general warranty since March 31, 2006. AREVA has notified Alstom of several events which may be subject to indemnification, to be determined case by case when the amount of the loss is known. The most significant events are described in Note 4.7. Notices have been or will be provided concerning technical incidents with equipment.

5.7.6.6. Executive officer compensation

Total compensation and benefits in kind paid to executive officers (members of the Executive and Supervisory Boards) during the year by the company and companies under its control (as defined under Article L. 225-102-1 of the French Commercial Code, introduced by the New Economic Regulations Law of May 15, 2001 and amended by the Financial Security Act of August 1, 2003) totaled €2,141K.

5.7.6.7. Events subsequent to year-end

Bid on REpower

On February 5, 2007, the AREVA group made a public offer to acquire in cash all the shares of REpower Systems AG that the group does not already own. REpower is a wind turbine manufacturer based in Hamburg, Germany. Currently, AREVA owns more than 29.9% of REpower and has been a partner and strategic investor in the company since September 2005. The bid was to remain in effect until March 7, 2007 at midnight CET, unless extended.

AREVA offered €105 per share, thus valuing REpower at more than €850 million. This price represented:

- a 17% premium over the closing price on January 19, 2007, i.e. the last day of trading before the bid was announced; and
- a 44% premium over the average price of the share over the three-month period before January 19, 2007.

Suzlon, a competitor of REpower, partnered with Martifer, REpower's second largest shareholder with 25.4% of the

company's share capital, to make a competing bid of €126 per share, all in cash.

In view of this offer, AREVA raised its bid price to €140 per share on March 15. AREVA also acquired additional shares, thus increasing its interest to slightly more than 30%. The higher bid values REpower's capital at €1.137 billion and represents:

- an 11.1% premium compared with Suzlon's bid, and
- a 33.3% premium in relation to AREVA's initial bid.

The bid expires at midnight CET on April 20, 2007, unless extended.

5.7.6.8. Litigation and potential liabilities

European Commission investigation into anti-competition practices in the Gas Insulated Switchgears (GIS) market

After an investigation carried out by the European Commission into alleged anti-competition practices between GIS suppliers, the Commission imposed a series of fines on the 11 companies participating in the cartel. The investigation began in May 2004 when ABB requested immunity, as provided in the 2002 communication on clemency. Consistent with its case law, the Commission fined the parent companies of the companies involved and, in this case Alstom, which was fined €11 million. It also held Alstom jointly liable with AREVA T&D SA for the payment of a €54 million fine. The other companies of the group fined – AREVA, AREVA T&D holding and AREVA T&D Ag – are held jointly liable with AREVA T&D SA for €25.5 million and will not be fined more than €25 million for their own joint liability with AREVA T&D SA.

The decision does not specify how the €54 million fine will be split between Alstom and AREVA.

Regardless of the amount of AREVA's share, it will ask Alstom for reimbursement as provided in the vendor warranties granted during the sale of the T&D division.

This investigation generated additional, although less critical, investigations by competition authorities in Hungary, the Czech Republic, Brazil and other countries, which are currently less active. In Hungary, authorities ruled in favor of AREVA's position. The Czech Republic levied a fine of €5.6 million on AREVA T&D in early February 2007.

Tax disputes

In 2003 and 2004, the French tax authorities conducted an audit of consolidated income reported by the AREVA group for 2000 and 2001. This audit is now complete and its financial consequences are included in the financial statements.

5.7. Notes to the corporate financial statements

5.7.6.9. Detailed financial information on subsidiaries and associates

(in thousands of euros unless otherwise indicated)

Financial information	Share capital	Premiums, reserves and retained earnings	Interest held in share capital (in percent)	Gross carrying amount of shares held	Net carrying amount of shares held	Unpaid loans and advances	Sales (before tax) of last fiscal year	Income (loss) of last fiscal year	Dividends received in fiscal year 2006
Subsidiaries and associates									
A – Detailed financial information on subsidiaries and associates (net carrying amount exceeds 1% of AREVA's share capital)									
1. Subsidiaries (AREVA holds more than 50% of the share capital)									
Cédec 27 / 29, rue Le Peletier 75009 Paris - France	36,532	2,288	90	33,466	33,466		0	11,501	5,708
Compagnie d'Étude et de Recherche l'Énergie (CERE) 27 / 29, rue Le Peletier 75009 Paris - France	247,500	4,228	100	251,541	251,541		0	80,625	5,115
AREVA NC 2, rue Paul Dautier 78141 Vélizy Cedex - France	100,259	191,953	100	703,929	703,929		2,338,393	155,289	100,259
AREVA NP S.A.S. Tour AREVA 92084 Paris La Défense Cedex - France	400,000	112,785	66	277,638	277,638		1,066,520	(157,889)	75,900
FTICI 27 / 29, rue Le Peletier 75009 Paris - France	54,006	821,982	100	54,889	54,889		0	9,081	7,453
Frarea 27 / 29, rue Le Peletier 75009 Paris - France	6,375	81,148	100	30,940	30,940		16,690	(921)	2,100
AREVA T&D Holding 27 / 29, rue Le Peletier 75009 Paris - France	500,037	(16,544)	100	500,000	500,000	500 339	0	52,503	0
2. Associates (AREVA holds 10-50% of the share capital)									
Eramet	79,000	1,245,300	26	291,693	291,693		n.c.	407,000	14,190
AREVA TA	20,000	38,541	25	14,042	14,042		250,926	22,168	4,335
REpower	8,102	170,161	30	76,698	76,698		n.a.	7,404	0
B - Summary information on other subsidiaries and associates									
1. Subsidiaries not included in section A above									
a) French subsidiaries (combined)				4,602	3,741		0		
b) Foreign subsidiaries (combined)				6,848	5,467				0
2. Associates not included in section A above									
a) French companies (combined)				657,799	653,960				3,792
b) Foreign companies (combined)									



CORPORATE GOVERNANCE

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6.1. Composition and functioning of corporate bodies

6.1.1. COMPOSITION OF CORPORATE BODIES

6.1.1.1. Composition of the Executive Board

The Executive Board consists of at least two members and at most five members named by the Supervisory Board, which appoints the chairman of the Executive Board from among its members. When AREVA shares are publicly traded in a regulated market, the Executive Board may be increased to seven members.

The members of the Executive Board must be natural persons. They need not be shareholders and may be AREVA employees. Any Supervisory Board member designated as an Executive Board member shall cease to be a member of the Supervisory Board upon assuming his or her new position.

The Executive Board is appointed for a term of five years expiring at the first meeting of the Supervisory Board held after the fifth anniversary of that appointment. The Supervisory Board may appoint a new member to the Executive Board during its term.

The decision to increase the number of Executive Board members above the number set at its appointment is subject to the approval of the Executive Board chairman.

Executive Board member terms are renewable.

As of December 31, 2006, the members of the Executive Board were as follows:

Anne Lauvergeon (age 47)

Chairman of the AREVA Executive Board since the Supervisory Board appointed her on July 3, 2001. Her term was renewed at the Supervisory Board held on June 29, 2006 and shall expire at the first meeting of the Supervisory Board held after June 29, 2011.

Mrs. Lauvergeon holds the rank of *Ingénieur en chef* of the *Corps des Mines*, is a graduate of *École Normale Supérieure* and holds a doctorate in Physical Sciences.

She held several positions before joining AREVA. In 1984, she was in charge of studying chemical safety issues in Europe for the French Atomic Energy Commission (CEA). In 1985, she managed underground resources in the Île-de-France region. In 1988, she also became Deputy Department Head of the Conseil Général des Mines. In 1990, Mrs. Lauvergeon became a special assistant on international economics and trade to the President of the French Republic, for whom she also served as Deputy Secretary General responsible for the organization of the G7 summits in 1991. In 1995, Mrs. Lauvergeon became General Partner at Lazard Frères & Cie, and in 1997 she was Executive Vice President of Alcatel Télécom.

Other offices held:

- President and CEO, AREVA NC since 1999,
- Director of AREVA Enterprises, Inc.,
- Vice Chairman of the Supervisory Board of Safran,
- Director of Suez, Total, AREVA T&D and Vodafone Group Plc.

Other offices held during the past five years:

- Permanent representative of AREVA to the Board of Directors of FCI (until November 2005),
- Director of Pechiney until 2002,
- Permanent representative of AREVA NC to the Board of Directors of Eramet and Usinor until 2002,
- Permanent representative of AREVA NC to the Board of Directors of AREVA NP until 2001.

6.1. Composition and functioning of corporate bodies

Gérald Arbola (age 58)

CFO and member of the AREVA Executive Board since the Supervisory Board appointed him on July 3, 2001. His term was renewed at the Supervisory Board held on June 29, 2006 and shall expire at the first meeting of the Supervisory Board held after June 29, 2011. He was also appointed Deputy CEO by the Supervisory Board on June 29, 2006.

Mr. Arbola is a graduate of the *Institut d'Études Politiques* of Paris. He also holds an advanced degree in economics.

Mr. Arbola held several positions in the Cogema group (now AREVA NC) before joining AREVA. He joined the Cogema group in 1982 as Director of planning and strategy for SGN and served as Chief Financial Officer of SGN from 1985 to 1989 and as Executive Vice President in 1988. He became Chief Financial Officer of Cogema in 1992 and a member of its Executive Committee in 1999, while also serving as Chairman of the Board of SGN in 1997 and 1998.

Other offices held:

- Chairman and CEO of FT1C1 and Chairman of Cogerap,
- Chairman of the Supervisory Board of STMicroelectronics NV since March 18, 2005,
- Chairman of AREVA Finance/Gestion,
- Director of AREVA NC and AREVA T&D,
- Member of the Management Committee of AREVA NP.

Other offices held during the past five years:

- Director of Assystem until 2003,
- Director of AREVA NP until 2001,
- Chairman of the Supervisory Board of STMicroelectronics Holding NV, appointed on March 1, 2005. He resigned as Chairman and member of the Supervisory Board on November 13, 2006.

Didier Bénédicti (age 54)

Chairman of the AREVA Executive Board since the Supervisory Board appointed him on October 15, 2002. His term was renewed at the Supervisory Board held on June 29, 2006 and shall expire at the first meeting of the Supervisory Board held after June 29, 2011.

Mr. Bénédicti holds the diploma of *Ingénieur* from the *École Supérieure d'Informatique, d'Électronique et d'Automatique* (ESIEA) and is a graduate of the *Institut d'Administration des Entreprises* (IAE) of Paris.

Mr. Bénédicti held several positions with Schlumberger, Thomson and Fiat before joining AREVA. In particular, he served as Executive Vice President of Thomson Brandt Armement, Vice Chairman of Thomson Consumer Electronic, and President of all Magneti Marelli passenger compartment divisions (Fiat group).

Other offices held:

- Chairman of AREVA EC (SAS),
- Chief Operating Officer and member of the Board of Directors of AREVA NC since June 2002,
- Member of the Board of Directors of AREVA NC Inc. and member of the Supervisory Board of Eurodif SA,
- Director of Compagnie Nucléaire de Services (CNS),
- Director of Société d'Enrichissement du Tricastin SAS (SET).

Other offices held during the past five years:

- Director of Multiservices et Enseignements Pratiques.

The members of AREVA's Executive Board may be contacted at the Company's corporate office at 33, rue La Fayette, 75009 Paris, France.

N.B.: Vincent Maurel was a member of the Executive Board until December 28, 2006. He resigned when his term as Chairman of the Management Committee of AREVA NP SAS expired on December 19, 2006. On January 2, 2007, he became innovation and technology advisor to the Chairman and liaison for the Research and Innovation department and the Industrial Redevelopment and Local Economic Development department.

6.1.1.2. Composition of the Supervisory Board

The members of the Supervisory Board are appointed by the shareholders and by holders of voting right certificates, except for employee-elected members of the Board and representatives of the French government.

The Supervisory Board consists of at least ten and no more than eighteen members, including three members elected by company personnel, as described below, and representatives of the French State appointed pursuant to Article 51 of law No. 96-314 dated April 12, 1996. The three members representing company personnel are chosen by an electoral college consisting of engineers and managers (one member) and by an electoral college consisting of the other employees (two members).

The members of the Supervisory Board serve for a term of five years. The duties of a member of the Supervisory Board not elected by company personnel expire at the end of the Annual General Meeting of Shareholders held during the year of expiration of his or her term and convened to approve the financial statements of the previous year.

The General Meeting of Shareholders may dismiss members of the Supervisory Board, other than members representing the French State and members elected by company personnel. The duties of a member elected by company personnel expire upon announcement of the results of elections, which AREVA must organize according to the by-laws, or upon the end of said member's employment contract or his or her dismissal, as provided by laws or regulations in effect at the time of the dismissal.

6.1. Composition and functioning of corporate bodies

Only natural persons may be elected by company employees to serve as members of the Supervisory Board. Members of the Supervisory Board not elected by company employees may be natural or moral persons.

Except as provided by law, each member of the Supervisory Board must own at least one share of the company.

The Supervisory Board elects a Chairman and a Vice Chairman from among its members who are charged with convening the Board and conducting meetings, with the Vice Chairman fulfilling these functions in the event of the Chairman's absence or inability to do so. The chairman and the vice chairman are natural persons.

In 2006, the Annual General Meeting of Shareholders held on May 2, 2006 acknowledged that the terms of Messrs. Euan Baird, Gaishi Hiraia, Daniel Lebègue and Olivier Pagezy had expired and were not renewed. The same Annual General Meeting of Shareholders, upon a motion for a resolution by the French State, elected Messrs. Patrick Buffet, Alain Bugat, Thierry Desmarest, Oscar Fanjul, Frédéric Lemoine and Philippe Pradel, Mrs. Guylaine Saucier, and the Commissariat à l'Énergie Atomique (CEA) as members of the Supervisory Board for five-year terms expiring at the end of the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending December 31, 2010. Since May 2, 2006, Mr. Olivier Pagezy rather than Mr. Jacques Bouchard has represented the CEA.

The Supervisory Board held on May 2, 2006, immediately after the Annual General Meeting of Shareholders, elected Mr. Frederic Lemoine as Chairman of the Supervisory Board and Mr. Alain Bugat as Vice Chairman, for the duration of their respective terms as members of the Supervisory Board.

During the same meeting, as provided in article 1 of the rules of procedure, the Supervisory Board elected the Chairman and the members of each of the four committees, upon recommendation of the Chairman of the Supervisory Board.

At December 31, 2006, the Supervisory Board is comprised of 15 members including 5 independent members: Mrs. Guylaine Saucier and Messrs. Patrick Buffet, Thierry Desmarest, Oscar Fanjul and Frédéric Lemoine. Following commonly accepted rules of good governance, particularly those of the Bouton Report, individuals who hold less than 10% of the company's share capital and who have no financial or commercial relationship with the company (as customer or supplier) are considered to be independent.

Members appointed by the shareholders

Frédéric Lemoine (age 41)

Mr. Frédéric Lemoine was appointed to the Supervisory Board on March 8, 2005, to replace Mr. Philippe Pontet, who had resigned. The Annual General Meeting of Shareholders confirmed his appointment on May 12, 2005. He was elected Chairman of the Supervisory Board on March 8, 2005. His term expired after the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005, and his duties were renewed by the Annual General Meeting of Shareholders on May 2, 2006. He was elected **Chairman of the Supervisory Board** on May 2, 2006. His term shall expire at the end of the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending December 31, 2010.

Frédéric Lemoine is Inspector of Finance and a graduate of *École des Hautes Études Commerciales*, of the *Institut d'Études Politiques de Paris* and of *École Nationale d'Administration*.

During his professional career, Mr. Lemoine was also Deputy Secretary General to the President of the French Republic from 2002 to 2004 and Deputy CEO-Finance of Capgemini until 2002.

Other offices held:

- Administrator of LCE SARL,
- Director and Chairman of the Audit Committee of Groupama SA,
- Director and Chairman of the Audit Committee of Flamel Technologies,
- Member of the Supervisory Board of Générale de Santé.

Other offices held during the past five years:

- Until 2002: member of the Boards of Directors of Cap Gemini France, Cap Gemini Netherlands, Cap Gemini UK, Cap Gemini Poland and Cap Gemini Korea.

Alain Bugat (age 58)

Mr. Bugat became a member of the Supervisory Board on January 23, 2003. The Annual General Meeting of Shareholders confirmed his appointment on May 12, 2003. He was elected Vice Chairman of the Supervisory Board on June 12, 2003. His term expired after the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005 and was renewed by the Annual General Meeting of Shareholders on May 2, 2006. He was re-elected **Vice Chairman of the Supervisory Board** on May 2, 2006. His term shall expire at the end of the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending on December 31, 2010.

Mr. Bugat is a graduate of *École Polytechnique* and of *École Nationale des Techniques Avancées*.

6.1. Composition and functioning of corporate bodies

Other offices held:

- Administrator General and Chairman of the Board of Directors of the CEA,
- Director of DCN SA,
- Representative of the French State to the Board of Directors of AREVA NC,
- Member of the Supervisory Board of CDC Entreprises,
- Member of the Board of Agence Nationale de la Recherche Technologique (ANRT) - Association.

Other offices held during the past five years:

- Director of EDF until 2004,
- Chairman of the Board of Directors of AREVA TA until 2002,
- Chairman of the Supervisory Board of MVI Technologies until 2003.

Patrick Buffet (age 53)

The Annual General Meeting of Shareholders appointed Mr. Buffet to the Supervisory Board on June 18, 2001. His term expired after the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005 and was renewed by the Annual General Meeting of Shareholders on May 2, 2006. His term shall expire at the end of the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending December 31, 2010.

Mr. Buffet holds the rank of *Ingénieur* in the *Corps des Mines*. He is Executive Director of Suez (through June 30, 2007).

Other offices held:

- Director of Electrabel, Suez Tractebel, Fluxys and Suez Énergie Services (SES).

Other offices held during the past five years:

- Director of Société Générale de Belgique, Tractebel, Degrémont, Suez Lyonnaise Télécom and the CEA until 2003,
- Member of the Supervisory Board of Ixis-CIB until 2006,
- Member of the Supervisory Board of Elyo until 2002,
- Director of Caravelle Finances until 2001,
- Member of the Supervisory Board of Panoramet,
- Permanent representative of Suez to the Board of Directors of Compagnie Parisienne de Chauffage Urbain until 2001.

Thierry Desmarest (age 61)

The Annual General Meeting of Shareholders appointed Mr. Desmarest to the Supervisory Board on June 18, 2001. His term expired after the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005 and was renewed by the Annual General Meeting of Shareholders on May 2, 2006. His term shall expire at the end of the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending on December 31, 2010.

Thierry Desmarest is a graduate of *École Polytechnique* and holds the rank of *Ingénieur en Chef* in the *Corps des Mines*. He became Chairman of the Board of Total SA on February 14, 2007, after serving as CEO of that company for a period of ten years.

