

Management statement (extract)_

of March 14, 2001 concerning the activities of the Nexans Group companies at the end of the financial year 2000 (Free translation from the original French version)

The Nexans Group was created in 2000 further to the Alcatel group's strategy of recentring on its core activities, and groups together the activities conducted by the "Electrical Wires" and "Power Cables" divisions of Alcatel's "Energy" business since 1996, along with part of the "Telecom Products" and "Components" divisions of Alcatel's "Telecom Components" segment.

After this re-organization, Nexans is now a subsidiary that is legally independent of the rest of the Alcatel group, and has a coherent range of business activities that are representative of its leading positions on its specialist markets: infrastructure cables (low, medium and high voltage cables and accessories for electricity companies, telecommunication cables—predominantly copper—for large operators), cables for industry (special cables for OEM) and the building sector (low voltage power cables and private telecom network cables).

Working within this new framework, the year 2000 enabled the Group to strengthen its positions on its target markets, to continue and consolidate a large number of industrial streamlining actions initiated in the past, and to restore profitability and sound prospects for its "Energy" sector, marked by a contrasting world economic climate.

Combined financial statements, combined perimeter and structural modifications

The management report is based on combined pro forma financial statements drawn up to report on the Nexans Group's activity as if it had been operated in its current form in preceding years. These accounts are drawn up on the basis of the consolidated historical financial statements (financial statements of the legal entities constituting the perimeter of Nexans), adjusted to carve out non-Nexans activities, and in accordance with the chosen financial structure.

The main change in the combined perimeter that occurred during the 2000 financial year results from the acquisition on April 28, 2000 of the Italian company Safi-Conel for 8 million euros. This company is combined from May 1, 2000.

Net sales

Net sales for the year totalled 4,783 million euros, 14.4% up on the previous year at current copper price, and 5.1% up at constant copper price.

Income from operations

The income from operations increased by 22.5%, up to 169 million euros. In relation to net sales at constant copper price, this represents an operating margin of 3.9%.

The gross profit is 647 million euros, compared with 629 million euros in 1999.

Research and Development expenditure increased by 8.5% to 38 million euros. More than half of the R&D program for 2000 concerned the "Telecom" Division's products.

Net income

The pro forma net income, group share totals 75 million euros. This includes a financial income of – 20 million euros that encompasses an expense of 10 million euros resulting from the financial component of the annual retirement contribution.

The net restructuring costs were 30 million euros, and income tax amounted to 40 million euros.

Change in cash and cash equivalents

Total cash and cash equivalents went down by 247 million euros over the year. This change results primarily from an increase of 16.8% in working capital provided by operations to 146 million euros as compared to 1999, offset by a variation in working capital needs of 115 million euros, due primarily to increases in metal prices and increased investments and capital expenditures in the amount of 239 million euros, up by 67% compared to 1999.

Balance sheet

The combined pro forma net assets of the Group at the end of the financial year total 1,111 million euros, while its net financial debt is 76 million euros.

Analysis by business division

The Group's net sales increased by 14.4% in 2000 (5.1% excluding copper price variations) and its income from operations increased by 22.5%.

With the exception of the "Distribution" activity, the Group's three divisions maintained or improved their income from operations over the year.

Electrical wires

Net sales of the "Electrical wires" Division increased by 16%, representing 1,095 million euros at constant copper price, compared with 945 million euros in 1999. The sustained growth of winding wire activities in Europe compensated for the slow down of demand in North America and the cost of starting up this activity in China.

The high production rate of continuous melts led to a 23% increase in net sales for "Wirerods".

Moreover, the Group's investment program—begun in 1999—to increase bare wires production capacities, achieved its objective of reorienting the product mix towards smaller diameter wires, multiwire products and specialty products (electroerosion etc). This resulted in an increase in the profitability of the "Bare wires" segment in 2000 for a lower tonnage sold. Lastly, and in spite of its complexity, the Research and Development program for copper-magnesium alloy catenaries saw the successful production of first series.

