

INDUSTRY OUTLOOK – ROUND TABLE

Mr. Gérard Hauser

ICF President, Chairman & CEO, Nexans (France)

We have had a busy schedule over the past two days with about 10 presentations covering diverse topics, which provided a lot of valuable information and insight. The final item on the agenda is the Round Table with members of the ICF council. Each of the members has been given a bit less than 10 minutes to share with you some thoughts and ideas about the cable market and challenges faced by the industry. There will be 6 individual presentations followed by a Q&A session during which I encourage you to raise questions and share with the audience your views about our business. The question time will be dedicated to each lecturer and not the end of this table. Now, it's a pleasure for me to leave the floor to Valerio Battista.

Mr. Valerio Battista

CEO, Pirelli Cavi e Sistemi Energia SpA (Italy)

Energy Cables and Systems: The situation in the field of energy cables remains difficult. Demand for industrial cables is low, particularly in Europe, and price pressures are apparent in the general market.

Significant recovery, particularly in the industrial market, can only be expected as a result of a generalized upturn of the worldwide economic cycle, with demand remaining low in the meantime. No major improvement and, in some areas, an even further contraction is apparent in the field of low and medium voltage cables for utilities.

On the positive side there are some signs of recovery in the field of high voltage systems but the large increase in investments regarding the transmission and distribution infrastructure, which is considered essential and urgent by most observers, has not yet materialized.

The recent massive blackouts coupled with the obvious need to strengthen the network and introduce additional national and international interconnections may or, perhaps it would be better to say, should speed up such investments. The remaining uncertainties regarding the structural set-up of the utility industry and the associated regulatory picture, however, are still having a negative effect in this context. On balance, it is fair to assume that investments regarding the transmission and distribution infrastructure will increase significantly over the next five years but are unlikely to have a major impact on demand in 2004.

In the above contexts overcapacity in the energy cable industry is still a problem and further selective capacity reductions are required in the short term. Efforts to balance the capacity of the energy cable industry with the demand for its products must continue in order to reach price levels which are both sensible and compatible with a reasonable ongoing profitability for the industry.

Telecommunication Cables and Systems: Following the turbulent 'Boom and Bust' nature of the telecom market in the 1999 - 2001 period the industry is still struggling to recover and remains in a phase of major consolidation.

From an operator point of view things have stabilized somewhat. A large number of the new entrants who joined at the time of the boom have now left the arena and the traditional,

incumbent carriers/operators are re-establishing their dominance in the new telecom environment.

The equipment manufacturing base has also been through a long and painful process of consolidation, cost cutting and closures. This is not finished yet and in many areas it is clear that available capacity to manufacture certain items – e.g. optical fiber and cable - still greatly exceeds current demand levels. Any such recovery must be market driven and the most likely source of this will be the current trend towards increased broadband services in the local networks. Many of the major telecom providers worldwide are now promoting the introduction of broadband to the end user and this will inevitably stimulate demand in the product supply chain.

The European market remains depressed with demand stabilizing at a level of around 20% of its peak when we experienced the entry of the Pan European operators - most of whom have now disappeared. Long and medium distance networks are fully mature with multiple unused optical cables connecting most major cities. The major hope for recovery and growth lies in the adoption of broadband.

Mr. Norio Okayama

President & CEO, Sumitomo Electric Industries, Ltd.(Japan)

Ladies and gentlemen, I would like to report on the demand of copper wire and cable and fiber optic cable in Japan and some recent changes in the industry in Japan.

Demand Trend of Copper Wire and Cable in Japan

2002 in retrospect: Starting from copper wire and cable: According to the report by the Japan Cable Makers Association (JCMA), the actual shipment in fiscal 2002 in Japan was 814,000 copper-tons, which is lower than fiscal 2001 by 12,500 tons in volume or by 1.5%. While JCMA had earlier forecasted that the shipment in fiscal 2002 could very well be lower than 800,000 tons due to the sharp decline of investment in manufacturing equipment and private residential homes, the outcome has exceeded 800,000 tons due to the favourable performance of the automobile, electric machinery and construction sectors during the second half of the fiscal year.

2003 projection: The projection for fiscal 2003 sees continued lows in investment in the power utility sector and private sector. The uncertainty of the Iraqi issue and stock value in the worldwide market may contribute to further damage to the copper cable demand. The shipment in fiscal 2003 in Japan is expected to drop to 795,000 tons or by 2.4% compared to fiscal 2002. It has been 27 years, since fiscal 1976 to be specific, since the demand for the year dropped below 800,000.