Other offices held:

- Chairman and CEO of Elf Aquitaine,
- Member of the Supervisory Board of Air Liquide,
- Director of Sanofi-Aventis.

Other offices held during the past five years:

None.

Oscar Fanjul (57)

Mr. Fanjul was appointed to the Supervisory Board by the Annual General Meeting of Shareholders on May 2, 2006. His term will expire at the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending December 31, 2010.

Mr. Oscar Fanjul holds a PhD in economics of the *Universidad Autónoma de Madrid* and is a visiting scholar to *Harvard University* and the *Massachusetts Institute of Technology*. He is Vice Chairman and CEO of Omega Capital.

Other offices held:

Member of the Boards of Directors of the London Stock Exchange, Marsh & McLennan Companies, Lafarge, Acerinox and Inmobiliaria Colonial. Trustee of the International Accounting Standards Committee Foundation (IASC). International Adviser to Goldman Sachs.

Other offices held during the past five years:

- Director of Unilever plc until 2006,
- Member of the Board of Directors of Técnicas Reunidas until 2005,
- Director of Banco Bilbao Vizcaya Argentaria until April 17, 2002,
- CEO of Hidroeléctrica del Cantábrico until May 17, 2001.

6.1. Composition and functioning of corporate bodies

Philippe Pradel (age 50)

Mr. Pradel was appointed to the Supervisory Board by the Annual General Meeting of Shareholders on May 2, 2006. His term will expire at the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending December 31, 2010.

Mr. Pradel is a graduate of *École Polytechnique* and *École Nationale Supérieure des Techniques Avancées* (ENSTA). He is Director of Nuclear Energy at the CEA.

Other offices held:

- Permanent representative of the CEA to the Board of Directors of AREVA TA.

Other offices held during the past five years:

- Director of AREVA NC Inc. until 2005,
- Member of the Board of Directors of Comurhex until 2005,
- Member of the Board of Directors of Melox SA until 2003, then permanent representative of AREVA NC to the Board of Directors of Melox SA until 2005,
- Permanent representative of AREVA NC to the Board of Directors of Socodei until 2005,
- Member of the Board of Directors of EMA until 2005,
- Director of AREVA NC Deutschland until 2005,
- Member of the Board of Directors of SGN until 2005,
- Permanent representative of AREVA NC to the Board of Directors of TN International until 2005,
- Chairman of the Management Board and CEO of Commax GIE until 2005.

Guyline Saucier (age 60)

Mrs. Saucier was appointed to the Supervisory Board by the Annual General Meeting of Shareholders on May 2, 2006. Her term will expire at the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending December 31, 2010.

Mrs. Saucier is a Chartered Accountant and a graduate of HEC Montreal.

Other offices held:

- Member of the Board of Directors of Axa Canada,
- Member of the Board of Directors of Petro-Canada,
- Member of the Board of Directors of Bank of Montreal,
- Member of the Board of Directors of Altran Technologies, until her resignation on February 15, 2007,

- Member of the Board of Directors of CHC Helicopter Corp.

Other offices held during the past five years:

- Chairman of the Joint Committee on Corporate Governance (ICCA-CDNX-TSX) until 2001,
- Member of the Board of Directors of Nortel Networks until 2005,
- Member of the Board of Directors of Tembec Inc. until 2005.

Commissariat à l'Énergie Atomique (CEA), represented by Mr. Olivier Pagezy

The CEA became a member of the Supervisory Board on July 18, 2001. The Annual General Meeting of Shareholders confirmed this appointment on September 3, 2001. The CEA's term expired at the end of the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005 and was renewed by the Annual General Meeting of Shareholders held on May 2, 2006. CEA's term shall expire at the end of the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending on December 31, 2010.

The CEA is represented by Mr. Olivier Pagezy (age 39). Mr. Pagezy is a graduate of *Institut d'Études Politiques de Paris* and of *École Nationale d'Administration*. He is CFO of CEA and Inspector of Finance.

Other offices held:

- Member of the Boards of Directors of CEA Valorisation and Co-Courtage Nucléaire.

Other offices held by the CEA:

- Member of the Boards of Directors of Brevatome, a French company in charge of managing nuclear patent applications, of CEA Valorisation and of AREVA TA.

Other offices held during the past five years:

Member of the Board of Directors of Sofratome until 2003.

Members representing the French State, appointed by ministerial order**Luc Rousseau (age 50)**

Mr. Rousseau was appointed as representative of the French State at the Supervisory Board by ministerial order of March 11, 2005 published in the *Journal Officiel* on March 25, 2005. He replaced Mr. Jean-Pierre Falque-Piérrotin. His term expired after the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005 and his duties were renewed by ministerial order of April 26, 2006 published in the *Journal Officiel* on May 11, 2006. His term shall expire at the end of the Annual General Meeting of Shareholders convened to approve the financial statements for the year ending on December 31, 2010.

6.1. Composition and functioning of corporate bodies

Mr. Rousseau is a graduate of *École Polytechnique* and holds the rank of *Ingénieur* in the *Corps des Mines*.

He is Director General of Enterprises at the Ministry of the Economy, Finance and Industry.

Other offices held:

- Member of the French Atomic Energy Board (Comité de l'Énergie Atomique),
- Government Commissioner for the Boards of Directors of the French postal service and OSEO Innovation,
- Government Commissioner to the Supervisory Board of All,
- Member of the Board of Directors of ANR (French National Research Agency),
- Representative of the French State to the Board of Directors of Cité des Sciences et de l'Industrie,
- Representative of the French State to the Board of Directors of AFII,

Other offices held during the last five years:

None.

Dominique Maillard (age 57)

Mr. Maillard was appointed as representative of the French State at the Supervisory Board by ministerial order of June 28, 2001 published in the *Journal Officiel* on June 30, 2001. His term expired after the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005 and his duties were renewed by ministerial order of April 26, 2006 published in the *Journal Officiel* on May 11, 2006. He was replaced by Mr. Pierre-Franck Chevet by ministerial order of March 1, 2007 published in the *Journal Officiel* on March 3, 2007. Mr. Chevet's term will expire at the Annual General Meeting of Shareholders convened to approve the financial statements for the year ending December 31, 2010.

Mr. Maillard is a graduate of *École Polytechnique* and holds the rank of *Ingénieur* in the *Corps des Mines*. He was Director General of Energy and Commodities at the Ministry of the Economy, Finance and Industry until he was replaced by Mr. Pierre-Franck Chevet, who was appointed by ministerial order of February 22, 2007, published in the *Journal Officiel* on February 23, 2007. Mr. Chevet is *Ingénieur Général* in the *Corps des Mines*.

Other offices held:

- Representative of the French State to the Board of Directors of the French postal service and the Institut Français du Pétrole,
- Government Commissioner to AREVA NC, Andra and the French Electrical Power Regulatory Commission,

- Member of the Steering Committee of the International Energy Agency and the French Atomic Energy Board (Comité de l'Énergie Atomique).

Other offices held during the past five years:

- Member of the Board of Directors of Erap until 2006,
- Representative of the French State to the Board of Directors of ADEME until 2001.

Philippe Faure (age 56)

Philippe Faure was appointed to the Supervisory Board as the representative of the French State by ministerial order of April 26, 2006 published in the *Journal Officiel* on May 11, 2006. He replaced Mr. Jean-Pierre Lafon, appointed to the Supervisory Board as the representative of the French State by ministerial order of December 15, 2004 published in the *Journal Officiel* on December 24, 2004. Mr. Lafon's term expired at the end of the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005. Mr. Faure's term shall expire at the end of the Annual General Meeting of Shareholders convened to approve the financial statements for the year ending on December 31, 2010.

Mr. Faure is a graduate of *Institut d'Études Politiques de Paris* and of *École Nationale d'Administration*. He is Secretary General of the French Ministry of Foreign Affairs.

Other offices held:

- Member of the Board of Directors of EDF,
- Representative of the Ministry of Foreign Affairs to the Board of Directors of Ecole Nationale d'Administration,
- Member of the Board of Directors of GIP/France-Coopération Internationale,
- Member of the Board of Directors of Cultures France.

Other offices held during the past five years:

None.

Bruno Bézard (age 43)

Mr. Bézard was appointed as representative of the French State at the Supervisory Board by ministerial order of July 22, 2007 published in the *Journal Officiel* on July 26, 2007. He replaced Mr. Nicolas Jachiet. His term expired after the Annual General Meeting of Shareholders convened to approve the financial statements for the year ended December 31, 2005 and his duties were renewed by ministerial order of April 26, 2006 published in the *Journal Officiel* on May 11, 2006. His term shall expire at the end of the Annual General Meeting of Shareholders convened to approve the financial statements for the year ending on December 31, 2010.

6.1. Composition and functioning of corporate bodies

Mr. Bézard is Inspector General of Finance, a graduate of *École Polytechnique* and *École Nationale d'Administration*. On February 26, 2007, he was appointed Director General of the agency in charge of the French government's equity interests at the Department of the Treasury and Economic Policy, Ministry of Economy, Finance and Industry, by ministerial order published in the Journal Officiel on February 27, 2007. Until his appointment, he was Deputy Director of that same agency.

Other offices held:

- Member of the Boards of Directors of SNCF, EDF, France Télévisions and the French Postal Service.

Other offices held during the past five years:

- Member of the Boards of Directors of France Télécom (07/23/02-10/01/02).
- Member of the Board of Directors of Renault until 2003.

Members elected by and representing the employees

Jean-Claude Bertrand (age 55)

Mr. Bertrand was elected by the employee electoral body on May 28, 2002 in elections validated by the Works Council (Comité d'Entreprise) on July 12, 2002. He took office at the Supervisory Board Meeting held on July 25, 2002. His term will end following elections held in May/June 2007.

Mr. Bertrand is a manager for local economic development at AREVA NC/Pierrelatte.

Other offices held:

- Member of the Board of Director of Alexis Senior High School in Montélimar.

Other offices held during the past five years:

None.

Gérard Melet (age 49)

Mr. Melet was elected by the employee electoral body on May 28, 2002 in elections validated by the Works Council (Comité d'Entreprise) on July 12, 2002. He took office at the Supervisory Board Meeting held on July 25, 2002. His term will end following elections held in May/June 2007.

Mr. Melet is Chief Buyer at the Department of Procurements of AREVA NC / La Hague.

Other offices held:

None.

Other offices held during the last five years:

None.

Alain Vivier-Merle (age 58)

Mr. Vivier-Merle was elected by the electoral body consisting of engineers and managers on June 20, 2002 in elections validated by the Works Council (Comité d'Entreprise) on July 12, 2002. He took office at the Supervisory Board Meeting held on July 25, 2002. His term will end following elections held in May/June 2007.

Mr. Vivier-Merle is a manager of strategy and marketing programs for AREVA NP in Lyon.

Other offices held:

- Chairman of the Supervisory Board of the Framépargne employee savings plan,
- Member of the Supervisory Board of the AREVA balanced mutual fund.

Other offices held during the past five years:

- Chairman of the Supervisory Board of Sogeplan A until 2004,
- Member of the Supervisory Boards of the AREVA employee saving's plan money market fund until 2004.

Patrick Germain replaced Christophe Xerri as representative of the AREVA Work Council in 2006. He participated in the meetings of the Supervisory Board in an advisory capacity.

Marcel Otterbein replaced Patrick Germain at the beginning of 2007.

Comptroller General

On February 15, Ms. Anne-Dominique Fauvet was appointed as Comptroller General to the CEA by ministerial order of the Minister of the Economy, Finance and Industry. In this capacity, she is also Comptroller General to AREVA and attends the meetings of the Supervisory Board.

Censors

AREVA's by-laws authorize the Supervisory Board to appoint one or several censors, whose mission is to assist the Supervisory Board in its oversight functions. They attend the meetings without the right to vote.

No censor had been designated as of filing of this reference document.

Secretary of the Board

Bernard de Gouttes, Chief Legal Counsel of the group, is the Secretary of the Board.

The members of AREVA's Executive Board may be contacted at the Company's corporate office at 33, rue La Fayette, 75009 Paris, France.

6.1. Composition and functioning of corporate bodies

6.1.1.3. Legal information, conflicts of interest and service contracts

As of the date of this reference document, and to AREVA's best knowledge:

- The members of the Supervisory Board and the members of the Executive Board are not subject to potential conflicts of interest between their duties to AREVA and their private interests.
- There are no family relationships between members of the Supervisory Board and members of the Executive Board of AREVA.
- No member of the Supervisory Board or the Executive Board has been convicted for fraud over the past five years. None of these members participated in any bankruptcy, receivership or

liquidation proceeding in an executive capacity during the past five years, and none was indicted and/or officially sanctioned by a statutory or regulatory authority, including designated professional organizations. Over the past five years, no court has barred any of these members from becoming a member of a corporate, executive or supervisory body of a securities issuer, nor from participating in the management or business operations of an issuer.

- No member of the Executive Board or the Supervisory Board was retained as a corporate officer or Board member of a major shareholder, a customer or supplier pursuant to an arrangement or an agreement with such a party.
- No service agreement contemplating any benefit has been concluded between AREVA or any of its subsidiaries and any member of the Supervisory Board or the Executive Board.

6.1.2. FUNCTIONING OF CORPORATE BODIES

6.1.2.1. Functioning of the Executive Board

Full authority is vested in the Executive Board to act on behalf of AREVA in all circumstances with regard to third parties, except when authority is expressly attributed by law or the bylaws to the Supervisory Board or to the shareholders. Minutes of Executive Board meetings are recorded in a written report.

The Executive Board convenes General Meetings of Shareholders and voting right certificate holders, and Special Meetings of investment certificate holders.

The Executive Board meets whenever AREVA's interests so require. Meetings are held at the corporate headquarters or any other place indicated in the notice of meeting. The Executive Board met seven times in 2004, fifteen times in 2005 and fourteen times in 2006, with an attendance rate of 97%.

For the decisions of the Executive Board to be valid, at least half of the members must be present. Decisions are made on a majority vote of members present or represented. Executive Board decisions are recorded in minutes.

Management duties may be distributed among the members of the Executive Board based on a recommendation by the Chairman of the Executive Board approved by the Supervisory Board. On June 29, 2006, the Supervisory Board renewed the terms of Ms. Anne Lauvergeon, Chairman of the Executive Board, Mr. Gerald Arbola, Deputy CEO, and Didier Bénédicti and Vincent Maurel, members of the Executive Board, for five years. The Supervisory Board approved the following distribution of duties among members of the Executive Board: Anne Lauvergeon and Gérald Arbola are in charge of the group's general management; Didier Bénédicti is in charge of R&D for the group and Vincent Maurel is in charge of information systems for the group. Vincent Maurel resigned on December 28, 2006.

The Supervisory Board may, based on a recommendation from the chairman of the Executive Board, appoint one or more general managers with the authority to represent the company with regard to third parties. On June 29, 2006, on the recommendation of the Chairman of the Executive Board, the Supervisory Board appointed Gerald Arbola Deputy CEO.

The Chairman of the Executive Board and the Deputy CEO represent AREVA with regard to third parties.

The Executive Board approved its rules of procedure on February 7, 2003, including:

- distribution of duties among the members,
- order of the meetings of the Executive Board,
- conditions for the Executive Board to delegate its authority to an Executive Board member.

6.1.2.2. Functioning of the Supervisory Board

The Supervisory Board exercises ongoing control of AREVA's management by the Executive Board. The Executive Board regularly informs the Supervisory Board of the business and operations of AREVA and the AREVA group through quarterly reports. The Supervisory Board performs such verifications and procedures as it deems necessary in connection with its supervisory responsibilities.

The Supervisory Board appoints the members and the chairman of the Executive Board. The Supervisory Board may recommend the dismissal of Executive Board members to the General Meeting of Shareholders. The Supervisory Board may call meetings of the General Meeting of Shareholders.

6.1. Composition and functioning of corporate bodies

The Supervisory Board meets at least once quarterly at the corporate office or any other place indicated in the notice of meeting issued by the chairman, or by the vice chairman in the absence of the former, to review the Executive Board's report.

For decisions of the Supervisory Board to be valid, at least half of the members must be present. Decisions are made on a majority vote of the members present or represented. In the event of a tie vote, the chairman of the meeting casts the deciding vote.

The Supervisory Board submits its remarks on the report of the Executive Board and on the financial statements to the Annual General Meeting of Shareholders.

The Supervisory Board delegates authority to the Executive Board to conduct transactions that the Executive Board cannot accomplish without such authorization. It reviews the overall strategy for AREVA and for the group. Annual budgets and multi-year plans for AREVA, its direct subsidiaries and the group are subject to Supervisory Board approval, as well as any transaction at the subsidiary level contemplated by Article 23-2 of the bylaws.

Pursuant to Article 23-2 of the bylaws, the following Executive Board decisions are subject to prior approval by the Supervisory Board when they involve an amount exceeding €80 million:

- issuing securities, regardless of type, that may have an impact on share capital;
- significant decisions on opening establishments in France and abroad, either directly, through creation of a branch, or by establishing a direct or indirect subsidiary, or by acquiring an equity stake; a similar approval is required for decisions to close such establishments;
- significant operations that may affect the group's strategy and modify its financial structure or scope of business;
- acquisitions, increases or sales of equity interests in any company, existing or to be established;
- exchanges of goods, securities or assets with or without cash payment, excluding cash management operations;
- acquisitions of real estate;
- settlements, agreements or transactions relating to disputes;
- decisions pertaining to loans, borrowings, credit and advances; and
- acquisitions and disposals of any receivables by any means.

In addition, proposals for allocation of earnings presented by the Executive Board are subject to the prior approval of the Supervisory Board.

On July 3, 2001, the Supervisory Board authorized the Executive Board to carry out certain transactions, up to the following amounts:

- disposals of real property up to €30 million;
- provision of collateral to secure corporate commitments, up to €80 million per year in the aggregate, provided that no single commitment exceeds €30 million.

At that same meeting, the Supervisory Board established its rules of procedure, mainly for:

- the establishment and functioning of the four committees described below,
- rules for preparing Supervisory Board deliberations,
- conditions for establishing the schedule of Supervisory Board meetings,
- resources at the disposal of Supervisory Board members elected by the employees.

On December 20, 2006, the Board decided to amend its internal rules to allow Supervisory Board committee meetings to be held by videoconference or telecommunications, as provided by the law of July 26, 2005 on the modernization of the economy.

On May 2, 2006, the Supervisory Board changed the name of the Cleanup and Decommissioning Fund Monitoring Committee to the End-of-Life-Cycle Obligations Monitoring Committee. Article 1.1.D or the rule of procedure was modified accordingly.