In the general context of increasing production costs due to the price of energy and transport, and in spite of over supply on the winding wires market, the "Electrical wires" Division maintained its income from operations stable at 43 million euros.

Energy

The "Energy" Division registered a 38% increase, with income from operations of 63.4 million euros in a context where volumes remained globally stable—net sales of 2,062 million euros, equivalent to that of 1999 at constant copper price—and raw material prices were high. This good result is due in particular to the cost control strategy implemented by the Group through the streamlining of its production sites.

Income from operations generated by the "General market" Division (low voltage cables for the building industry), which

represents the largest contribution to the "Energy" activity, increased its income from operations by almost 60% while net sales increased by 6.5% to reach 813 million euros.

Net sales in the "Energy networks" segment decreased by 7% compared with 1999. This downturn can be explained by the following factors:

- the "High voltage cables and associated accessories" activity is still suffering from weak demand for land-based projects, while the "Umbilical and undersea cables" activity is showing signs of recovery;

- the "Medium and low voltage cables" activity experienced a varied year with a slight drop in sales prices in the European market while volumes remained globally stable, and a reasonable development in the North American market justified the launching of substantial investments in medium voltage cables in Canada.

Due to the numerous restructuring operations carried out since 1998 and in 2000—which resulted in the major part of the "High voltage cables France" activity being centralized in Belgium—the "Energy networks" business achieved the same level of profitability as last year.

The "Industrial applications" segment registered net sales of 406.5 million euros, a decrease of 3.8% on the 1999 figure, due primarily to a slowdown in demand in nuclear power plant construction and maintenance projects. It is worth noting that this activity has undergone substantial restructuring, particularly in Germany, where the Nuremberg site has been closed.

Telecom

Net sales for the "Telecom" activity increased by almost 7% in 2000, reaching 875.9 million euros, compared with 821 million euros in 1999 (at constant copper price).

Margins were maintained at a satisfactory level, and income from operations was 45.7 million euros, 26% up on 1999.

Favourable market conditions in the "Copper telecommunication cable networks" sector resulted in net sales of 182.6 million euros, demonstrating the positive effect produced by the industrial restructuring of resources.

Similarly, net sales for the "Fibre cables network" activity increased by 43% to 119 million euros in a context where raw materials were in short supply.

“Access component” sales totalled 40 million euros. The actions taken in 2000 in connection with the development of new “last mile” products and the streamlining of production means should produce a growth in both sales and margins in the future.

The “LAN data cables” activity also saw a significant increase in sales, which amounted to 364 million euros. The year 2000 was marked by the streamlining of the North American production sites with the grouping of all LAN cable production on the New Holland site (PA). Lastly, “Special telecom cables” benefited from the Group’s strong position in high added value products in the aeronautics, medical and telecom sectors. Sales totalled 170 million euros, a 24% increase on 1999.

Events occurring after close of the 2000 accounts

On March 7, 2001 the Group announced its acquisition of a 51% share in the capital of Daesung Cable, a company quoted on the KSE (Korean Stock Exchange). With consolidated net sales of 135 million US dollars, of which 30% is represented by export sales, Daesung Cable is South Korea’s fourth largest cable manufacturer.

The registered office of this company is in Choung Won (130 km south of Seoul) and it has five production sites (two in Korea, two in Vietnam and one in Tanzania), as well as a minority share in a joint venture in China, on which sites the company manufactures a wide range of power cables, copper and optical fibre telecommunication cables, and special cables in particular for the automotive industry. The company employs 550 people, of whom 275 are based in Korea.

The acquisition of Daesung Cable is part of Nexans’ strategy to continue developing its activities through selective acquisitions has doubled the Group’s Asian presence in the power and telecom cables sectors. This operation also gives Nexans the possibility of making substantial savings in transport costs and improving its competitiveness in the region, coinciding perfectly with the revival of the Asian economy.

The complementarity between Daesung Cable’s and Nexans’ product ranges and sales networks was a key factor in Daesung Cable’s choosing Nexans as the ideal partner. This operation enables it to increase in size and conclude a strategic alliance to develop its activities—primarily on the export market—while at the same time bolstering its technological capacities.