5-year projection: In accordance with JCMA's 5-year projection this September, the demand will likely see marginal change during the next 5 years with a shipment in 2007 of only 802,000 tons. This is because we do not anticipate a rapid expansion of demand neither in the public nor in the private sector, despite the gradual growth of the GDP by 1.0% per annum.

Demand Trend of Fiber Optic Cable in Japan

2002 in retrospect: Let me go on to fiber optic cable. JCMA has announced that the demand for fiber optic cable in fiscal 2002 in Japan was 15.1 million fiber-km, which is lower than fiscal 2001 by 13.1%. While the investment in broadband access network expanded steadily, such decrease in demand is attributed to the decline in investment by the big key customers such as the Ministry of Land, Infrastructure and Transport, long haul New Common Carriers, electric power utilities and so on.

2003 projection: NTT will maintain its aggressive capital expenditure plan in the FTTH network construction during fiscal 2003. However, JCMA expects that the total fiber demand will drop to 11.6 million fiber-kilometres or by 17.3% compared to fiscal 2002, due to the continued uncertainties mentioned before.

Broadband market in Japan: Broadband service in Japan has shown stable growth. The total number of broadband service subscribers exceeded 10 million as of this May and reached 11,360,000 as of the end of July. Among the broadband services, the FTTH service has become increasingly popular. The number of FTTH subscribers increased by 73,000 in July alone and the total number of subscribers reached 530,000 as of the end of July. This means that the number of FTTH service subscribers grew 6.25 times in 1 year from the beginning of August 2002 through the end of July, this year.

The "e-Japan Priority Policy Program 2003" released by the Japanese Government this August, targets the increase in the number of broadband service subscribers by 30 million by the end of fiscal 2005, 10 million of which will be FTTH service subscribers.

5-year projection: JCMA's latest forecast sees the domestic demand for fiber optic cable in fiscal 2007 at 19.9 million fiber-kilometers, which exceeds the peak demand of 17.3 million fiber-kilometers recorded in fiscal 2001. It is, of course, very difficult to foresee because there are many uncertain factors, however, JCMA expects the further expansion of demand due to the FTTH boom, the increase of data traffic and so on.

Restructure of the wire and cable industry in Japan: The copper wire and cable market in Japan has been shrinking over the past 10 years after the shipment peaked at 1.2 million tons in fiscal 1990. Under such industrial and economic circumstances, it is very difficult for any company to survive solely on its own. Therefore, the Japanese cable industry is facing an era of drastic restructuring. For instance, in the area of high voltage power cable, the 6-suppliers formation has changed into a 3-suppliers formation after three alliances of 2-companies each. In the area of low voltage cable and building wire, the 8-suppliers formation has been reshuffled into a 6-suppliers formation.

At the same time many Japanese cable manufacturers have been transferring their manufacturing plants outside Japan, especially to China or Southeast Asia. Specifically, Japanese cable manufacturers have 229 subsidiaries outside Japan, 176 of which are in China or Southeast Asia.

Such restructuring, M&A or alliance will be prevalent over the next several years in the Japanese cable industry. Thank you.

Mr. Andrew Stobart

Managing Director, Olex Holdings Plc (Australia)

According to Metalica Ltd., the size of the Australasian market is a little over 1% of the world market. Whilst this is very small, as the major local manufacturer, Olex remains constantly surprised with the attention our market seems to attract from just about every major cable company in the world. Perhaps it is because the market has remained reasonably consistent achieving volume growth over the last few years, whilst the rest of the cable world (other than China) perhaps has suffered hardship. On the other hand it may be more a reflection of our position in Asia which continues to suffer from huge excess capacity.

The strength in the Australasian economy in recent years has been driven by strong construction, resource, mining, energy and consumer markets. Consequently cable demand has been good with consistent year on year volume growth of about 3-4% across all main sectors.

However, the great disappointment to us all in the Australasian industry, as I am sure it will be to you when your markets show growth, is that increased demand attracts increased capacity, even when there is already substantial excess capacity. Consequently, imports increase, new entrants emerge and expectations of improved profits run well ahead of reality. This is particularly so in a region such as Asia which suffers from very low levels of capacity utilisation. Consequently the price decline which results from that increased capacity, wipes out any benefit gained from increased volumes. In fact, total profits in the industry actually deteriorate. Therefore, the modest increases in volumes we have enjoyed have actually delivered real price reductions of around 5% per annum in each of the last 4 or 5 years. That's about 20% over the period. The accountants amongst will tell you that, at cable industry margins, these price reductions require annual volume increases of 15-20% just to maintain the same margin dollars let alone add to them assuming a constant cost base.