On June 29, 2006, the Supervisory Board renewed the authority granted to the Executive Board to:

- conduct miscellaneous transactions subject to the limits indicated above, as per the authority granted initially at the Supervisory Board meeting held on July 3, 2001;
- provide collateral, grant security interests and issue warranties on behalf of AREVA, as provided in article L. 225-68 of the Commercial Code, for an amount not to exceed €550 million, under the terms and conditions agreed initially by the Supervisory Board during a meeting held on December 20, 2005.

6.1. Composition and functioning of corporate bodies

Supervisory Board meetings in 2006

In 2006, the Board met eight times at the corporate headquarters (attendance rate: 89%).

The Supervisory Board voted on the matters described below:

- March 8, 2006: the Supervisory Board reviewed the financial statements submitted by the Executive Board for 2005 and approved the proposed dividend (€9.87 per share); the Board approved the wording of the Supervisory Board report and reviewed its chairman's report on the preparation and organization of the Board's undertakings and on the group's internal control procedures, as provided in the law known as the Financial Security Law of August 1, 2003, and the law on the modernization of the economy of July 26, 2005.
- May 2, 2006: The Supervisory Board appointed Mr. Frederic Lemoine Chairman of the Supervisory Board and Mr. Alain Bugat Vice Chairman for the remainder of their terms as members of the Supervisory Board, i.e. until the Annual General Meeting of Shareholders convened in 2011 to approve the financial statements for the year ending December 31, 2010. As provided in article 1 of the rules of procedure, the Supervisory Board elected the Chairman and the members of each of the four committees, upon recommendation of the Chairman of the Supervisory Board (see the list of committee members hereunder).

The Executive Board presented AREVA's current operations and projects concerning the Front End division, the Reactors and Services division, the Back End division and the Transmission & Distribution division. The Supervisory Board authorized AREVA NC to implement a gold mining business transaction involving an agreement with La Mancha Resources, Inc. ("La Mancha"), a Canadian company publicly traded on the Toronto stock exchange.

- June 29, 2006: As provided in AREVA's by-laws, the Supervisory Board deliberated on the strategy of the company for the next five years based on a plan submitted by the Strategy Committee, including objectives given to the Executive Board by the Supervisory Board for the period 2006-2011. As provided by article 23-1 of the by-laws, the Supervisory Board, acting on the recommendation of the Compensation and Nominating Committee, appointed the members of the Executive Board for a five-year term: Mrs. Anne Lauvergeon, Chairman of the Executive Board, Mr. Gérald Arbola, Deputy CEO, and Messrs. Didier Bénédicti and Vincent Maurel. The Supervisory Board authorized AREVA NC to acquire 50% of the ETC joint venture on the favorable recommendation of the Strategy Committee concerning the Georges Besse II project. This acquisition gives the group access to the centrifuge enrichment technology. The Supervisory Board also approved the "Forges du Creusot" project submitted by the Executive Board, on the favorable recommendation of the Strategy Committee, and allowed the Executive Board to proceed with the acquisition.
- September 27, 2006: The Supervisory Board reviewed the consolidated financial statements for the half year ended June 30, 2006, including highlights regarding performance of OL3 EPR contract in Finland and the success of the Transmission & Distribution division

recovery plan. The Supervisory Board authorized the Executive Board to issue a CAD350 million guarantee (principal amount) to a syndicate of banks in consideration for medium-term loans. The Supervisory Board also reviewed and discussed the main objectives of the group's nuclear research and innovation programs, in particular for reactors, used fuel treatment, fuel fabrication and other phases of the nuclear fuel cycle, as well as for the transmission and distribution business.

- November 21, 2006: The Supervisory Board, based on the work of the Audit Committee, examined the report prepared by the Department of Internal Audit regarding delays in the performance of the OL3 contract in Finland, the project's impact in terms of provisions as of the end of 2006, and corrective measures to be implemented to mitigate the identified risks and resolve the difficulties being experienced. The Supervisory Board approved the main objectives of the 2007-2011 Strategic Action Plan of the AREVA group, including the development strategy for the renewable energies business. As provided in Article 23.3 of the by-laws, the Supervisory Board authorized the Executive Board to negotiate and subscribe on behalf of AREVA a syndicated line of credit for a maximum principal amount of €2 billion and a maximum maturity of 7 years to finance the group's general operations.
- December 20, 2006: the Supervisory Board reviewed the work of the Audit Committee and approved the company's proposed budget for 2007, including operations of the group and its subsidiaries in the Front End of the fuel cycle, Reactors and Services, the Back End and Transmission & Distribution. The Supervisory Board also approved the Executive Board's objectives for 2007, as proposed by the Compensation and Nominating Committee, and appointed Mr. Luc Oursel President of AREVA NP SAS effective January 2, 2007 to replace Mr. Vincent Maurel.

Supervisory Board meetings in 2007

January 19, 2007: On the recommendation of the Strategy Committee, the Supervisory Board approved the increase of AREVA's equity interest in REpower Systems AG, a German company specialized in the design and assembly of wind turbines. REpower shares are traded on the German regulated stock market.

Accordingly, as provided in Article 23.2 of the by-laws, the Supervisory Board gave authority to the Executive Board to:

- offer to acquire all REpower shares traded in Hamburg at a unit price of €105 per share when the Executive Board shall deem advisable and in any event no later than the end of May 2007;
- sign all prospectuses, term sheets, agreements, documents and solicit all authorizations required from administrative and/or market authorities to conclude the transaction, including approval from the German financial market authority (Bundesanstalt für Finanzdienstleistungsaufsicht/BaFin).

6.1. Composition and functioning of corporate bodies

Committees established by the Supervisory Board

The Supervisory Board may establish committees comprised of Board members, which functions under its responsibility. The Board establishes the composition and duties of each committee and the compensation, if any, of the members. On July 3, 2001, the Supervisory Board set up a Strategy Committee, an Audit Committee, and a Compensation and Nominating Committee. On December 10, 2002, the Supervisory Board created a Cleanup and Decommissioning Fund Monitoring Committee. On May 2, 2006, the Supervisory Board decided to change the name of the Cleanup and Decommissioning Fund Monitoring Committee to the End-of-Life-Cycle Obligations Monitoring Committee. During the same meeting, as provided in article 1 of the rules of procedure, the Supervisory Board elected the Chairman and the members of each of the four committees, upon recommendation of the Chairman of the Supervisory Board.

Prior to each meeting of the Supervisory Board, as necessary, the specialized committees carry out detailed analysis and regularly report on their work to the members of the Supervisory Board.

Strategy committee

The five members of the Strategy Committee are chosen from among the members of the Supervisory Board. They are Frédéric Lemoine⁽¹⁾, Chairman, Bruno Bézard, Alain Bugat, Oscar Fanjul⁽¹⁾ and Luc Rousseau. Bernard de Gouttes serves as committee secretary.

The committee meets at least once per six-month period and as often as necessary to fulfill its duties. It is convened by its chairman or at least two of its members. It is responsible for advising the Supervisory Board on the strategic objectives of AREVA and of its main subsidiaries and for assessing the risks and merits of major strategic decisions proposed by the Executive Board to the Supervisory Board. It ensures application of AREVA's strategic policy and its implementation at the subsidiary level. It orders studies to be carried out as it deems useful and recommends policies as it deems necessary.

The Strategy Committee met three times in 2006 with an attendance rate of 73%.

- June 26, 2006: The committee examined the Georges Besse II plant project and issued a favorable recommendation for its implementation. The project's purpose is to allow AREVA to acquire new uranium enrichment capacities. The committee analyzed the strategic interest of the Forges du Creusot project, which aims to secure the group's supply of large forgings, in particular for use in the EPR reactor. The committee issued a favorable recommendation on the proposed acquisition, subject to confirmation of its economic justification during due diligence. The committee also decided to recommend to the Supervisory Board that a number of objectives be assigned to the Executive Board in order to establish a "road map" for the 2006-2011 period.
- September 12, 2006: The committee examined the main thrusts of the Strategic Action Plan for the period 2007-2011, which implements the "road map" established by the Supervisory

Board before Executive Board members were re-appointed on June 29, 2006. The committee requested additional information on investments regarding the renewable energies business and concluded its review with a favorable recommendation on the Strategic Action Plan to be approved by the Supervisory Board. At the same meeting, the committee reviewed the group's research and innovation policy. It decided to present the review with a favorable recommendation to the Supervisory Board, subject to additional information reconciling the group's ambitious growth strategy in R&D with the data included in the Strategic Action Plan.

- November 22, 2006: The committee reviewed a number of topics, including implementation of the Georges Besse II enrichment plan project, the priorities regarding new reactor models, the group's offering in the dismantling and nuclear cleanup business, and the future of wind energy, including AREVA's outlook in this business.

Audit committee

The four members of the Audit Committee are chosen from among the members of the Supervisory Board. They are: Guylaine Saucier⁽¹⁾ (Chairman), Bruno Bézard, Jean-Claude Bertrand and Olivier Pagézy. Jean-Pierre Kaminski, manager of accounting standards and procedures in AREVA's Finance Department serves as committee secretary. The Chairman of the Supervisory Board attends the committee meetings.

The committee meets at least once quarterly and as often as necessary to fulfill its duties. It is convened by its chairman or at least two of its members. Its mission is to evaluate and help define accounting, financial and ethical standards to be implemented by the group's companies in France and abroad.

It verifies the appropriateness and effectiveness of these standards and the effectiveness of internal management controls. It draws up reports and conducts reviews on particular topics at the request of the Supervisory Board or on its own initiative. The committee reviews the proposed budgets, preliminary financial statements and proposed multi-year plans for AREVA, its direct subsidiaries and the group, and submits its comments to the Supervisory Board. For the annual financial statements, it consults with AREVA's statutory auditors and those of its subsidiaries in order to assist the Supervisory Board in its mission of audit and control. The committee has the authority to assess the quality of the financial information provided to the public by AREVA. Upon expiration of the term of a Statutory Auditor, the committee recommends a new Statutory Auditor or the renewal of the current auditor's duties, after soliciting competitive bids.

The committee maps the group's potential and existing risks and assesses resources available or to be provided to prevent them from materializing.

Seven Audit Committee meetings were held in 2006, with an attendance rate of 96%.

March 1, 2006: The committee reviewed the financial statements for 2005 and the draft report of the Chairman of the Supervisory Board on internal controls.

(1) Independent members of the Supervisory Board.

6.1. Composition and functioning of corporate bodies

- June 21, 2006: The committee examined the difficulties encountered in the performance of the OL3 EPR reactor contract in Finland and the contract's financial performance. It discussed the internal audit plan with the Department of Internal Audit and asked to be regularly informed of the conclusions and recommendations of its missions and their follow-up. The committee examined the schedule pertaining to the preparation of the financial statements as of June 30, 2007, which must be published on or before August 31, 2007 in accordance with the "Breton" law.

September 18 and 28, 2006: The committee examined the group's performance of the OL3 EPR reactor contract, the financial statements as of June 30, 2006 and the draft press release.

- October 31, 2006: The committee invited the statutory auditors to participate in the meeting and reviewed the conclusions and recommendations of the internal audit report regarding the OL3 contract, the situation of the project and the action plan required. The committee discussed the renewal of the mission of the Statutory Auditors. It decided that a request for proposals would be sent to all audit firms qualified to submit a bid, without preference, and that all candidates would be interviewed by the Audit Committee.
- December 7 and 18, 2006: The committee dedicated its session to a new examination of the OL3 project status and its budget consequences, taking into account the latest information. The Audit Committee examined the budget for 2007 and revision 2 of the 2006 budget. The committee reviewed the risk map and the internal audit plan in order to establish the priorities guiding risk management, including the safety and security of the group's facilities, the management of major projects, rules of ethics and the management of sales representatives.

Compensation and nominating committee

The three members of the Compensation and Nominating Committee are chosen from among the members of the Supervisory Board. They are Frédéric Lemoine⁽¹⁾ (Chairman), Bruno Bézard and Patrick Buffet⁽¹⁾. Bernard de Gouttes serves as committee secretary. The committee meets at least once per six-month period and as often as necessary to fulfill its duties, and is convened by its chairman or at least two of its members.

With respect to compensation, the committee is responsible for recommending to the Supervisory Board AREVA's executive compensation levels, retirement and insurance programs, and in-kind benefits for executives based on comparable factors in the market and on individual performance assessments. In this regard, the committee reviewed the timing and procedures for offering stock ownership plans to corporate officers, management personnel and employees of AREVA and of its direct and indirect subsidiaries. With respect to nominations, the committee reviews the files of individuals selected to serve as members of the Executive Board and conveys its opinion to the Supervisory Board. The committee also gives the Supervisory Board its opinion on executive nominations for first-tier companies of the AREVA group.

The Compensation and Nominating Committee met six times in 2006 with an attendance rate of 94%.

- January 30 and February 9, 2006: The committee examined the 2006 objectives for members of the Executive Board, their fixed compensation and incentive compensation and the amount of the directors' fees to be paid to members of the Supervisory Board. The committee issued a favorable recommendation on these proposals. The committee reviewed the situation of Mr. Jean-Lucien Lamy, a former member of the Executive Board who left the group in 2005 after the sale of FCI.
- March 31, 2006: The committee reviewed proposals to modify certain employment agreements. It also decided the 2005 bonuses for members of the Executive Board.
- June 20, 2006: The committee recommended that Anne Lauvergeon, Gérald Arbola, Didier Benedetti and Vincent Maurel be appointed members of the Executive Board at the next meeting of the Supervisory Board, and that their current duties be renewed. The committee made a proposal regarding the compensation of the Chairman and the members of the Executive Board.
- December 6 and 13, 2006: The committee examined the situation of Vincent Maurel and the terms and conditions for the non-renewal of his duties as Chairman of AREVA NP SAS, which are set to expire. The committee issued a favorable recommendation for the appointment of Luc Oursel effective, January 2, 2007. The committee also established the 2007 quantitative and qualitative objectives for the members of the Executive Board.

End-of-Life-Cycle Obligations Monitoring Committee

The committee is comprised of a maximum of five members, chosen from among the members of the Supervisory Board. They are: Patrick Buffet⁽¹⁾ (Chairman), Bruno Bézard, Dominique Maillard, Gérard Melet and Philippe Pradel. Christian Petit, Chief Financial Officer of AREVA NC serves as committee Secretary. The Chairman of the Supervisory Board attends the committee meetings.

The committee meets at least once per six-month period and as often as necessary to fulfill its duties, and is convened by its chairman or at least two of its members. The committee is charged with helping to monitor the asset portfolio set up by AREVA subsidiaries to cover future nuclear cleanup and decommissioning expenses. In this capacity, and based on pertinent documentation submitted by AREVA, including a management charter, the committee reviews the multiyear schedule of estimated future cleanup and decommissioning expenses for affected companies of the AREVA group; the criteria for establishing, managing and controlling the dedicated funds earmarked to cover expenses by these companies; and the investment management strategy for the related assets. The committee provides the Supervisory Board with opinions and recommendations on these various topics.

(1) Independent member of the Supervisory Board.

6.1. Composition and functioning of corporate bodies

The committee may give audience to financial consulting firms chosen by the fund management companies.

The End-of-Life-Cycle Obligations Monitoring Committee met five times in 2006, with an attendance rate of 86%.

- January 31, 2006: The committee examined the decommissioning liability estimate and the corresponding assets at the end of 2005, recommendations to the Executive Board regarding the contribution to be made to the portfolio of assets earmarked to fund decommissioning expenses, and proposed decisions concerning allocation of assets.
- March 22, 2006: The committee examined new recommendations made by the Executive Board regarding management of the fund's assets and the consequences in terms of the advisory role of AXA-I.M. The committee recommended that a request for proposals be issued to select several managers.
- June 15, 2006: The committee accepted the resignation of AXA-I.M. and selected Mercer as advisor. The committee recommended that Mercer initiate the preparation of a scope of work for the request for proposals to be issued in order to retain several fund and diversified asset managers and to retain a custodian/actuary. The committee examined the management

and governance principles proposed by the Executive Board for financial assets, in particular the choice of securities, tracking variance and the maximum exposure ratios.

- July 19, 2006: The committee reviewed the portfolio management's criteria and performance. The committee asked Mercer to summarize the risk and performance benefits and drawbacks of hiring several rather than just one manager to manage the portfolio of equities managed directly. The committee recommended that investments outside the euro zone be limited to 10% of the portfolio of equities managed directly. The committee confirmed the schedule applicable to requests for proposals issued in order to choose the managers responsible for equities and other types of assets.
- December 5, 2006: The committee, acting with Mercer's assistance, analyzed the impact on portfolio management rules of the proposed decree implementing the law of June 28, 2006 pertaining to waste management, and the impact of the 2007 Budget Law modifying the capital gain tax on sales of securities. After reviewing bids received in response to the requests for proposals regarding the mandate to manage the portfolio of equities, on the one hand, and the mandate of the custodian, on the other hand, the committee recommended AGF AM as preferred bidder for the equity portfolio and BNP Paribas 2S as custodian.

6.1.3. OBSERVATIONS BY THE SUPERVISORY BOARD ON THE EXECUTIVE BOARD'S MANAGEMENT REPORT AND ON THE 2006 FINANCIAL STATEMENTS

After reviewing and auditing the corporate and consolidated financial statements for fiscal year 2006, and pursuant to Article L. 225-68, paragraph 6, of the French Commercial Code, the Supervisory Board has no observations to make on these accounts or on the Executive Board's management report, as presented during the Supervisory Board meeting of March 22, 2007.

However, it bears repeating that the AREVA Supervisory Board adopted the group's strategic plans for the next five years during its meeting of June 29, 2006.

Confident in the financial position and outlook for the AREVA group, it defined a certain number of objectives for the group for the 2006-2011 period. These objectives constitute the roadmap of the Executive Board, charged with leading the company during that period.

In particular, the Supervisory Board underscored:

- **Its commitment to seeing the exemplary operation of its industrial activities remain an absolute priority**, whether as regards the safety and security of its facilities or AREVA personnel or the environment around its sites, the regulatory compliance of all its plant sites, or continuous preparations to meet end-of-life-cycle obligations.
- **Its decision to focus the group's development on AREVA's current businesses**: offering its customers technological solutions for the

generation of CO₂-free energy, meaning from nuclear power or renewables, and for the reliable transmission and distribution of electricity. The group's strategy must capitalize on the sustainable expansion of the corresponding markets by taking full advantage of its vertical integration. Conversely, seeking out new businesses is not a priority for AREVA.

- **The necessary pursuit of economic and financial performance improvement for the group**, whether this be the operational profitability of its various businesses or the group's financial strength. This objective will gain in importance over the coming years as regards the capital expenditure needed for AREVA to maintain its leadership position in all its businesses and as regards major industrial projects, such as construction of the world's first EPR in Finland, which require rigorous operating control.

Guided by these objectives, the Supervisory Board appointed Mrs. Anne Lauvergeon Chairman of the Executive Board for a five-year period and, on the recommendation of Mrs. Lauvergeon, appointed Mr. Gérard Arbola Deputy CEO of the group. These same objectives guided the Supervisory Board in appointing the two other members of the Executive Board, Messrs. Didier Benedetti and Luc Oursel, on the date of your annual meeting. The Supervisory Board also ensured that Mr. Philippe Guillemot, Chairman and CEO of AREVA T&D, is closely involved in the Executive Board's work.

6.1. Composition and functioning of corporate bodies

It is again in the light of these objectives that the Supervisory Board and its specialized committees continued their in-depth work with the Executive Board and the group's central services.

For example, the Supervisory Board validated the 2007-2011 strategic action plan drawn up by the Executive Board based on these objectives as well as the 2007 budget and individual objectives assigned to each member of the Executive Board for 2007.

To stay the course over the long term, it also examined for the first time the major thrusts of the research and development program for the entire group and decided to repeat this examination every year.

In the nuclear field, the Board decided to launch the construction of the new Georges Besse II enrichment plant, which the Executive Board has been preparing for several years. It also examined the current and future range of reactors and expressed its satisfaction regarding the cooperation agreement with Mitsubishi Heavy Industries (MHI) providing, in particular, for the joint development of a 1000 MWe Generation III reactor. In addition, to secure supply for very large forgings for the nuclear businesses, it approved the acquisition of Sfarsteel, one of the world's leading producers located in Le Creusot, France.

The Board was pleased with the recovery and rapid development of the transmission and distribution operations, supplemented by the group's acquisition of the high voltage transformer business operated by Ritz, a German company. AREVA T&D made a significant contribution to the group's 2006 financial statements.

With regard to renewable energies, the Supervisory Board and the Strategy Committee selected wind power, biomass and fuel cells,

based on the Executive Board's recommendation, as three main sectors in which to develop a sustainable and profitable business. The establishment of the Renewable Energies business unit and the strengthening of the group's position in REpower are part of this program.

With regard to the group's economic and financial performance, the Supervisory Board followed very closely, both directly and through its Audit Committee, the performance of the OL3 project involving construction of the world's first EPR. The delay, difficulties and very large cost overruns incurred for this project were analyzed in detail based on information submitted and presented to the Supervisory Board by the Executive Board. The provisions constituted in the 2006 financial statements are significant and have impacted operating income. It is clear that the establishment of an insurance policy to cover the risks associated with this type of project in no way substitutes for the considerable management efforts undertaken by AREVA NP to bring the Finnish project completely under control and by the group to improve the commercial, financial and operational processes that underpin all major industrial projects.

The group's strength is apparent in its financial performance for 2006, both in terms of orders and business and in terms of its ability to absorb the consequences of OL3. Nonetheless, the Supervisory Board supports the Executive Board's commitment to continued integration of the group and to strengthening its operating control over major projects, as the magnitude of investments required and the growth in the number of high-value contracts to be performed in the years to come mandate rigorous management and strong controls.

For the Supervisory Board
The Chairman
Frederic Lemoine

6.1. Composition and functioning of corporate bodies

6.1.4. REPORT OF THE SUPERVISORY BOARD CHAIRMAN ON THE PREPARATION AND ORGANIZATION OF THE BOARD'S ACTIVITIES AND INTERNAL CONTROL PROCEDURES

6.1.4.1. Introduction and regulatory framework

Under the provisions of Article L. 225-68 of the French Commercial Code, amended by the Financial Security Law of August 1, 2003 and the law of July 26, 2005 on the modernization of the economy and the confidence in companies raising funds from the public "the Chairman of the Supervisory reports to the General Meeting of Shareholders, in a report attached to the report provided in accordance with articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26, on the preparation and organization of the activities of the Board and on internal control procedures established by the company".

With respect to this second item, this report was established based on information provided to the Chairman of the Executive Board by the Executive Board and the functional department under its authority, as part of a status report on internal control systems and during meetings of the Supervisory Board and its committees.

This work was submitted to the Audit Committee for an opinion and to the college of Statutory Auditors before it was presented to the Supervisory Board.

6.1.4.2. Preparation and organization of the board's functions

6.1.4.2.1. Supervisory board missions

See paragraph 6.1.2.2.

6.1.4.2.2. Composition of the Supervisory Board

See paragraph 6.1.1.2.

6.1.4.2.3. Activities of the supervisory board

See paragraph 6.1.2.2.

6.1.4.2.4. Activities of the four committees of the supervisory board

See paragraph 6.1.2.2.

6.1.4.3. Internal control procedures

6.1.4.3.1. Corporate values and action principles

Sustainable development is at the center of AREVA's industrial strategy, which rests on three pillars: profitable growth, social responsibility, and respect for the environment.

This approach translates into ten commitments:

- Governance,
- Continuous improvement,
- Respect for the environment,
- Financial performance,
- Risk management and prevention,
- Innovation,
- Commitment to employees,
- Community involvement,
- Dialogue and consensus-building,
- Customer satisfaction.

To underpin this process, AREVA

- established a Values Charter approved by the Supervisory Board, which was distributed to all employees;
- promoted the strengthening of internal control systems in all of its entities.

6.1.4.3.2. Internal control objectives

AREVA's internal control system enables the group to meet its objectives and manage risk.

The group's internal control procedures, based on the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) consist of rules, instructions and practices in effect in throughout the organization, with the following objectives:

- ensure that its operations and employees
 - comply with applicable laws and regulations as well as internal rules and standards,
 - adhere to the values, guidelines and objectives defined by the labor-management bodies and their representatives, notably with respect to risk management policy;

6.1. Composition and functioning of corporate bodies

- ensure that internal processes are implemented effectively, in particular those contributing to the preservation of assets;
- verify that internal and external communications accurately reflect the business and position of the group and of its subsidiaries.

Internal control procedures contribute to risk management, the efficiency of operations and the optimal use of resources in all consolidated entities.

However, internal control procedures, no matter how well designed and implemented, can only provide reasonable assurances rather than an absolute guarantee that the group's objectives can be achieved.

6.1.4.3.3. Main risk factors

The group implemented a risk mapping process as soon as AREVA was established. AREVA's Insurance and Risk Management department updates the risk map on an annual basis. The Audit department submits the risk map to the Supervisory Board's Audit Committee.

The group's entities analyze and measure the risks in their respective operations and prepare risk mitigation plans. In 2006, a series of actions were undertaken to identify the risk of fraud and establish preventive measures.

The main risk factors and management procedures are identified and described in the reference document in the section regarding "Risk management and Insurance". The risk map addresses nuclear safety and industrial safety issues, which are an absolute priority at all levels of the group. These matters are not addressed in detail in this reference document.

6.1.4.3.4. Managers and departments with control responsibilities

Internal control procedures are implemented throughout the group. Each employee is responsible in his or her own area, under the overall supervision of management.

In matters of corporate governance, AREVA has opted for an organization based on the separation and balance of powers. Executive and management authority is vested in the Executive Board, while approval and control authority is vested in the Supervisory Board and the General Meeting of shareholders.

AREVA's Executive Board and its Executive Committee, both comprised of corporate officers of first-tier subsidiaries, establish the group's objectives and supervise internal control systems.

Operational management is based on delegations of authority ensuring that decisions are consistent with corporate governance principles.

In addition, a Nuclear Executive Committee was established, with its members consisting primarily of key managers in the nuclear sector in France, Germany and the United States. This committee is consulted on all matters representing a significant financial commitment of having significant strategic or marketing consequences.

The corporate departments implement specific controls in their respective areas of responsibility. These departments include the Audit Department, the Finance Department, the Human Resources Department, the Legal Department, the Strategy Department, the Organization and Information Systems Department, the Protection of Persons and Corporate Assets Department, etc.

Financial information is analyzed and validated by a number of managers in the financial controls department, including managers in charge of operations and financial controls, financial controllers in the business units and subsidiaries, AREVA's consolidation department, business analysts, etc. The most important issues concerning financial reporting are submitted to the Supervisory Board's Audit committee.

6.1.4.3.5. General internal control procedures

Since it was established, AREVA has worked continuously to strengthen its organization and its internal control procedures.

The group adopted a Values Charter which establishes rules of conduct to which all of the group's executives must subscribe by signing a letter agreement. These rules incorporate AREVA's policy of ethical behavior, with particular emphasis on human rights, sustainable development, compliance with treaties, laws and regulations, performance, sincerity of communications, protection of individuals and property, and continuous improvement. The Charter provides that any individual may report a blatant dysfunction or a breach of laws or regulations to his or her management. The Charter also establishes precise rules in matters such as insider trading, conflicts of interest and the traceability of payments.

Organizational memoranda and standards and procedures are distributed throughout the group using a specialized software system. The subsidiaries use them as a basis for developing their own procedures and management processes, including ISO certification, delegation of authority, approval processes for proposals and capital expenditures, continuous improvement initiatives, etc.

6.1.4.3.6. Accounting and financial reporting procedures

General principles

The group's organization and integrated management of the various legal and operational cycles governing the reporting and consolidation schedule ensure that all of the group's legal and management obligations are met using consistent financial information.

Information is collected and processed at two operational levels: the operating entity (level 1 of information production) and the business unit (base unit for management and performance analysis throughout the group).

Consolidation rules are issued by the group's financial controls department for all half-year and annual financial statements.

6.1. Composition and functioning of corporate bodies

These rules establish:

- The schedule to prepare accounting and financial information for publication purposes;
- The process to validate this information;
- Items requiring particular attention, such as complex issues, changes in legal environment and new internal procedures;
- Each person responsible for consolidation at the corporate level, in charge of validating consolidation operations for his or her portfolio of entities, including the preparation of cross-cutting analyses for the entire group (corresponding to the Notes to the consolidated financial statements).

The financial communications matrix matches the four divisions (Front End, Reactors and Services, Back End, Transmission & Distribution). It draws on corporate financial data, thus ensuring consistency.

Information Systems

AREVA relies on a single, secure reporting and consolidation system to ensure that all accounting and financial information is computed expeditiously, reliably and in a consistent manner.

Data is recorded by employees authorized at the entity level, in accordance with the schedule and the directives established by the financial controls department, which is also responsible for the system's administration. The global system is integrated with local accounting systems and verified at various stages of the process to ensure that all data recorded is accurate.

Implementation of accounting standards and verification

The group's accounting and financial standards govern all main headings of the financial statements. With few exceptions, these rules apply to all entities included in the group's consolidation scope. Accounting standards were reviewed in depth when the group migrated to IFRS (in 2005). Accounting principles include:

- A glossary, which defines the main headings of the financial statements and the group's performance indicators,
- An annotated chart of accounts,
- Accounting procedures issued by the financial controls department.

These principles are supplemented by procedures and instructions issued and reviewed on a regular basis by other entities of the Finance Department (Department of Financial Operations and Cash Management, Tax Department) and by the subsidiaries, including procedures and instructions dealing with internal controls and fraud.

The standards and procedures Function of the financial controls department prepares and distributes all necessary information relating to standards, procedures and rules regarding accounting and financial management. It also monitors regulatory changes.

Controls are implemented at all stages of the consolidation process:

- Automatically by the consolidation software (control of debit/credit balances, traceability of data, reliability of data, access control), or
- Manually by the consolidation department, financial controllers and business analysts.

6.1.4.3.7. Assessment of internal controls

AREVA optimizes its internal control systems on a continuous basis under the supervision of the Executive Board, subject to monitoring by the Audit Committee of the Supervisory Board.

This effort is supported by the Audit department, which monitors the effectiveness of internal control procedures within the group and reports to the Executive Board and to the Supervisory Board's Audit Committee. The department's missions, which reflect the group's risk map, are carried out in accordance with an audit charter and with standards of the profession defined by the Institute of Internal Auditors (*Institut français de l'audit et du contrôle interne*, IIA-Ifaci).

The resulting recommendations give rise to action plans, which are monitored in liaison with the managers involved. Monitoring was strengthened in 2006.

Two self-assessment initiatives are also implemented in all of the group's entities:

- the AREVA Way questionnaire, which supports implementation of the continuous improvement initiative, and
- a self-audit questionnaire specifically designed to help the units improve their internal control processes.

The self-audit questionnaire was update by the Statutory Auditors in 2006. It was distributed to 256 entities in 45 countries. The 2006 questionnaire includes new group procedures and was the project management component was strengthened.

The Audit department and the college of Statutory Auditors verified the reliability of some of the responses to the questionnaire in 44 countries, representing more than 65% of AREVA's consolidated sales revenue.

6.1. Composition and functioning of corporate bodies

The verifications have not revealed any dysfunctions that might have a major impact on the business or financial statements of the group.

In 2006, the group improved its systems in areas where the previous year's report indicated that progress was required, and in the control of serious operating difficulties experienced in 2006 in the construction of the first EPR in the world in Finland.

It was agreed that lessons had to be learned from this project for the various processes concerning the groundwork for contract

proposals and the management and financial monitoring of major projects. These control processes will be submitted to the Audit Committee on a regular basis and included in internal control systems presented by the Chairman of the Supervisory Board in his next reference document.

Chairman of the Supervisory Board
Frédéric Lemoine

6.1.5. STATUTORY AUDITORS' REPORT ON THE REPORT OF THE SUPERVISORY BOARD CHAIRMAN

This is a free translation of the original text in French for information purposes only.

To the shareholders,

In our capacity as Statutory Auditors of AREVA (Société des Participations du Commissariat à l'Energie Atomique) and in accordance with the provisions of Article L. 225-235 of the French Commercial Code, we hereby present our report on the report prepared by the Chairman of your company in accordance with the provisions of Article L. 225-68 of the French Commercial Code for the year ended December 31, 2006.

It is the responsibility of the Chairman of the Supervisory Board to report on, in particular, the conditions for the preparation and organization of the Supervisory Board's activities and the internal control procedures implemented by the company.

It is our responsibility to report to you our observations on the information provided in the Chairman's report concerning the internal control procedures related to the preparation and treatment of financial and accounting information.

We have performed our procedures in accordance with the professional guidelines applicable in France. These guidelines require that we perform procedures to assess the fairness of the information set forth in the Chairman's report concerning the internal control procedures related to the preparation and treatment of financial and accounting information. These procedures mainly consist of the following:

- obtaining an understanding of the objectives and general organization of internal controls as well as of the internal control procedures related to the preparation and treatment of financial and accounting information, as presented in the Chairman's report.
- obtaining an understanding of the procedures underlying the information presented in the report.

On the basis of these procedures, we have no comment to make on the information given concerning the internal control procedures of the company related to the preparation and treatment of financial and accounting information set forth in the report of the Chairman of the Supervisory Board, prepared in accordance with the provisions of Article L. 225-68 of the French Commercial Code.

Done at Neuilly-sur-Seine and Paris La Défense, March 23, 2007

The Statutory Auditors

Deloitte & Associés

Mazars & Guérard

Salustro Reydel
Membre de KPMG International


Pascal Colin

Jean-Paul Picard

Thierry Blanchetier

Denis Marangé






6.2. Executive compensation

6.2. Executive compensation

6.2.1. COMPENSATION OF CORPORATE OFFICERS

The Ministry of Economy, Finance and Industry sets the compensation for the Chairman of the Executive Board, the members of the Executive Board, and the Chairman, Vice Chairman and members of the Supervisory Board of AREVA, based on an advice from the group's Compensation and Nominating Committee and a recommendation of the Supervisory Board.

The tables below sets forth the compensation and all benefits paid to each executive of the AREVA group in 2004, 2005 and 2006 by AREVA, the companies it controls, or the company by which it is controlled, namely the CEA.

6.2.1.1. Compensation paid to the members of the Executive Board

(In euros)	2004				2005				2006			
	Fixed comp. (a)	Variable comp. (b)	In-kind benefits (c)	Total gross comp. (d=a+b+c)	Fixed comp. (a) (4)	Variable comp. (b)	In-kind benefits (c)	Total gross comp. (d=a+b+c)	Fixed comp. (a) (5)	Variable comp. (b)	In-kind benefits (c)	Total gross comp. (d=a+b+c)
Executive Board members (3)												
Anne Lauvergeon ⁽¹⁾	322,912	123,216	4,248	450,376	364,918	127,643	4,332	496,893	441,985	176,865	4,332	623,182
Gérald Arbola ⁽¹⁾	286,308	109,262	4,849	400,419	303,232	112,044	5,136	420,412	351,835	145,360	5,136	502,331
Didier Bénédicti ⁽²⁾	308,529	114,257	5,018	427,804	317,792	115,971	5,016	438,779	352,623	119,317	5,016	476,956
Vincent Maurel ^(2 and 6)	266,095	98,542	3,312	367,949	274,096	103,214	3,216	380,526	317,959	102,910	4,032	424,901
Jean-Lucien Lamy ^(2 and 7)	285,916	107,573	3,001	396,490	305,061	253,996	2,470	561,527				

(1) Appointed by the Supervisory Board on July 3, 2001. Reappointed by the Supervisory Board on June 29, 2006 for 5 years. Mr. Arbola's employment contract with AREVA NC is suspended during his term as an Executive Board member.

(2) Appointed by the Supervisory Board on October 15, 2002, with an effective date of February 1, 2003. Messrs. Bénédicti and Maurel were reappointed by the Supervisory Board on June 29, 2006 for 5 years. Members of the Executive Board who have an employment contract with AREVA, which is suspended during their terms.

(3) Compensation is calculated based on the date of appointment. For 2006, the compensation of the members of the Executive Board appointed by the Supervisory Board is calculated as of January 1, 2006.

(4) The fixed compensation of members of the Executive Board for 2005 includes adjustments for 2004, i.e. €4,764 for Anne Lauvergeon, €4,224 for Gérald Arbola, €4,560 for Didier Bénédicti, €3,936 for Vincent Maurel and €40,726 for Jean-Lucien Lamy.

(5) The fixed compensation of members of the Executive Board for 2006 includes adjustments for 2005, i.e. €794 for Anne Lauvergeon, €704 for Gérald Arbola, €760 for Didier Bénédicti and, €656 for Vincent Maurel.

(6) Mr. Maurel's contract with AREVA was reinstated after he resigned as a member of the Executive Board on December 28, 2006. Vincent Maurel has been advisor to the Chairman of the Executive Board since January 2, 2007.

(7) After his resignation as a member of the Executive Board on October 20, 2005, Mr. Lamy's employment contract with AREVA was reinstated until unilaterally terminated. Total gross compensation as an employee through November 21, 2005 was €30,530, including €247 for in-kind benefits. After leaving the group on November 21, 2005, Mr. Lamy received a €150,000 bonus (gross), a €549,144.10 contract indemnification and €2,524.23 as vacation allowance, paid in 2006 for 2005.