No manufacturer, distributor or contractor welcomes this consistent deterioration in price and margin. Nevertheless it will continue to occur so long as we experience significant excess industry capacity. This is also problematic for the customer as he loses all understanding of cable pricing so he has no option but to always ask before he buys which then has the effect of further increasing pricing pressure and supplier churn. Whilst prices are in decline, there will be no long term contracts available due to the lack of pricing stability. We will live in an ever deteriorating spot market until excess regional capacity is absorbed. Thank You.

Mr. Yu-Lon Chiao

Chairman, Walsin Lihwa Corporation (Taiwan)

Thank you Mr. Chairman. Last year I made a summary that the business in China is very good but the price is terrible. This morning I learned something new: I think, boy, this market is huge. Despite the impact by SARS, China's economy remains robust. This year, China's economy may grow at up to 8 to 9%, which is higher than the government's forecast at 8%. This has caused government some concern and it tried to cool down the economy by raising the reserve requirement and enforcing some role control over a few sectors of the industry such as automotive, steel, building material and housing. Also the past few years' growth is mainly due to government investment, private and foreign investment. Especially government through issuing bonds has been encouraging massive infrastructure development. Looking forward to the next few years, government may slow down in the bond issuing, so we may see some slow down in investment by government but in the private sector we see maybe more investment.

Last year power demand grew at about 11.5%. The first 8 months of this year power is increasing at about 15%. This, compared to the historical statistics, is very high. The installation of power in the last few years has remained at about 8%. This has caused severe power shortage in some areas such as Shanghai and Jiangsu Province. Up to 2002 China's total power installation was about 350 million kW, i.e. about 0.25 kW per capita. This is still relatively low compared to Japan with 1.4 kW and USA with 1.7 kW per capita. The transmission and distribution in China compared to the power is relatively low.

In the Western world in \$1 of power investment they will invest 0.85 cents on the transmission and \$0.70 on distribution. In China \$1 for power is about 30 cents for transmission and 25 cents for distribution, so we can still see a lack in investment in the transmission and distribution.

In the mid voltage cable from 10-35 kV China is increasing by 6% a year, which is about 45,000 km to 50,000 km a year. But even at that level, the capacity utilisation rate is less than 40%. For high voltage cable higher than 110 kV, the market is about 3000 km a year and the capacity utilisation is less than 70%. In conclusion, China's growth is mainly from government, private and foreign investment. Such high growth is generated through manufacturing investment. It generally leads to overcapacity. Until the growth is lead by consumer, the price level will remain severe and the profit outlook pessimistic.

Mr. Larry Aiello, Jr.

President and CEO, Corning Cable Systems, LLC (USA)

First let me say, as this is my first meeting with all of you, I will keep my comments short and try to listen and learn more than to speak.

Secondly, I would say if you think back to the optical communications bubble as it is now called 1998, 1999, 2000, everyone in the industry and the public press were fundamentally saying the same thing: That we needed to add more capacity, that the demand would continue to grow. We saw no end to the growth. As you are all well aware, those forecasts were wrong and we have gone through a major correction since then. I tell you that, because right now I believe everyone in the industry and in the public press is saying recovery is a long way away. We have proven that we do not know how to forecast this business and it is clear to me that, even today as we forecast doom and gloom for the foreseeable future, we still do not know how to forecast this industry. I refer you to yesterday's Wall Street Journal and the major article which said, the telecom recovery may be far off. I believe in the article, many of my comments will mirror that article, but I do offer you the caviar that when all of us are saying the same thing perhaps something new and different will happen, and I do hope so.

As you probably know Corning focuses primarily on optical communications in the telecommunications markets in all countries in the world. Today Corning also has approximately two-thirds of its revenues from non-telecommunications businesses, given the state of the industry, we are happy for that two-thirds of the company that is doing extremely well.

From a telecommunications business standpoint we see the following: Firstly, it is very important and makes us very hopeful for the future. We continue to monitor underlying demand for bandwidth. We have been studying this for at least ten years and all of our calculations continue to indicate that bandwidth demand continues to grow at 60 to 80% per year. In the days of the bubble, there were numbers of 100% per quarter, we never believed those but we do believe the 60 to 80% per year, the demand is driven by all of us as consumers requiring more and more information, more and more data, more and more videos. The indications are that two major countries of the world are in the lead in terms of bandwidth growth, they are Japan and China. The rest of the world also will be growing on double digit, but Japan and China are growing the fastest.