6.2.1.2. 2004 bonus calculation (paid in 2005)

The Compensation and Nominating Committee proposed that the 2004 variable compensation for the five members of the Executive Board, representing a maximum of 40% of their respective gross annual compensation, be determined based on quantitative objectives for 70% of the bonus amount and based on individual strategic and qualitative objectives for the remaining 30%.

The committee further recommended that quantitative objectives for Messrs. Didier Bénédicti, Vincent Maurel and Jean-Lucien Lamy be further allocated in two sets of objectives representing 35% each, one related to AREVA's financial performance and the other related to the financial performance of the companies under their direct supervision, i.e. AREVA NC, AREVA NP and FCI, respectively.

Further, the committee recommended an additional bonus for Mr. Jean-Lucien Lamy, not to exceed 40% of his annual fixed gross compensation, based on specific and challenging objectives directly related to FCI's financial performance.

The Compensation and Nominating Committee recommended Executive Board bonuses as follows for 2004:

- Anne Lauvergeon: 99% of the ceiling;
- Gérald Arbola: 98% of the ceiling;
- Jean-Lucien Lamy and Vincent Maurel: 97% of the ceiling;
- Didier Benedetti: 94% of the ceiling.

The Minister of Economy, Finance and Industry and the Vice Minister of Industry approved these amounts.

6.2.1.3. 2005 bonus calculation (paid in 2006)

The Compensation and Nominating Committee proposed that the 2005 variable compensation for the four members of the Executive Board (Mr. Lamy having left the group after the sale of FCI in November 2005), should represent a maximum of 50% of the fixed gross annual compensation for Anne Lauvergeon and Gerald Arbola, and 40% for Vincent Maurel and Didier Bénédicti. Variable compensation would be determined based on quantitative objectives linked to AREVA's financial performance for 70% of the bonus amount and based on individual strategic and qualitative objectives for the remaining 30%.

The committee further recommended that quantitative objectives for Messrs. Didier Bénédicti and Vincent Maurel be further allocated in two sets of objectives representing 35% each, one related to AREVA's financial performance and the other related to the financial performance of the companies under their direct supervision, i.e. AREVA NC and AREVA NP, respectively.

The committee recommended Executive Board bonuses as follows for 2005:

- Anne Lauvergeon: 99.4% of the ceiling;
- Gérald Arbola: 99.1% of the ceiling;
- Didier Benedetti: 98.5% of the ceiling;
- Vincent Maurel: 98.5% of the ceiling.

The Minister of Economy, Finance and Industry and the Vice Minister of Industry approved these amounts.

6.2.1.4. 2006 bonus calculation (to be paid in 2007)

The Compensation and Nominating Committee proposed that the 2006 variable compensation for the four members of the Executive Board (considering that Mr. Luc Oursel joined the Executive Board in 2007 after Mr. Vincent Maurel resigned on December 28, 2006) should represent a maximum of 50% of the fixed gross annual compensation, with the possibility of increasing this percentage to 60% for Anne Lauvergeon and Gerald Arbola in case of really outstanding performances. Variable compensation would be determined based on 70% of quantitative objectives concerning, in equal proportion, the net income and the budgeted operating income excluding any extraordinary item. This calculation shall be based on group performance for Anne Lauvergeon and Gerald Arbola only. For other Executive Board members, the calculation shall be based on group performance for 50% and based on the financial performance of the companies under their direct supervision for the remaining 50%, i.e. AREVA NC for Didier Bénédicti and AREVA NP for Luc Oursel, who replaced Vincent Maurel (i.e. four equal shares for these members, each representing a maximum of 8.75% of their fixed compensation).

The variable compensation of the members of the Executive Board is based on strategic and qualitative objectives for 30% of the bonus amount.

6.2.1.5. Pensions and retirement benefits

There is no pension or similar commitment to Anne Lauvergeon or Didier Benedetti. A provision for pension representing €41,664 for Gérald Arbola and €27,399 for Vincent Maurel was recognized in 2006.

6.2.1.6. Director and Officer Liability insurance

The purpose of D&O coverage is threefold: Firstly, it provides liability coverage for financial risk incurred by group directors and officers due to damage suffered by third parties as a result of professional errors or misconduct in the course of business.

Secondly, it reimburses group companies that are legally allowed to indemnify directors and officers for claims submitted against these individuals. Thirdly, it covers civil or criminal defense expenses incurred by officers and directors as a result of claims based on professional errors or misconduct.

The policies usually exclude coverage of claims based on intentional misconduct by a director or an officer, or on personal gain (financial or otherwise) to which a director or officer was not entitled. Fines and penalties levied against directors and officers are also excluded, as well as claims for losses due to pollution, asbestos or toxic mold. Finally, directors and officers liability insurance policies exclude claims based on the purchase of securities or assets of a company at an inadequate price.

6.2. Executive compensation

6.2.1.7. Compensation of the members of the Supervisory Board.

(in euros)	2004			2005			2006		
	Gross comp. (a)	Directors' fees (14) (b)	Total gross comp. (c=a+b)	Gross comp. (a)	Directors' fees (14) (b)	Total gross comp. (c=a+b)	Gross comp. (a)	Directors' fees (14) (b)	Total gross comp. (b) (c=a+b)
Supervisory Board (1 and 2)									
Philippe Pontet (6, 7 and 13)	119,724		119,724	24,201		24,201			
Frédéric Lemoine (3 and 15)				134,395		134,395	167,970		167,970
Alain Bugat (3, 8 and 13)	162,180		162,180	165,097		165,097	165,789		165,789
Euan Baird (4)		19,250	19,250		22,250	22,250			
Jacques Bouchard (5, 9 and 11)	225,680	14,000	239,680	11,000	16,000	27,000		5,833	5,833
Patrick Buffet (3)		26,750	26,750		28,500	28,500		33,167	33,167
Thierry Desmarest (3)		16,000	16,000		16,000	16,000		21,667	21,667
Oscar Fanjul (3)								17,833	17,833
Gaishi Hiraiwa (4)		16,000	16,000		16,000	16,000			
Daniel Lebègue (4)		31,750	31,750		28,500	28,500		10,833	10,833
Olivier Pagezy (4, 5, 9 and 11)	150,452	27,000	177,452	155,497	26,000	181,497	162,832	32,167	194,999
Philippe Pradel (3 and 5)							188,812	16,333	205,145
Guylaine Saucier (3)								21,333	21,333
Jean-Claude Bertrand (10 and 12)	49,536	24,250	73,786	51,894	22,250	74,144	54,181	27,667	81,848
Gérard Melet (10 and 12)	35,495	20,750	56,245	37,843	19,750	57,593	40,157	26,167	66,324
Alain Vivier-Merle (10 and 12)	70,817	16,000	86,817	76,427	16,000	92,427	85,258	21,667	106,925

(1) Compensation calculated based on date of appointment or end of term.

(2) Directors' fees may have been paid in 2004 for 2003 as follows:

- Mr. Baird: €6,000; Mr. Bouchard: €2,000; Mr. Buffet: €6,000; Mr. Desmarest: €4,000; Mr. Hiraiwa: €4,000;
- Mr. Lebègue: €6,000 euros; Mr. Pagezy: €5,000; Mr. Bertrand: €6,000; Mr. Melet: €5,000; Mr. Vivier-Merle: €4,000.

(3) On May 2, 2006, the General Meeting of Shareholders appointed these members of the Supervisory Board for a period of 5 years. The meeting of the Supervisory Board that followed this General Meeting of Shareholders appointed Mr. Lemoine as Chairman and Mr. Bugat as Vice Chairman.

(4) On May 2, 2006, the General Meeting of Shareholders acknowledged that the duties of these members had expired and that their renewal had not been proposed.

(5) This amount includes the compensation received from CEA and AREVA by Messrs. Bouchard (2004, 2005), Pagezy (2004, 2005 and 2006) and Pradel (2006). Mr. Pradel's 2006 compensation includes the year-end bonus for 2005 paid on January 1, 2006 (€13,125).

(6) In 2004, corresponds to compensation received from AREVA only.

(7) Mr. Pontet was appointed Chairman of the Supervisory Board, replacing Mr. Colombani, at the Supervisory Board Meeting held on June 12, 2003. Mr. Pontet receives a flat fee paid by AREVA with approval of the supervising ministries. In 2005, Mr. Pontet's total gross compensation included a fee prorated in 2005 through March 8, 2005 (€22,447) and an adjustment for 2004 (€1,754).

(8) For 2004, 2005 and 2006 this amount includes only the compensation received as Administrator General of the CEA. The 2006 compensation includes an allowance related to the CEA's change of corporate office (€1,500). AREVA pays no compensation to Mr. Bugat for his duties as Vice Chairman of the Supervisory Board.

(9) Mr. Bouchard replaced Mr. Rouvillois as permanent representative of the CEA on September 25, 2003. Mr. Pagezy replaced Mr. Bouchard as permanent representative of the CEA on April 26, 2006.

(10) Members elected by company personnel who became members of the Supervisory Board on September 25, 2002 and who opted to distribute their net directors' fees to the labor organization of which they are members. Amounts reported for 2004, 2005 and 2006 correspond to their compensation as employees of certain AREVA subsidiaries (AREVA NC or AREVA NP).

(11) For 2004, Mr. Bouchard's compensation included €22,712 for unused vacation pay remaining due as of the date of his retirement. For 2005, it includes an annual performance bonus - for 2004 paid on January 1, 2005, the date of his retirement. 2005 and 2006 compensations for Mr. Pagezy include, respectively, €4,500 and €6,420 corresponding to year-end bonuses for 2004 and 2005 paid on January 1, 2005 and January 1, 2006. The 2006 compensation includes an allowance related to the CEA's change of corporate office (€1,500).

(12) Compensations for 2004, 2005 and 2006 include, respectively:

- for Mr. Bertrand: €2,220, €2,390 and €2,836 for incentive compensation;
- for Mr. Melet: €1,926, €2,180 and €2,689 for incentive compensation;
- for Mr. Vivier-Merle: €2,910 euros, € 2,204 euros and € 1,330 euros for incentive compensation and € 2,652 for employee profit sharing in 2006.

(13) Mr. Pontet and Mr. Bugat are not entitled to directors' fees.

(14) Every member of the Supervisory Board receives a flat fee for each meeting of Supervisory Board he or she attends, and a flat fee for each meeting of a specialized Committee he or she attends as a Committee member, as follows: in 2004 and 2005: €2,000 per meeting of the Supervisory Board and €1,250 per meeting of a specialized Committee.

New provisions became effective on January 1, 2006, as follows:

- A flat fee representing €10,000 paid annually for their duties. The payment may be withheld if the member does not attend the meetings systematically.
- A fee of €2,500 per meeting of the Board, provided the member is in attendance.
- A fee of €2,000 per meeting of a specialized Committee for the committee chairmen, provided they are in attendance.
- A fee of €1,500 per meeting of a specialized Committee for the committee members, provided they are in attendance.

(15) Mr. Lemoine was appointed to the Supervisory Board on March 8, 2005, to replace Mr. Pontet. The Annual General Meeting of Shareholders ratified the appointment on May 12, 2005. Mr. Lemoine is not entitled to directors' fees.

6.2.2. EXECUTIVES' SHARES OF SHARE CAPITAL

Members of the AREVA Supervisory Board appointed by the shareholders each own one share of stock, except for the CEA, which holds 78.86% of the share capital and 82.99% of the voting rights.

Members of the Executive Board do not own any shares or investment certificates in the Company.

6.2.3. STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

This is a free translation of the original text in French for information purposes only.

It should be understood that the agreements and commitments reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

As Statutory Auditors of your company, we hereby present our report on regulated agreements and commitments.

6.2.3.1. Agreements and commitments authorized during the fiscal year

Pursuant to Article L. 225-88 of the French Commercial Code (Code de Commerce), agreements and commitments previously authorized by the Supervisory Board have been brought to our attention.

The terms of our engagement do not require us to identify such agreements or commitments, if any, but to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention, without expressing an opinion on their usefulness or their merit. It is your responsibility, pursuant to Article 117 of the Decree of March 23, 1967, to assess the interest involved in respect of the conclusion of these agreements for the purpose of approving them.

We conducted our procedures in accordance with professional standards applicable in France; those standards require that we agree the information provided to us with the relevant source documents.

With AREVA NC

The Supervisory Board meeting of June 29, 2006 authorized the transfer to AREVA NC of the rights and obligations of AREVA under agreements signed with URENCO in 2002 and concerning the acquisition of 50% of the securities in the joint venture, ETC, thereby providing AREVA NC with access to centrifugation technology.

6.2.3.2. Agreements and commitments approved during previous fiscal years with continuing effect

In addition, pursuant to the Decree of March 23, 1967, we were informed that the following agreements and commitments, approved during previous fiscal years, continued in effect.

With AREVA NC

On July 8, 2004, the Supervisory Board authorized the signature of an agreement under which AREVA NC gave AREVA authority to manage or organize and control, in the name of AREVA NC and for its account, assets earmarked to fund end-of-life-cycle and radioactive waste management expenses. This agreement has no set expiration date. It may be terminated by either party subject to a three-month notice. The fee is calculated in accordance with principles governing service agreements in the AREVA group.

Services invoiced in 2006 with respect to 2006: €50,604.

6.2. Executive compensation

With FCI (company sold on November 3, 2005)

Pursuant to the sale of FCI's Military/Aerospace/Industry (MAI) Division during fiscal year 2003, the Supervisory Board meeting of December 10, 2002 approved various guarantees in favor of the purchaser of this division.

The only guarantee remaining in effect during the fiscal year concerned the sale and was capped at €33.25 million, in accordance with the provisions of Article 8.12 (c) of the Share Purchase Agreement signed on September 19, 2005 between AREVA and the purchaser of FCI. No amount was paid by AREVA in 2006 in respect of this guarantee.

With AREVA NP

The vendor warranties granted by AREVA to AREVA NP pursuant to the sale of Intercontrole continued in effect during the fiscal year. No amount was paid by AREVA in 2006 in respect of these warranties.

Neuilly-sur-Seine and Paris La Défense, March 23, 2007

The Statutory Auditors

Deloitte & Associés

Mazars & Guérard

Salustro Reydel
Membre de KPMG International

Pascal Colin

Jean-Paul Picard

Thierry Blanchetier

Denis Marangé





6.2.4. AUDIT FEES

(In thousands of euros)	2006 Fees				2005 Fees			
	Deloitte	Mazars	KPMG	Total	Deloitte	Mazars	KPMG	Total
Audit								
Statutory Auditors, certification								
Issuer	429	245	295	969	496	311	290	1,097
Subsidiaries	4,531	1,965	2,615	9,111	5,516	2,902	2,163	10,581
Other reviews and services directly linked to the Statutory Auditors' mission								
Issuer	16	38	0	54	152	100	100	352
Subsidiaries	823	0	130	953	657	468	16	1,141
Sub-total	5,799	2,248	3,040	11,087	6,821	3,781	2,569	13,171
Other services rendered by the networks to fully consolidated subsidiaries								
legal, tax, labor	525	62	57	644	102	25	103	230
other	0	4	0	4	0	0	0	0
Sub-total	525	66	57	648	102	25	103	230
Total	6,324	2,314	3,097	11,735	6,923	3,806	2,672	13,401

6.3. Profit-sharing plans

6.3.1. CORPORATE SAVINGS PLANS AND INVESTMENT VEHICLES

In early 2005, AREVA decided to harmonize and unify the various savings plans in the French subsidiaries and established a common Group Savings Plan. This new plan gives employees a single statement for all their assets and a much wider choice of new services.

The centralized reporting of all assets held by French employees has been subcontracted to Creelia, a subsidiary of Crédit Agricole Asset Management. Centralized account reporting allows each employee to receive complete information available on-line on all of his or her assets in the various funds. Exchanges among funds are possible at all times and without fee. Employees can also redeem shares held in any fund.

The AREVA group Savings Plan offers a complete range of funds covering all asset categories. It includes:

- *AREVA Monétaire*, a money market fund managed by Société Générale Asset Management (SGAM) fully invested in money market instruments;
- *AREVA Obligataire*, a bond fund managed by Crédit Agricole Asset Management (CAAM) and fully invested in bonds from issuers in the Euro zone;
- *AREVA Actions Zone Euro*, a fund managed by CIC Asset Management and fully invested in equity instruments from issuers in the Euro zone.

- Three balanced funds: *AREVA Diversifié Obligataire*, managed by Natexis Interépargne Asset Management (25% equities/75% bonds); *AREVA Diversifié Equilibré*, managed by HSBC Asset Management (50% equities/50% bonds); *AREVA Diversifié Dynamique*, managed by Société Générale Asset Management (75% equities/25% bonds).

- *AREVA ISR*, a socially responsible fund managed by Fongepar Gestion Financière. This Socially Responsible Fund is fully invested in equities of companies implementing principles of social responsibility, including 10% in companies promoting socially responsible employment practices.

A diversified pool of fund managers was selected with a view to optimizing investor returns. The performance of the managers will be measured regularly and the management contracts will be reassessed as needed.

The funds' supervisory boards meet twice a year. Each meeting includes approximately 100 representatives from employees and the employers.

In addition, the February 9, 2005 agreement on AREVA group savings plans also provides for the establishment of a savings plan monitoring committee. This committee met twice in 2006. A special effort was made in 2006 to inform employees on the benefits of the savings plan, including publication of a brochure distributed in July with the half year statements. This brochure explains the relation between risk and return and the benefits of diversification, as provided by the plans.

6.3.2. INCENTIVE REMUNERATION AND PROFIT-SHARING PLANS

Various incentive remuneration and profit-sharing agreements are in effect in companies throughout the group. The aim is to allow each individual employee to benefit from collective performance while allowing them to take advantage of the plans' favorable income tax and social security tax treatment.

In 2006, the group paid out a total of €80 million in respect of performance for 2005. Employees elected to invest 60% of all incentive compensation paid in 2006 in the group Savings Plans.

Under these agreements, employees receive incentive remuneration when specific objectives have been reached and/or profit-sharing bonuses based on the group's overall financial performance.

6.3.2.1. Profit-sharing

Employee profit-sharing regulations, spelled out in Articles L. 442-1 et seq. of the French Labor Code, provide for employees to receive a portion of the company's net taxable income, determined according to a legally mandated formula incorporated in almost all profit-sharing agreements signed by group entities.

The global amount so determined is then allocated among the company's employees based on their seniority and/or the beneficiary's salary, in accordance with specific agreements.

A company's profit-sharing contributions may not be withdrawn by a beneficiary for a period of five years, unless otherwise allowed

6.3. Profit-sharing plans

by regulation. These contributions benefit from preferential tax and social security tax treatment. Subject to provisions of the agreement, employees may elect investment of these contributions in company-sponsored mutual funds included in the contributing company's employee savings plans.