However, as you all know and you heard over the last two days, we have not seen this translated into business for those who supply products to the service providers around the world. The service providers continue to be very protective of their capital spending monies and they continue to focus on improving their own cash flows and reducing their debt levels. I also believe that the service providers have found new ways to become more efficient and more effective and remove or reduce some of the security requirements, the redundancies in their systems. So I believe this is a permanent change that we will see.

There is also still a significant amount of excess system capacity in the long haul system, in the submarine system, and in the metro system, and hence for the service providers there is little need to spend new monies to service growing demand, but sooner or later the supply and demand will come into balance.

In the U.S., the regulatory environment is beginning to be more positive for the RBOC's or the ILEC's relative to Fiber-to-the-Premises. The ILEC's with Verizon in the lead have recently made some positive comments about the regulatory situation and have announced major plans for deployment to begin in 2004. We expect primarily trials in 2004 and then some ramp up in demand in 2005. In order for the demand to continue, the FTTH systems must be cost effective but as importantly consumers must buy the services of the RBOC's to justify the continued investment.

One of the questions that I have been asked most often over the last two days is, when do you think the recovery will begin. It's my opinion that we will see relatively flat demand in 2003 like the second half of 2002 and that demand will remain flat throughout 2004 despite what I just said about potentially encouraging results in FTTH in the US. That may not sound like good news but in a sense it is because the business has stopped declining month after month as it was in 2001 and first half of 2002. However, the amount of excess capacity that all of the manufacturers and all of the product suppliers have is still there, of course in fiber and cable and as a result the environment is extremely competitive with lower and lower pricing appearing in the market on a daily basis.

We expect this environment to continue through 2004 with some gradual recovery beginning in 2005 and 2006. Hence, the period of 2002 through 2004 and perhaps the first part of 2005 will be the period of time that the global fiber and cable industry will need to overcome the excesses of the 1998 through 2001 period. It's the period of time in which we overcome the hangover of the binge that we all were on. We at Corning continue to believe in the future of telecommunications. We do absolutely believe this market will recover, but we do believe we have to go through this healing process of at least another year and then the market will return to some positive growth. We also believe that there will be a need for consolidation in the industry because of the situation with the excess capacity.

But over time as the underlying demand continues to grow the industry will recover and optical communications will continue to be deployed. Thank you.

Mr. C. Baker Cunningham

Chairman, CEO & President, Belden Inc. (USA)

State of our North American markets

This is the third time that I have had the opportunity to speak to this group about the state of the US economy and markets. If you recall, back in 2001, I reported that our markets were weak and expected lower volume, but that 2002 should be a better year. Last year, I told you that our markets were weak and that volume was even lower than in 2001, but that 2003 would be better year. And this year I am telling you that 2003 our markets are weak, our volumes are down but next year should be a better year. In fact, the overall economy was improving. In hindsight the economic experts have declared that the recession officially ended in the fourth quarter of 2001. This year, the general economic news has been positive. However, if we look at the specifics related to wire and cable industry, the picture is not quite so bright. While the overall economy has been in recovery, analyses of the economy indicate that most of the fall off of the activity is concentrated in the manufacturing sector of which wire and cable is a part. As a matter of fact 90% of all job losses in the US during the recent recession were in the manufacturing part of the economy.

State of the U.S. economy: So what's going on with the U.S. economy? Well, while there are fairly healthy rates of growth, the recovery is consumer driven. Housing, automobiles and retail goods and other consumer products are holding up well. Part of the reason for this, is that the interest rates are low and ample credit is available for individuals. Unemployment has crept up to a little over 6%, but remains relatively low by historical standards.

On the other hand, capital spending by business is down, and the tech sector, particularly telecom, remains depressed. Also, credit availability for businesses is a problem. Lenders have tightened their requirements and loan covenants are much more restrictive than in the past. Credit-worthiness of a business is now measured by recent operating performance in terms of profit and loss rather than on the balance sheet as in the past, and many companies are finding capital less available even at a time of very low interest rates.

In 2003, both revenue and profits of American cable manufacturers will remain poor without much recovery from the prior year which was already severely depressed.