6.3.2.2. Incentive remuneration

Incentive remuneration, regulated under Articles L. 441-1 et seq. of the French labor Code, allows a company to provide financial incentives to its employees based on specific and technical qualitative and quantitative objectives. Incentive remuneration agreements are concluded for periods of three years. The various agreements in effect in the group expire on dates specific to each group entity involved.

The performance criteria included in the incentive remuneration agreements concluded by group entities are defined jointly by the management of the company and by the organizations representing

company personnel. Depending on the agreement, these criteria may include:

- quantitative performance, such as operating income, sales revenue, operating profit, etc.;
- productivity improvements;
- cost reductions;
- qualitative performance (performance improvement objectives specific to each company, e.g. meeting delivery schedules, reduced customer claims, improved industrial safety as evidenced by lower accident frequency and accident severity rates, quality certification or renewal, etc.).

Company contributions for incentive remuneration are paid after year-end closing. Employees usually have the option of investing these contributions in the Group Savings Plan to which the company subscribes. These contributions, which the beneficiary may not withdraw for a period of five periods, benefit from preferential tax and social security tax treatment applicable to employee savings plans.

6.3.3. EMPLOYEE SHARE OWNERSHIP

When the group was established in September 2001, Framatome ANP shares held by employees via the Framépargne corporate mutual fund were exchanged for AREVA shares. Those shares are currently invested in the "Framépargne" fund of the AREVA group

Savings Plan. Some of the shares are held by Calyon, the bank that guarantees the liquidity of the Framépargne fund.

At December 31, 2006, employee shareowners through Framépargne represented 0.73% of AREVA's share capital.

6.3.4. STOCK OPTIONS ALLOWING SUBSCRIPTION OR ACQUISITION OF SHARES – ISSUE OF SHARES FOR NO CONSIDERATION

The AREVA group does not presently have a stock option plan. No issue of shares for no consideration was undertaken or authorized.

6.4. AREVA Values Charter

The Values Charter applies was adopted by AREVA's management in 2003. It applies to all operations controlled by the group, whether nuclear or non-nuclear, in any country in which these operations are conducted, without exception.

The Charter applies to all managers and employees. At each level, local management is responsible for implementing the Values Charter. The Charter covers our values, our action principles and our rules of conduct.

AREVA values are the essence of the group's sustainable development initiative. They include integrity, excellence, responsibility, sincerity, partnership, profitability and customer satisfaction.

The principles of action focus on each category of AREVA group stakeholders: customers, shareowners, employees, suppliers and subcontractors, the public and the planet.

In addition, the Values Charter spells out rules of conduct applicable in everyone in specific domains of risk exposure, in particular regarding conflicts of interests, insider information and insider trading.

An Advisory Committee on Ethics has been established to oversee implementation of the Values Charter, capitalize on lessons learned and propose changes as required.

The Chairman of the Executive Board has designated a business ethics advisor, who reports to the head of the group's legal department. He advises management regarding ethical conflicts concerning the Values Charter, designs and oversees training programs regarding ethics and group values in liaison with AREVA University, and coordinates a network of business ethics contacts in first-tier subsidiaries.

The Values Charter is available in the main languages used in the group. It may be downloaded from the group's website (www.aveva.com).

6.5. Annual Combined General Meeting of Shareholders of May 3, 2007

6.5.1. ORDER OF BUSINESS

Deliberating as an ordinary general meeting

1. Reading of the Executive Board's management report for the year ending December 31, 2006 (including information on the social and environmental consequences of the company's operations, as required per Article L. 225-102-1 of the French Commercial Code).
2. Reading of the Supervisory Board's report on the Executive Board's report, on the corporate financial statements and on the consolidated financial statements for 2006; reading of the report of the Chairman of the Supervisory Board on the Supervisory Board's activities and internal control procedures, and observations submitted by the company's Statutory Auditors, in accordance with articles L. 225-68 and L. 225-235 of the French Commercial Code.
3. Reading of the Statutory Auditors' report on the financial statements for 2006.
4. Reading of the Statutory Auditors' special report on agreements referred to in Article L. 225-86 of the French Commercial Code.
5. Approval of the corporate and consolidated financial statements of the company (balance sheet, income statement and notes for the fiscal year ending December 31, 2006).

6. Approval of agreements referred to in Article L. 225-86 of the French Commercial Code.
7. Discharge for the members of the Executive Board, the Supervisory Board and the Statutory Auditors.
8. Appropriation of earnings for the year.
9. Approval of a change in by-laws concerning the company's corporate office.
10. Setting of directors' fees for the Supervisory Board for 2007.
11. Appointment/reappointment of the Statutory Auditors.

Deliberating as an extraordinary general meeting

12. Change in by-laws (changes regarding the legal name of the Company, the purpose of the Company, meetings held by telephone, reduced quorums for Annual, Extraordinary and Special General Meetings of shareholders).
13. Proposed capital increase for the benefit of employees.
14. Granting of authority to execute formalities.

6.5.2. RESOLUTIONS

Deliberating as an Ordinary General Meeting

First resolution

The shareholders, deliberating as an Ordinary General Meeting, having heard the Executive Board's management report, the Supervisory Board's report, including observations, the Chairman of the Supervisory Board's report on the terms and conditions for preparation and organization of the Supervisory Board's functions and on the internal control procedures that were set up, the reading of the Statutory Auditors' reports, and the additional explanations provided verbally, approve in their entirety the reports of the Executive Board, the Supervisory Board and the Chairman of the Supervisory Board, as well as the balance sheet, income statement and notes to the corporate and consolidated financial statements for the year ending December 31, 2006 as presented.

Consequently, the shareholders approve the management actions taken and accounted for by the Executive Board, and discharge the members of the Executive Board and of the Supervisory Board as well as the Statutory Auditors of their duties for the past fiscal year.

Second resolution

The shareholders, deliberating as an Ordinary General Meeting, having heard the reading of the Statutory Auditors' special report on agreements referred to in Article L. 225-86 of the French Commercial Code, hereby approve all of the agreements concluded or in effect during fiscal year 2006.

Third resolution

The shareholders, taking into consideration net earnings for the year of €280,209,405.92 hereby decide to appropriate distributable earnings, in accordance with the law, as follows:

- Net income for the year	280,209,405.92 euros
- Legal reserve (fully accrued)	
- Retained earnings	182,649,028.51 euros
- Distributable earnings (art. L. 232-11 the French Commercial Code)	462,858,434.43 euros
- Dividend to shareholders and investment certificate holders	299,845,250.46 euros

Subsequent to this allocation, retained earnings are brought back to €163,013,183.97.

The net dividend per share and per investment certificate is set at €8.46. Dividend distributions to natural persons are subject to a 40% tax exemption. Dividends will be paid on June 30, 2007.

The shareholders, deliberating as an Ordinary General Meeting, note that the amount of dividends distributed for the three previous fiscal years and the amount of the corresponding tax credit were as follows

<i>(in euros)</i>	Year	Dividend	Tax credit	Actual income
	2003	6.20	3.10	9.30
	2004	9.59	-	9.59
	2005	9.87	-	9.87

Fourth resolution

The shareholders, deliberating as an Ordinary General Meeting, approve the decision made by the Supervisory Board on March 22, 2007 to transfer the corporate office from 27-29 rue Le Peletier - 75009 Paris to 33, rue La Fayette - 75009 Paris.

Fifth resolution

The shareholders, deliberating as an Ordinary General Meeting, set the total amount of directors' fees for the Supervisory Board at €370,000.00

This decision applies to the current year and shall remain in effect unless modified.

Sixth resolution

The shareholders, deliberating as an Ordinary General Meeting, noted that the duties of the Statutory Auditors Deloitte & Associés and Mazars and the Deputy Auditors Cabinet Beas and Mr. Max Dusart expired and appointed Deloitte & Associés and Mazars as Statutory Auditors and Cabinet Beas and Mr. Max Dusart as Deputy Auditors for a period of six years expiring at the end of the Ordinary General Meeting of shareholders convened in 2013 to approve the financial statements for the year ending December 31, 2012.

6.5. Annual Combined General Meeting of Shareholders of May 3, 2007

Deliberating as an Extraordinary General Meeting

Seventh resolution

The shareholders deliberating as an Extraordinary General Meeting adopted amendments to by-laws of the company as proposed by the Executive Board with the approval of the Supervisory Board, as follows:

Article 2 – Legal name of the company

Article 2 – Paragraph 1, Legal name of the Company, is amended as follows:

Former wording:

“The company’s legal name is *Société des Participations du Commissariat à l’Énergie Atomique*”.

New wording:

“The Company’s legal name is AREVA”

The remainder of the article is unchanged.

Article 3 – Purpose of the company

Article 3 – Purpose of the Company is amended as follows:

Former wording:

The purpose of the company, in France and abroad, is:

- to acquire direct or indirect participating and equity interests, in whatever form, in any French or foreign company or enterprise involved in financial, commercial, industrial, real estate or securities operations;
- to purchase, sell, exchange, subscribe or manage any securities or participating or equity interests;
- to provide any type of service, particularly services supporting the operations of any group company;
- to manage any industrial or commercial operation, especially in the nuclear, information technology, electronics and connectors fields, and to this end:
 - examine projects concerning the creation, development or reorganization of any industrial enterprise;
 - implement any such project or contribute to its implementation by all appropriate means, particularly by acquiring participating or equity interests in any existing or proposed business venture;
 - provide financial resources to industrial enterprises, especially by acquiring equity interests and through loan subscriptions.
 - More generally, the company’s objective is to undertake any industrial, commercial, financial, real estate or securities operation, in France or abroad, that is directly or indirectly related to the above in furtherance of its purpose or supporting that purpose’s achievement and development”.

New wording:

“The purpose of the company, in France and abroad, is:

- to manage any industrial or commercial operation, especially in the nuclear, renewable energies and power transmission and distribution, and to this end:
 - examine projects concerning the creation, development or reorganization of any industrial enterprise;
 - implement any such project or contribute to its implementation by all appropriate means, particularly by acquiring participating or equity interests in any existing or proposed business venture;
 - provide financial resources to industrial enterprises, especially by acquiring equity interests and through loan subscriptions.
- to acquire direct or indirect participating and equity interests, in whatever form, in any French or foreign company or enterprise involved in financial, commercial, industrial, real estate or securities operations;
- to purchase, sell, exchange, subscribe or manage any securities or participating or equity interests;
- to provide any type of service, particularly services supporting the operations of any group company;
- more generally, the company’s objective is to undertake any industrial, commercial, financial, real estate or securities operation, in France or abroad, that is directly or indirectly related to the above in furtherance of its purpose or supporting that purpose’s achievement and development”.

Article 22 – Organization and functioning of the Supervisory Board

Paragraph 6 of article 22-2 is amended as follows:

Former wording:

“Members of the Supervisory Board who participate in the meeting of the Board by means of videoconference are deemed in attendance for the determination of the quorum and the majority. This provision does not apply to the approval of decisions referred to in Articles L. 225-59, L. 225-61 and L. 225-81 of the French Commercial Code”.

New wording:

“Members of the Supervisory Board who participate in the meeting of the Board by means of videoconference or telecommunication allowing them to be identified and guaranteeing their effective participation are deemed in attendance for the determination of the quorum and the majority. This provision does not apply to the approval of decisions referred to in the Law, in paragraph 5 of Article L. 225-38 and paragraph 2 of article L. 225-100. The rules of procedures of the Supervisory Board include rules of implementation for these methods of participation in the meetings.”

The remainder of article 22.2 is unchanged.

6.5. Annual Combined General Meeting of Shareholders of May 3, 2007

Article 23 – Powers and responsibilities of the Supervisory Board

The penultimate paragraph of Article 23-1 of the by-laws is amended as follows:

Former wording:

“The Supervisory Board may set up committees and determine their composition, responsibilities and any compensation for its members. The committee members fulfill their duties under the responsibility of the Supervisory Board. The following committees are established: a Strategy Committee, an Audit Committee, a Compensation and Nominating Committee, a Cleanup and Decommissioning Fund Monitoring Committee.”

New wording:

“The Supervisory Board may set up committees and determine their composition, responsibilities and any compensation for its members. The committee members fulfill their duties under the responsibility of the Supervisory Board. The following committees are established: a Strategy Committee, an Audit Committee, a Compensation and Nominating Committee, an End-of-Life-Cycle Obligations Monitoring Committee.”

The remainder of the article is unchanged.

Article 32 – Participation in the General Meetings of shareholders – custody of shares

Article 32-1 is amended as follows:

Former wording:

“1. Any shareholder or holder of a voting-right certificate may participate in person or by proxy in General Meetings of Shareholders, as provided by law, by offering proof of his or her identity and of his or her ownership of the shares or voting-right certificates, either by registering the shares or certificates with the company at least three days before the General Meeting of Shareholders or, in the case of bearer shares (when such shall exist), by providing a statement confirming the non-transferability of the shares until the date of the Meeting.”

New wording:

“1. Any shareholder or holder of a voting-right certificate may participate in person or by proxy in General Meetings of Shareholders, as provided by law, by offering proof of his or her identity and of his or her ownership of the shares or voting-right certificates, either by registering the shares or certificates with the company at least three days before the General Meeting of Shareholders or, in the case of bearer shares (when such shall exist), by providing a statement issued by the custodian confirming that the shares have been recorded on the register of bearer shares.”

Article 39 – Quorum and majority (for Ordinary General Meetings of Shareholders)

Article 39 is amended as follows:

Former wording:

“The Annual General Meeting of Shareholders may deliberate validly after the first notice of a meeting only if the shareholders and/or voting-right certificate holders present in person, represented by proxy or voting by mail, or attending via videoconference or a telecommunications medium allowing them to be identified, possess at least 25% of the shares and certificates entitled to a vote. No quorum is required for a meeting held after a second notice of meeting has been given”.

New wording:

“The Annual General Meeting of Shareholders may deliberate validly after the first notice of a meeting only if the shareholders and/or voting-right certificate holders present in person, represented by proxy or voting by mail, or attending via videoconference or a telecommunications medium allowing them to be identified, possess at least 20% of the shares and certificates entitled to a vote. No quorum is required for a meeting held after a second notice of meeting has been given”.

The remainder of the article is unchanged.

Article 41 – Quorum and majority (for Extraordinary General Meetings of Shareholders)

Article 41 of the by-laws is amended as follows:

Former wording:

“Unless otherwise provided by law, the Extraordinary General Meeting of Shareholders may deliberate validly after the first notice of meeting only if one third of the shareholders and voting-right certificate holders are present in person, represented by proxy or voting by mail, or attending the Meeting via videoconference or a telecommunications medium allowing them to be identified, in accordance with applicable laws and regulations. The quorum required after the second notice of meeting is 25% of all shares and voting-right certificates entitled to vote. If no quorum has been reached for the second notice of meeting, the second Meeting may be postponed for two months after the date for which it had been called.”

New wording:

“Unless otherwise provided by law, the Extraordinary General Meeting of Shareholders may deliberate validly after the first notice of meeting only if 25% of the shareholders and voting-right certificate holders are present in person, represented by proxy or voting by mail, or attending the Meeting via videoconference or a telecommunications medium allowing them to be identified, in accordance with applicable laws and regulations. The quorum required after the second notice of meeting is 20% of all shares and voting-right certificates entitled to vote. If no quorum has been reached for the second notice of meeting, the second Meeting

6.5. Annual Combined General Meeting of Shareholders of May 3, 2007

may be postponed for two months after the date for which it had been called.”

The remainder of the article is unchanged.

Article 42 – Special Meeting of investment certificate holders

The last paragraph of Article 42 is amended as follows:

Former wording:

“The Special Meeting of Investment Certificate Holders adopts resolutions according to the rules applicable to the Extraordinary General Meeting of Shareholders.”

New wording:

“The Special Meeting of Investment Certificate Holders may deliberate validly after the first notice of a meeting only if a third of the certificate holders are present in person, represented by proxy or voting by mail, or attending the Meeting via videoconference or a telecommunications medium allowing them to be identified, in accordance with applicable laws and regulations. The quorum required after the second notice of meeting is 20% of all certificate holders entitled to vote.

The Special Meeting of Shareholders adopts resolutions according to the rules applicable to the Extraordinary General Meeting of Shareholders.”

Eighth resolution

The shareholders, deliberating as an Ordinary General Meeting, having read the Executive Board's report, the Supervisory Board's report and the Statutory Auditors' Special Report, and in accordance with the provisions of Articles L. 225-129 and L. 225-138 of the French Commercial Code and Article L. 443-5 of the French Labor Code:

- grant full authority to the Executive Board to increase the share capital, on one or more occasions, for a maximum par value amount of €1,000,000.00 by issuing new shares for cash, reserving the subscription of such shares for employees and former employees who are members of the Company's or the group's “corporate savings plan” as this expression is defined in article L. 233-16 of the French Commercial Code;
- cancel, in favor of these employees and former employees, preferential subscription rights of shareholders and investment certificate holders with respect to the new shares to be issued for cash, as provided under this resolution.

This authority is granted for a period of 18 months as of the date of this General Meeting.

The shareholders, deliberating as an Ordinary General Meeting, grant full authority to the Executive Board to implement this resolution as required under laws and regulations, and in particular to:

- decide whether the shares should be issued directly to the beneficiaries or through mutual funds,
- determine the terms and conditions for each issue,
- set the subscription price of shares issued for cash, as required by Article L. 443-5 of the French Labor Code,
- set the timetable for payment of the subscription price and, if deemed appropriate, the seniority required for employees to participate in the issue, subject to legal requirements,
- record the amount of the subscriptions and, consequently, the amount of the corresponding share capital increase,
- make appropriate amendments to the by-laws and, generally, do all that shall be necessary.

Ninth resolution

The Annual General Meeting of Shareholders grants full authority to the bearer of an original, an excerpt or a copy of the present meeting report for purposes of filing, publishing and recording same, and for other purposes as he shall decide.

7

RECENT DEVELOPMENTS AND FUTURE PROSPECTS

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7.1. Events subsequent to year-end closing for 2006

January 18, 2007

AREVA strengthens its presence in the Swedish nuclear market

AREVA won two contracts in Sweden, together valued at around €400 million, to modernize unit 2 of the Oskarshamn power plant and extend the service life of unit 4 of the Ringhals power plant.

January 2007 – April 2007: REpower

AREVA announces friendly takeover bid for REpower Systems AG, a wind turbine manufacturer based in Hamburg, Germany

Already owner of a 29.9% equity interest, the AREVA group makes a public offer on February 5, 2007, to acquire in cash all the shares of REpower Systems AG that the group does not already own.

AREVA offered €105 per share, thus valuing REpower at more than €850 million. This price represented:

- a 17% premium over the closing price at January 19, 2007, i.e. the last day of trading before the bid was announced; and
- a 44% premium over the average price of the share over the three-month period before January 19, 2007.

The Indian company Suzlon made a counter-offer, backed by the Portuguese company Martifer, also a 25.4% shareholder of REpower. The counter-offer became effective on February 28, 2007.

In view of this offer, AREVA raised its bid price to €140 per share on March 15. It also acquired additional shares, thus increasing its interest to slightly more than 30%. The higher bid values REpower's capital at €1.137 billion and represents:

- an 11.1% premium compared with Suzlon's bid;
- a 33.3% premium compared with the price offered initially by AREVA.

On April 10, 2007, Suzlon raised its bid to €150 per share.

On April 17, AREVA lifted the minimum acceptance condition (of 50% plus one REpower share) applicable to its bid. As a consequence, the bid period is extended to midnight CET, May 4, 2007.

January 24, 2007

Following a decision by the EDF Board of Directors, AREVA was asked to supply the EPR nuclear supply steam system at Flamanville. This major agreement is the 100th reactor order for the AREVA group.

7.1. Events subsequent to year-end closing for 2006

January 24, 2007**European Commission investigation into anti-competition practices in the Gas Insulated Switchgears (GIS) market**

On January 24, 2007, the Commission ordered 11 companies to pay fines of more than €750 million for anti-competitive practices. Alstom and AREVA were fined jointly up to €54 million and appealed the decision before the European Commission. Concerning the financial impacts of this decision for AREVA, see section 4.14.5, Disputes and legal proceedings.

February 16, 2007**Transmission & Distribution: AREVA announces the signature of an agreement to acquire Passoni & Villa**

T&D signed an agreement setting forth the legal and financial terms for acquisition of Passoni & Villa, a world leader in high voltage bushings, which are used to connect power transformer coils to high voltage lines. With this acquisition, AREVA T&D will become number three worldwide in this market segment.

March 29, 2007

In connection with the response to the Expressions of Interest solicited by the US Department of Energy (DOE) for management of used US nuclear fuel, Japan Nuclear Fuel Limited (JNFL) signs an agreement to join the team formed by AREVA Inc., Washington Group International (WGI) and BWX Technologies.

April 5, 2007

UniStar, a joint venture formed by Constellation Energy and AREVA, signs an agreement with the Missouri-based utility Ameren UE to prepare a combined construction and operating license request (COL) for an EPR.

April 11, 2007

AREVA and Mitsubishi Heavy Industries (MHI) confirm the rapid deployment of the alliance they concluded in the nuclear energy field in October 2006. The AREVA and MHI team opt to design an advanced Generation III pressurized water reactor with three loops and approximately 1,100 MWe of capacity.

7.2. Outlook

As indicated in the general comments at the beginning of this annual report, this section contains information on the objectives, prospects and development directions of the AREVA group and its markets. This information should not be interpreted as a guarantee that events and data set forth herein are assured or that objectives will be met. Neither AREVA nor the AREVA group is committing to updating forward-looking statements or information contained in this section.

The AREVA group sees solid financial prospects for the coming years. Its nuclear operations constitute a basis for recurring operating cash flow. However, the amounts reported through 2005 are high due to the receipt of large customer advances and prepayments in the Back End division and in the Reactors and Services division, and to moderate capital expenditure.

The year 2006 saw the transition to consumption of cash reserves via the working capital requirement and, more importantly, the start of a major capital expenditure cycle, particularly in the Front End division.

The Nuclear divisions may well benefit, ultimately, from a nuclear revival. This should be put into a medium- to long-term perspective, considering the long cycles that apply in nuclear operations.

In the Transmission & Distribution division, the three-year structuring plan launched in 2004 helped the division improve its operating margin significantly.

Over the medium term, the group plans to pursue a strategy of profitable growth aimed at making the Transmission & Distribution division one of the sector's most profitable players and the standard for utility customers.

For 2007 as a whole, the group is expecting strong sales revenue growth, a sharp increase in operating income, and continuation of its capital expenditure program.

This outlook follows along the lines of the objectives the group has set for itself by 2011:

- capture one third of the world nuclear market and €5 billion in sales revenue in transmission and distribution;
- achieve double-digit operating margin;
- develop a significant position in the renewable energies field.

Glossary

ADNR ORDER

French administrative order of March 12, 1998, as amended, pertaining to the carriage of dangerous goods via inland navigation. The purpose of the order is to define rules specific to the carriage of dangerous goods in France by inland navigation, whether such carriage is national or international. It refers to the technical appendices of the Regulations for Carriage of Dangerous Goods on the Rhine (ADNR) adopted by a resolution of the Central Commission for Navigation on the Rhine (CCNR) of December 1, 1993.

ADR ORDER

French administrative order of June 1, 2001, as amended, pertaining to the carriage of dangerous goods by road. This order incorporates and supplements the provisions of the European Agreement on the International Carriage of Dangerous Goods by Road of September 30, 1957 (ADR), and its appendices, and defines rules specific to the carriage of dangerous goods by road in France, whether such carriage is national or international.

ANDRA (Agence Nationale pour la gestion des Déchets Radioactifs)

Public industrial and commercial agency with oversight by the Ministries of Industry, Research and the Environment. Andra operates independently of waste generators. Formed in 1991, the agency has three areas of responsibility:

- an industrial mission, by which the agency provides for the management, operation and monitoring of radioactive waste disposal centers, designs and builds new centers for waste that is not acceptable in existing facilities, and defines radioactive waste packaging, acceptance and disposal specifications in accordance with nuclear safety rules;
- a research mission, by which Andra participates in and contributes to research programs pertaining to the long-term management of radioactive waste, in particular in cooperation with the French Atomic Energy Commission (CEA); and
- an information mission, in particular through the development of a register of all radioactive waste on French territory.

ASSEMBLY, FUEL ASSEMBLY (See "FUEL ELEMENT")

ATOM

The basic component of the chemical elements that form matter. It consists of a nucleus containing positively charged or neutral particles (protons and neutrons), around which negatively charged particles (electrons) spin.

BARRIER, CONTAINMENT BARRIER

System capable of preventing or limiting the dispersion of radioactive materials.

BECQUEREL (Bq) (See also "RADIOACTIVITY")

Unit of measure for nuclear activity (1Bq = 1 atomic particle disintegration per second). The Becquerel is a very small unit. Formerly, nuclear activity was measured in curies (1 curie = 37 billion Bq).

BURNUP

Fuel depletion is estimated by its specific burnup, expressed in gigawatts per day per metric ton of heavy metal (GWd/MTHM). This is the unit of measure for the energy supplied by the fuel during its residence in the reactor.

CENTRIFUGATION (See "Ultracentrifugation").

CLADDING

Sealed metal tube surrounding nuclear fuel to protect it from corrosion by the coolant and prevent the dispersal of fission products. Cladding constitutes a "primary barrier".

CONTAINMENT AREA

During the construction of a facility designed to contain radioactive materials, a series of containment barriers is put up between the materials inside and the environment outside the facility as part of the engineering structures. This creates separate areas called «containment areas».

CONTROL RODS

Control rods serve to control the chain reaction in the nuclear reactor core. Control consists of ensuring that the number of neutrons produced in the reactor core through fission is exactly equal to the number of neutrons that dissipate in the reactor core. The ratio between these two numbers (production divided by dissipation) is called the multiplication factor, K, which must be equal to 1. To maintain the K=1 ratio at all times, elements made up of atomic nuclei that absorb the neutrons are inserted (or withdrawn) as required. The control rods inserted into the reactor core "absorb" the neutrons to a greater or lesser degree.

COOLANT

The heat-removing fluid circulating in a nuclear reactor core.

CORE, REACTOR CORE

Area in a nuclear fission reactor comprising the nuclear fuel and arranged to foster the fission chain reaction.

CRIMPING

Method for permanently attaching a connector to a conductor using pressure to squeeze or shape the crimp barrel (section of the splice or terminal that receives the conductor) around the conductor to establish a good electrical and mechanical connection.

CRITICALITY (adj. CRITICAL, SUBCRITICAL, SUPERCRITICAL)

A medium containing a fissile nuclear material becomes critical when neutrons are produced by fission of the material at the same rate as they dissipate through absorption and escape to the outside.

DECAY POWER

In a reactor that has been shut down or in a used fuel assembly, the power released by the radioactivity of the nuclear fuel and other materials.

DECOMMISSIONING

Term covering all stages following the shutdown of a nuclear or mining facility at the end of its operating life, from final closure to the removal of radioactivity at the site, including physical dismantling and decontamination of all non-reusable facilities and equipment.

DECONTAMINATION

Decontamination is a physical, chemical or mechanical operation designed to eliminate or reduce the presence of radioactive or chemical materials deposited on or in a facility, open area, equipment or personnel.

DGSNR

(Direction Générale de la Sûreté Nucléaire et de la Radioprotection)

French government agency reporting to the Ministers of Industry, the Environment and Health. Its specific functions are to define and implement policy in the fields of nuclear safety (civilian applications) and radiation protection and, in particular, to verify safety-related measures taken, contemplated or implemented by operators in the nuclear sector, and to monitor liquid and gaseous effluent and waste from licensed nuclear facilities. The DGSNR, commonly referred to as the nuclear safety authority, or ASN (Autorité de Sûreté Nucléaire), is supported by the Nuclear Safety and Radiation Protection Divisions (DSNR) of the Regional Departments of Industry, Research and the Environment, or DRIRE.

DISPOSAL OF RADIOACTIVE WASTE (see also STORAGE)

Radioactive waste management operation consisting of disposing of packaged waste in a specially designed area that will ensure safety (reversible or irreversible disposal).

DOSE

Unit of measure used to characterize human exposure to radiation. The term «dose» is often erroneously used in place of «dose equivalent».

- Absorbed dose: amount of energy absorbed by living or inert matter exposed to radiation. It is expressed in grays (Gy).
- Dose equivalent: the same absorbed dose may have different effects on a living organism, depending on the type of radiation involved (X-rays or alpha, beta or gamma radiation). A dose multiplier, or “quality factor”, is used to take these differences into account in calculating the dose, giving a “dose equivalent”.
- Effective dose: sum of weighted dose equivalents delivered to various tissues and organs by internal and external irradiation. The unit of measure for effective dose is the sievert (Sv).
- Lethal dose: mortal dose of nuclear or chemical origin.
- Maximum allowable dose: dose that should not be exceeded over a given period.

Gray (Gy): unit of measure for absorbed dose. Absorbed dose was formerly measured in rads (1 gray = 100 rad).

Sievert (Sv): unit of measure for dose equivalent, i.e. the fraction of energy from radiation received by 1 kilogram of living matter. Based on the measured dose of energy received (in gray), the dose equivalent is calculated by applying various factors, depending on the type of radiation received and the organ concerned. The abbreviation for Sievert is Sv.

Commonly used submultiples are:

- the millisievert, or mSv, equal to 0.001 Sv (a thousandth of a Sv),
- the microsievert, or μ Sv, equal to 0.000,001 Sv (a millionth of a Sv).

For example, the mean annual dose from exposure to natural background radiation (terrestrial, cosmic, etc.) is 2.4 mSv/person in France.

ELECTRIC CONTACT

Conducting element of a component that connects with a matching element to transfer current.

ELECTRICITY DISTRIBUTION SYSTEM

Network that delivers electricity locally to end-users: industries, businesses, service providers, residences, etc. Electricity is distributed at medium voltage (12-24,000 V) and gradually reduced to low voltage at the point of end-use (230 V in Europe, 110 V in the United States).

ELECTRICITY TRANSMISSION SYSTEM

Network for electricity transmission from the power plant to the distribution network. It covers large geographical areas. The transmission network includes high voltage and very high voltage power lines, transformers and switchgear equipment.

END-OF-LIFE-CYCLE OBLIGATIONS

In this document, end-of-life-cycle obligations include all obligations connected with the shutdown and decommissioning of nuclear facilities and nuclear waste management.

ENERGY MARKET MANAGEMENT SYSTEM

Management software for energy markets that allows power generators and distributors to manage their commercial relations more effectively. The software provides strategic planning; deal conclusion, risk management and optimum processing; and customer account management.

ENRICHED REPROCESSED URANIUM

Following analysis, used fuel treated at the La Hague plant can be re-enriched to its initial concentration in fissile isotopes (about 3-5%). This is commonly referred to as ERU.

ENRICHED URANIUM, DEPLETED URANIUM

Before it is used to fabricate fuel elements, natural uranium is enriched in ²³⁵U to a concentration of 3-5%. Natural uranium is enriched in ²³⁵U using an isotopic separation process. The physical or chemical processes used to enrich uranium also produce uranium that has a lower concentration of ²³⁵U than natural uranium: this is known as depleted uranium.

ENRICHMENT

Process used to increase the abundance of fissile isotopes in an element. Naturally occurring uranium consists of 0.7% ²³⁵U (fissile isotope) and 99.3% ²³⁸U (non-fissile isotope). The proportion of ²³⁵U is increased to 3-4% to make it usable in a pressurized water reactor.

EPR

The EPR is a third-generation pressurized water reactor (PWR). The EPR generates about 1,600 MWe of electric power and features enhanced safety and simplified operations and maintenance. It also has a projected service life of 60 years, compared with a 40-year service life for other power reactors.

AREVA offers two third-generation reactor models: the EPR and the SWR 1000, a boiling water reactor (BWR) that can generate 1,000-1,250 MWe.

EVOLUTIONARY MIS OUTSOURCING

Management information system outsourcing is when a specialized company manages the information systems of its customers. It is evolutionary when it is accompanied by performance improvement plans.

EXPOSURE

Exposure of an organism to a source of radiation, characterized by the dose received.

- External exposure: exposure from a radiation source outside the organism.
- Internal exposure: exposure from a radiation source inside the organism.

FINAL WASTE

According to Article L. 541-1-III of the French Environmental Code, final waste, whether or not it is a product of waste treatment, is waste that cannot be further processed by recovering reusable material or by rendering it less polluting or hazardous under current technical and economic conditions.

FISSILE

Refers to a nuclide capable of undergoing fission when hit by neutrons, even when those neutrons have low energy. Some examples: ²³³U, ²³⁵U, ²³⁹Pu and ²⁴¹Pu. High-energy neutrons can induce fission in nearly all heavy nuclei.

FISSION

The splitting of a heavy nucleus – usually upon impact with a neutron – into two smaller nuclei, or fission products, accompanied by the emission of neutrons and radiation and the release of a considerable amount of heat. The energy released as heat is the principle underlying nuclear power generation.

FISSION PRODUCTS

Fragments of heavy nuclei produced by nuclear fission (the splitting of ^{235}U or ^{239}Pu nuclei) or by the subsequent radioactive decay of nuclides formed during this process. These fission fragments and their decay products are collectively referred to as “fission products”. They are separated in used fuel treatment plants by solvent extraction, after the fuel has been dissolved in nitric acid, then concentrated by evaporation and stored pending immobilization in glass and packaging in a stainless steel canister.

FLEX CONNECTOR

Interconnection system for flexstrips.

FUEL CYCLE

The combination of industrial operations involving nuclear fuel. These operations include uranium ore mining and processing, uranium conversion and enrichment, fuel fabrication, used fuel treatment, recycling of recovered fissile materials, and waste management. The fuel cycle is said to be “closed” when it includes used fuel treatment and recycling of fissile materials recovered by such treatment. The fuel cycle is said to be “open” or “once-through” when fuel is disposed of after it has been used in the reactor.

FUEL ELEMENT (or fuel assembly)

Bundle of fuel rods filled with uranium or MOX pellets. The core of a reactor contains from 100 to 200 fuel assemblies, depending on the reactor type.

FUEL ROD

Metal tube about 4 m long (about 13 feet) and 1 cm in diameter (2/5 of an inch) filled with about 300 pellets of nuclear fuel.

FUEL STORAGE POOL

Pool in which used fuel is stored after removal from the reactor to allow the assemblies to lose most of their radioactivity through radioactive decay. The water shields personnel from the radiation emitted by the spent fuel.

GASEOUS DIFFUSION

Process for separating molecular species in gaseous form that uses the difference in the velocity of these molecules, due to their different mass and dimensions, and thus the different rates at which they pass through a semi-permeable membrane. This is how the uranium hexafluorides $^{235}\text{UF}_6$ and $^{238}\text{UF}_6$ are separated, causing enrichment in ^{235}U for nuclear fuel.

GRID MANAGEMENT SYSTEM

Systems to optimize electricity flows, prevent equipment overloads, limit losses and analyze outage risks.

HIGHLY ENRICHED URANIUM (HEU)

Under the START Agreements, the United States has agreed to market separative work units (SWU) contained in the highly enriched uranium (HEU) from dismantled weapons, while a team of which AREVA is a member will acquire the natural uranium component (UF_6) of the HEU. This second commitment remains in effect until 2013. For the Group, this resource is equivalent to a mine that produces 2,000 metric tons of uranium annually.

IAEA (International Atomic Energy Agency)

International organization overseen by the United Nations whose role is to promote the peaceful use of nuclear power and to verify that nuclear materials in users' possession are not diverted to military uses.

INES (INTERNATIONAL NUCLEAR EVENT SCALE)

An international scale used to define the severity of an event occurring in a nuclear facility. It was designed by an international group of experts under the aegis of the International Atomic Energy Agency (IAEA) and the Nuclear Energy Agency (NEA) of the Organization for Economic Cooperation and Development (OECD). It was established at the international level in 1991. Like scales used for earthquakes or avalanches, the INES is a tool for providing information to the media and the public. Events are classified by increasing order of severity, from level 0 to level 7. The Chernobyl accident, for example, was a level 7 event. Following a favorable decision on June 24, 1999, by CSSIN, the French Nuclear Safety and Information Board, and after a one-year trial period, the French nuclear safety authority ASN decided on April 11, 2001, to widen the scope of the INES scale to include incidents or accidents involving radioactive materials transportation.

IRSN (Institut de Radioprotection et de Sûreté Nucléaire) (See also “DGSNR”)

The French institute for radiation protection and nuclear safety, a public industrial and commercial agency whose mission, in particular, is to conduct research and assessments in the fields of nuclear safety, protection of people and the environment from ionizing radiation, and nuclear materials safeguards. IRSN provides technical support to the DGSNR.

ISO STANDARD

From the International Standards Organization. The ISO 9000 standards set organizational and management system requirements to demonstrate the quality of a product or service in terms of customer requirements. The ISO 14000 standards set requirements for environmental management organizations and systems designed to prevent pollution and reduce the environmental effects of an activity.

ISOTOPES

Elements whose atoms have the same number of electrons and protons, but a different number of neutrons. Uranium, for example, has three isotopes: ²³⁴U (92 protons, 92 electrons, 142 neutrons), ²³⁵U (92 protons, 92 electrons, 143 neutrons), and ²³⁸U (92 protons, 92 electrons, 146 neutrons). A given chemical element can therefore have several isotopes with a differing number of neutrons. All of the isotopes of a given element have the same chemical properties, but different physical properties (mass in particular).