Outlook for the economy: Those concerns notwithstanding, the outlook for the U.S. economy is generally pretty favourable. Most economists are still predicting economic growth of 3 to 3.5% over the next 4 quarters.

State of the wire and cable industry: Let me turn to our industry specifically, and here I'll concentrate on two of our served markets with which I am most familiar and those are copper telecom and copper industrial cables.

Demand for copper telecom cables continues to be severely depressed. Our customers, who are mostly the large telecom service providers continue to keep a very tight hold on their capital spending with the total for the entire U.S. telecom industry expected to be down 16% in 2003 following a 40% decline in 2002. Regulatory issues, the desire to strengthen balance sheets, the erosion in the number of active access lines, and competing technologies are all contributing to this weakness in telecom demand.

On balance, the telecom cable suppliers, I believe, are operating at about 50% of capacity, and no one is predicting a strong recovery in the next few quarters. The lack of business is also causing added downward price pressure on any business that is not covered by long term contracts.

Industrial markets, on the other hand have held up better than the telecom market, although there has been downward pressure due to lower spending on producers capital equipment in recent quarters.

This category encompasses a wide variety of cable constructions that are used in a wide variety of end uses. You might say that it is a catch-all category for cables that don't fit neatly into the other groups of power, building wire, magnet wire, communications, or fiber optics. The peak demand year was 2000, and we have seen a decline of about 30% between 2000 and 2002. A further decline is expected for 2003, but at a much slower rate – probably only in single digit numbers.

Outlook for the wire and cable industry: Overall, it has been a pretty bleak couple of years for the industry in North America. But, what will be the outlook for our markets? We still believe that there is a good market for wire and cable and we expect a slow, broad-based recovery. I do not expect any great rebound in the coming year. Much will depend on the return of capital spending in general, and hopefully, some recovery in the manufacturing sector of the economy.

I believe the recovery of spending in the telecom industry will be on a different timetable - probably slower - than other markets because the change in spending is driven by issues specific to that industry.

As most of you probably know, there was a massive power outage in the Northeastern United States and part of Southeastern Canada that affected some 50 million people. As a result, many people are beginning to focus more on the need for upgrades and improvements to the electrical power grids and that could have a beneficial impact on power cable producers. Unfortunately for Belden, we do not participate in that market, so I mention it mainly as a point of interest rather than a specific forecast. Of course, world events could change the picture for better or worse.

We expect that all of the North American companies will continue to work on reducing their costs, perhaps rationalizing or continue rationalizing excess capacity, focusing on cash generation and trying to manage our businesses as we go through a very difficult period for our industry.

Conclusion by Mr. Gérard Hauser, ICF President

It's my privilege to conclude this convention. I am sure you enjoyed this convention as much as I did, notably the various high quality presentations by Council members and well-respected guest speakers. They shared with us their understanding and views about intelligent road transport systems, overhead lines and underground cables, and about the North American logistics and distribution consolidation. On behalf of you all, and of the ICF Council, I would like to thank the speakers for their efforts and valuable participation in this Convention.

To conclude, I'd like also to make a few general comments about the challenges cable makers face going forward.

First of all, we have been going through a major crisis for about 3 years as just recalled by Baker Cunningham. The financial performance of our industry as a whole has deteriorated sharply and only a few or even very few players are actually reporting sufficient profits to more than cover the cost of capital employed. Many others are struggling with excessively low profits while some are in real financial trouble.

Second, we cannot rely on the market to solve our problems. There are not yet visible signs of a market recovery. On the contrary, in some geographic markets and for some product types, the trend is actually negative. My point is that we, cablemakers, have to face reality and to take concrete actions to fix our problems. Some of these actions will have to tackle heavy structural issues. I mean issues related, for example, to the persistence of overcapacity and to the high degree of fragmentation of the cable industry in many regions around the world. Unfortunately, I have to state, that I don't think our industry has made a lot of progress from our last Beijing meeting last year.

Clearly, a lot has been done over the past 2 to 3 years by many of us to reduce excess capacity and improve the industry structure, but some have done nothing. I feel, however, that more remains to be done, even if it is financially painful. When we meet again next year in Prague, we will see how much progress will have been done over the coming 12 months.

Finally, I want to thank in particular Mr. Satoshi Otohata for the excellent organisation of the convention, as it was his last meeting before his return to Japan.

I thank you all for your valuable participation in this convention and I look forward to meeting you next year in Prague. Thank you again for your support.