ISOTOPIC ASSAY

Ratio of the number of atoms of a given isotope of an element to the total number of atoms of that element contained in matter. Isotopic assay is expressed as a percentage.

LEACHING

Extraction of certain compounds contained in a pulverulent, permeable or porous medium through the passage of an appropriate solvent, which flows naturally through the mass to be processed. It can be applied directly to highly fragmented ground (in situ leaching), or to leach a heap that has been extracted, crushed and placed in an appropriate area (heap leaching). It is used to extract metal elements, including uranium. It is also how rainwater run-off leaches certain components from a mass of waste.

LICENSED NUCLEAR FACILITIES (INB in France)

Nuclear facilities subject to an administrative licensing process and oversight, pursuant to order 63-1228 of December 11, 1963, as amended. These regulations apply to nuclear reactors (except for those used as part of a propulsion system); particle accelerators; plants used in the preparation, fabrication or conversion of radioactive substances (in particular plants used to prepare nuclear fuel, to treat used fuel, or to process radioactive waste); and facilities for the disposal, interim storage, or utilization of radioactive materials, including waste. The regulations for licensed nuclear facilities apply to the above-mentioned facilities only when the quantity or total activity of the radioactive materials is above a threshold set by an administrative order, based on the type of facility and radioactive element involved. The DGSNR organizes INB inspection and oversight, which is exercised by inspectors of licensed nuclear facilities designated jointly by the Ministers of Industry and the Environment.

LONG-LIVED HIGH-LEVEL WASTE

Waste from used fuel representing a high level of radioactivity and a very long half-life. At this time, there is no final disposal solution for this waste in France, which is currently immobilized in solid matrices to ensure radionuclide containment. LLHL waste management is the subject of research conducted under the aegis of Andra pursuant to the "Bataille Law" of 1991 (French Waste Act), as codified in the Articles L. 542-1 of the French Environmental Code. Three avenues are being explored: transmutation of long-lived radioactive elements, disposal in deep geologic formations, and immobilization and long-term surface storage.

MODAL SHIFT ORDERS

These are French administrative orders that set rules for various transport modes (mainly road, rail and river) concerning vehicles, packages, professional driver/conductor/pilot training, and documentation to be provided for the carriage of dangerous goods. The rules stem from international and European Community laws and apply in particular to the carriage of radioactive materials (class 7 carriage).

MOX

"Mixed Oxides": a blend of uranium and plutonium oxides used to fabricate certain types of nuclear fuel.

MTHM (METRIC TONS OF HEAVY METAL)

Heavy metal is the nuclear material in fuel: uranium oxide, or a mixture of uranium and plutonium oxides in the case of MOX fuel. The unit of measure for heavy metal is the metric ton.

NATURAL URANIUM

Naturally occurring radioactive element in the form of a hard gray metal found in several ores, and in particular in pitchblende. Natural uranium is a mixture of 99.28% fertile ²³⁵U and 0.71% ²³⁴U.

NUCLEAR FUEL

A nuclide that undergoes fission in a reactor, thereby releasing energy. By extension, a product containing fissile material which supplies energy in the reactor core by maintaining the chain reaction. A 1,300 MWe pressurized water reactor contains about a 100 metric tons of fuel, part of which is periodically replenished.

NUCLEAR MATERIALS SAFEGUARDS

This function has two aspects:

- All of the measures taken by operators to ensure the safety of the materials in their possession: monitoring, accountability, containment, physical security of materials and facilities, and security during transport.
- Inspections performed by government or international agencies, such as the IAEA and Euratom, to verify the effectiveness and reliability of these measures.

In both cases, the purpose of safeguards is to prevent any unauthorized transfer or theft of material or malicious activity.

NUCLEAR SAFETY (See also “SAFETY ANALYSIS REPORTS”)

In the nuclear industry, nuclear safety encompasses all of the measures taken at each stage of the design, construction, operation and final shutdown of a facility to ensure operational safety, prevent incidents, and limit their impact.

- Fundamental safety requirements (RFS in French): technical requirements issued by the nuclear safety authority concerning licensed nuclear facilities, which define nuclear safety criteria and describe practices that the French nuclear safety authority deems adequate to ensure compliance with them.
- General operating requirements (RGE in French): document developed by the operator of a licensed nuclear facility defining the prescribed operating range of the facility and identifying functions important for safety. It describes measures to be taken if facility performance is outside the normal operating range.

PACKAGING

Fuel packaging: special packaging for used fuel to prepare it either for interim storage or for final disposal.

Waste packaging: operation consisting of converting waste into a form suitable for transport and/or storage and/or final disposal.

- Very low-level radioactive waste (vinyl, cleaning rags, etc.) is placed in steel drums.
- Low- and medium-level waste is first compacted to reduce its volume as much as possible, then encapsulated in a special material (concrete, bitumen or resin) to form solid blocks capable of withstanding environmental conditions.
- For high-level waste, a glass matrix is used (vitrification process). The vitrified waste is placed in stainless steel canisters.

PLUTONIUM

Chemical element with the atomic number 94 and conventional symbol Pu. Plutonium 239, a fissile isotope, is produced in nuclear reactors from uranium 238.

RADIATION, IONIZING RADIATION (see also “Radioactivity”)

Flux of electromagnetic waves (radio waves, light waves, ultraviolet or X rays, cosmic rays, etc.), of particles of matter (electrons, protons, neutrons), or of a group of such particles. The flux carries energy in proportion to the wave frequency or to the particle speed. Their effect on irradiated objects is often to strip electrons from their atoms, leaving ionized atoms in their wake, which carry electrical charges, hence the generic name of «ionizing» radiation.

RADIATION PROTECTION (See also “RADIOACTIVITY”)

Term commonly used to designate the branch of nuclear physics concerned with protecting people from ionizing radiation (also referred to as “health physics”). By extension, the term “radiation protection” covers all of the health measures taken to protect the health of members of the public and workers from such radiation and to comply with laws and regulations.

RADIOACTIVE WASTE (or NUCLEAR WASTE)

Non-reusable by-products of the nuclear industry. The four classes of waste are based on radioactivity levels:

- very low-level waste (VLLW);
- low-level waste (LLW) from operations and maintenance, such as gloves, booties, face masks, etc., which make up 90% of the waste sent to licensed disposal facilities;
- medium-level waste (MLW), such as dismantled production equipment, measurement instrumentation, etc. (8%);
- high-level waste (HLW), mainly fission products that have been separated during used fuel treatment and recycling operations (2%).

RADIOACTIVITY

Emission by a chemical element of electromagnetic waves and/or particles caused by a change in its nucleus. Emission can be spontaneous (natural radioactivity of certain unstable atoms) or induced (artificial radioactivity). Radioactivity has several forms:

- Emission of alpha particles (combination of 2 protons and 2 neutrons), called “alpha radiation”.

- The particles making up alpha radiation are helium 4 nuclei that are highly ionizing but not very penetrating. A single sheet of paper stops them.
- Emission of electrons, known as “beta radiation”.
 - The particles making up beta radiation are electrons with a negative or positive charge. They can be stopped by a few meters of air or a single sheet of aluminum foil.
- Emission of electromagnetic waves, known as “gamma radiation”.
 - Electromagnetic radiation similar to light and X rays. Thick, compact materials (concrete, lead) are needed to stop it.

All of these different types of radiation are grouped together under the general heading of “ionizing radiation”. The radioactivity of an isolated quantity of an element gradually decreases over time as the unstable nuclei dissipate. The half-life is the time required for the radioactivity of a radioactive substance to decrease by half.

RADIONUCLIDE (or radioelement)

Any radioactive material. Only a small number of radioelements are found in nature: a few heavy elements (thorium, uranium, radium, etc.) and a few light elements (carbon 14, potassium 40). The others – more than 1,500 in number – are created artificially in the laboratory for medical applications or in nuclear reactors as fission products.

REACTOR, NUCLEAR REACTOR

System in which controlled nuclear reactions are conducted, producing heat that is used to make steam. The steam activates a turbine, which drives an electric generator. Different reactor types use different fuel, moderators (to control the reaction) and coolants (to remove heat used to generate power). The pressurized water reactor (PWR) currently used by EDF uses slightly enriched uranium fuel and pressurized light water as the moderator and coolant.

- Boiling Water Reactor (BWR): nuclear reactor in which boiling pressurized water is used to remove the heat from the reactor.
- Pressurized Water Reactor (PWR): nuclear reactor moderated and cooled by light water maintained in the liquid state in the core through appropriate pressurization under normal operating conditions.

RESERVES/RESOURCES

Mineral reserves

The tonnage of measured or indicated mineral resources that is economically recoverable and shown to be so by at least one feasibility study. The study must include adequate information about mining and processing operations, metallurgy, economic aspects and other relevant factors to demonstrate that mining is economically justified at the time the report is written. Mineral reserves include dilution materials and the allowance for mining losses incurred during mining operations. Once reserves have been demonstrated, they are subtracted from the resources category.

Probable mineral reserves

The tonnage of indicated and, in some cases, measured mineral resources that is economically recoverable and shown to be so by at least one preliminary feasibility study. The study must include adequate information about mining and processing operations, metallurgy, economic aspects and other relevant factors to demonstrate that mining is economically justified at the time the report is written.

Proven mineral reserves

The tonnage of measured mineral resources that is economically recoverable and shown to be so by at least one preliminary feasibility study. The study must include adequate information about mining and processing operations, metallurgy, economic aspects and other relevant factors to demonstrate that mining is economically justified at the time the report is written.

Mineral resources

Mineral-bearing concentrations or indicators of a natural, solid inorganic or fossilized organic material in or on the Earth’s crust, and which is present in such form, quantity, concentration or quality to indicate that there are reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of the mineral resources are known, estimated, or interpreted based on specific geological evidence and data. They do not include reserves.

Inferred mineral resources

Mineral resources for which the quantity, concentration or grade can be estimated based on geological evidence and a limited sampling, and can be reasonably relied upon without verification of geological and grade continuity. The estimate is based on limited data and samples collected using appropriate techniques at locations such as outcroppings, surface cuts, shafts, workings and drill holes.

Indicated mineral resources

Mineral resources for which the quantity and grade or quality, density, shape and physical characteristics can be estimated with enough confidence to allow suitable application of technical and economic parameters for purposes of planning mining operations and assessing the deposit's economic viability.

The estimate is based on reliable and detailed exploration and testing information that is collected using appropriate techniques at locations such as outcroppings, surface cuts, shafts, workings and drill holes that are close enough together to allow a reasonable assumption about the geological and grade continuity.

Measured mineral resources

Mineral resources for which the quantity and grade or quality, density, shape and physical characteristics are so well established that they can be estimated with enough confidence to allow suitable application of technical and economic parameters for purposes of planning mining operations and assessing the deposit's economic viability.

The estimate is based on reliable and detailed exploration and testing data that is collected using appropriate techniques at locations such as outcroppings, surface cuts, shafts, workings and drill holes that are close enough together to allow confirmation of the geological continuity and grade.

“Other mineral resources” correspond to ore bodies that cannot be mined for administrative reasons or that cannot be mined profitably under current market conditions. The indicated tonnages reflect the quantity of metal in the earth without application of the mill's output rate. Additional development work or changes in mining criteria may result in the reclassification of these «other resources” as «resources».

«Global mineral resources» correspond to the sum of all categories of resources.

RESIDUE

Non-reusable material remaining after physical or chemical processing. The term has a more specific meaning in used fuel treatment, where it refers to any waste that has been packaged.

RID ORDER

French administrative order of June 5, 2001, as amended, pertaining to the carriage of dangerous goods by rail. The order incorporates and supplements the provisions of the Regulations concerning the International Carriage of Dangerous Goods by Rail (RID) implementing the Berne Convention concerning International Carriage by Rail (COTIF), adopted May 9, 1980. It defines rules specific to the carriage of dangerous goods by rail in France, whether such carriage is national or international.

SAFETY ANALYSIS REPORTS

Reports describing the design of licensed nuclear facilities and the measures taken to ensure safety. These reports identify the risks presented by the facility and analyze the measures taken to prevent those risks as well as measures conducive to reducing the probability of accidents and their effects.

- Preliminary safety analysis report: drafted during the preliminary design stage, this report contains a general description of the facility and of the operations to be performed therein. It endeavors to identify risks, to define safety-related design bases, to list safety criteria and to justify the choice of the site. In France, this report is submitted in support of the application for a construction permit under the provisions of a 1963 decree.
- Interim safety analysis report: submitted in support of the application for an operating license, this report describes the as-built facility and is used to verify that the facility has been built in accordance with the safety principles set out in the preliminary safety analysis report and with the technical requirements for construction stipulated in the construction permit.
- Final safety analysis report: presented after facility testing and before the operating license is granted.

SAFETY SYSTEM

Combination of equipment used to detect and eliminate defects or other abnormal operating conditions in electrical networks.

STORAGE (see also DISPOSAL)

Temporary storage of radioactive waste.

SWU (Separative Work Units)

An enrichment plant's production is expressed in separative work units (SWU). This unit is proportionate to the quantity of uranium processed and is a measure of the work required to separate the fissile isotope.

TRADING

Commercial transactions in the natural uranium market in the form of the purchase, sale, exchange, lease or loan of uranium, which are not directly connected to the Group's mining operations.

TRANSFORMER STATION (SUBSTATION)

Interface between sections of a power network that operate at different voltages. In the substation, voltage is transformed and electricity supply flows are controlled.

TRANSPORT CASK

Specially designed cask that completely contains certain radioactive materials (used fuel, vitrified waste, etc.) during shipment and that retains its integrity in the event of an accident.

TREATMENT

Treatment of used fuel to extract fissile and fertile materials (uranium and plutonium) for recycling purposes and to package the different types of waste into a form suitable for disposal. Fission products and transuranics are vitrified.

ULTRACENTRIFUGATION

Enrichment process in which a gaseous mixture of isotopes is spun at very high speed, using the centrifugal force to modify the composition of the mixture.

UO₂ POWDER

UO₂ is the symbol for uranium oxide. Uranium oxide comes in powder or pellet form. It is one of the components of nuclear material.

URANIUM

Chemical element with atomic number 92 and atomic symbol U, which has three natural isotopes: 234U, 235U and 238U. The only naturally occurring fissile nuclide is 235U, a quality that makes it useful as a source of energy.

URANIUM HEXAFLUORIDE (UF₆)

The uranium contained in nuclear fuel must be enriched in fissile 235U. Enrichment is achieved by gaseous diffusion or by ultracentrifugation. The uranium is first converted into a gas called uranium hexafluoride for this purpose.

VITRIFICATION

Process used to solidify concentrated solutions of fission products and transuranic elements separated during used fuel treatment by mixing them with a glass matrix at high temperature.

YELLOWCAKE

“Cakes” of about 80% uranium concentrates.

ZIRCONIUM

Transition metal, like titanium, discovered in 1824 by Berzélius. Zirconium has the atomic number 40 in the periodic table of the elements. It is the alloy base in the cladding of light water reactor fuel elements, chosen for its mechanical strength and corrosion resistance in high-temperature water combined with its very low thermal neutron absorption.

Table of concordance

The table below presents, on the left, the minimum information to be included in an annual report in accordance with annex 1 of European Commission Regulation No. 809/2004 of April 29, 2004, and, on the right, the corresponding cross-reference in this annual report.

Minimum information to be included in accordance with annex 1 of European Commission Regulation

No. 809/2004 of April 29, 2004	Cross-reference
1. Persons responsible	Section 1 (page 2)
2. Statutory Auditors	Section 1.3. (page 3)
3. Selected financial information	Section 5.1.2. (pages 186-187)
4. Risk factors	Section 4.14.3. (pages 166-173) Section 4.14.4. (pages 173-176)
5. Information about the issuer	
5.1. History and development of the issuer	Section 4.1.3. (pages 38-40)
5.1.1. Legal and commercial name of the issuer	Section 3.1.1. (page 10)
5.1.2. Place of registration of the issuer and its registration number	Section 3.1.7. (page 11)
5.1.3. Date of incorporation and length of life of the issuer	Section 3.1.6. (page 11)
5.1.4. Domicile and legal form of the issuer, the legislation under which the issuer operates, country of incorporation, address and telephone number of its registered office	Section 3.1.3. (page 10) Section 3.1.5. (page 11)
5.1.5. Important events in the development of the issuer's business	Section 4.1.3. (pages 38-40)
5.2. Investments	
5.2.1. Principal investments	Section 4.12. (pages 148-149) Section 5.6.4. (page 324)
5.2.2. Principal investments in progress	Section 4.12. (pages 148-149)
5.2.3. Principal future investments on which firm commitments have been made	Section 4.12. (pages 148-149)
6. Business overview	
6.1. Principal activities	Sections 4.1. à 4.7. (pages 34-132)
6.2. Principal markets	Sections 4.1. à 4.7. (pages 34-132)
6.3. Exceptional factors	Not applicable
6.4. Potential dependency of the issuer	Section 4.10.2. (page 146)
6.5. Basis for statements by the issuer regarding its competitive position	Sections 4.1. à 4.7. (pages 34-132)
7. Organizational structure	
7.1. Description of the Group	Section 3.5. (page 23)
7.2. List of significant subsidiaries of the issuer	Section 3.5. (page 23) Section 5.5. (page 317)
8. Property, plants and equipment	
8.1. Major tangible fixed assets, existing or planned	Section 4.9. (pages 136-144)
8.2. Environmental issues that may affect the issuer's utilization of tangible fixed assets	Section 4.9. (pages 136-144)

9.	Operating and financial review	
9.1.	Financial condition	Section 5.1. (pages 184-211)
9.2.	Operating results	Section 5.1. (pages 184-211)
10.	Capital resources	
10.1.	Information on issuer's capital resources (both short- and long-term)	Section 5.5. (page 291) Section 5.1.2.8.5. (page 209)
10.2.	Sources and amounts of issuer's cash flows	Section 5.1.2.7. (pages 203-206) Section 5.4.4. (page 242) Section 5.6.4. (page 324)
10.3.	Information on borrowing requirements and funding structure of the issuer	Section 5.1.2.5.9. (page 195) Section 5.5. (pages 301-305)
10.4.	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, the issuer's operations	Not applicable
10.5.	Information on the anticipated sources of funds	Section 4.14.4. (page 173-176)
11.	Research and development, patents and licenses	Section 4.13. (pages 150-155)
12.	Trend information	Chapitre 7 (pages 378-380)
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14.	Administrative, management and supervisory bodies and senior management	
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14.2.	Administrative and supervisory bodies conflicts of interests	Section 6.1.1.3. (page 353)
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16.	Board practices	
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20.5.	Age of latest financial information	Section 5.4.2. (pages 239-241)
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23.	Third party information and statement by experts and declarations of any interest	Not applicable
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A business corporation (société anonyme) with an Executive Board and a Supervisory Board
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