I.C.F.

NEWSLETTER

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I.C.F.
INTERNATIONAL
CABLEMAKERS
FEDERATION

P.O.BOX 26
GRABEN 30
A-1014 WIEN
AUSTRIA

PHONE +43-1-
532 96 40

FAX +43-1-
532 97 69

WEBSITE
www.icf.at

CONGRESS
October 10 - 14

11th CONGRESS - BERLIN

Some 130 delegates have registered for the first Congress this century.

BUSINESS PROGRAM

Thursday, October 12

NETWORK EVOLUTION – ENERGY
The network is a complex system, where dynamic factors generation, transmission, distribution and consumption are owned, organised and operated by different companies under different rules. So many drivers influence its development: politics, economy, demand, environment, new technologies, and new organisation…

In a guided tour with a 10 year time horizon **Ing. Giancarlo Manzoni** will explain the trends in demand, technology, and business models. How will be the impact on the networks for transmission and distribution? How will the new information society express its requirements for functions such as, reliability, planning, power quality, how will this affect cables?

Dr. Knut Kübler of DG Transport and Energy of the European Commission has accepted the challenge to present his vision on the environmental, political, economical and regulatory aspects.

STRATEGIC MATERIALS, this time **Copper** as seen by **Art Miele,** Phelps Dodge USA. He will explain the setting for Copper with a two-year outlook. Then we switch to the other base material **Polymers** for which **Prof. Ulf Gedde** of the Royal Institute of Technology, Stockholm will present the status and expected developments for applications in cables.

After lunch we continue with a session **Industry Outlook by the Council,** followed by the General Assembly.

Friday, October 13

NETWORK EVOLUTION – TELECOM
This is a field of amazing growth and dramatic changes. **Ove Alm,** Telia Network Solutions, will characterise demand and explain how the Telco operators respond by network roll-out. The technology vision including implications for the Cable Industry is in good hands with **Jan Conradi,** VP R&D of Corning Corp.
Economic Considerations will be highlighted by **Hans de Boer** of Accenture.

REGIONAL ANALYSIS EUROPE
In succession of the region studies by ICF, **Paul Dewison,** Metalica, UK, investigated the European Wire and Cable Industry and will highlight the findings. The databook in the segmentation format - ref. NL31, March 2000 - will be available as handout.
David Mendoza, Gobi International, will comment on the position of wire & cable in comparison with other industries and the EU general conditions.

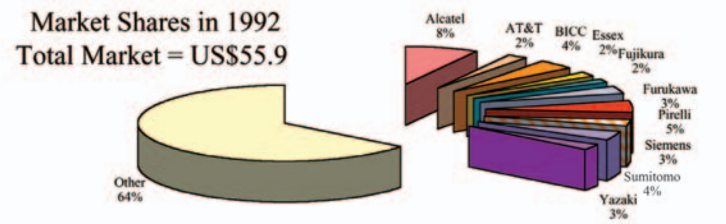
Industry Restructuring Continues

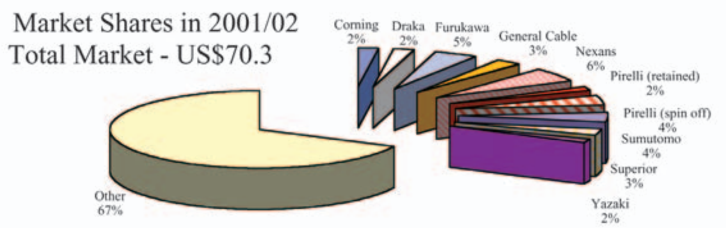
Within days, two announcements have once again changed the face of the cable industry. Near the end of July came the sale of Lucent's OFS (optical fibre and systems) division to Furukawa Electric, Corning and Commscope. At much the same time came the fulfilment of Pirelli's successful bid to acquire a controlling stake of Telecom Italia (see News in Brief for details of both). The former deal is important in that it changes the competitive structure of the fibre optics business. According to Furukawa's estimates, the deal will give it a 26% global market share in optical fibre (not cable), thus closely matching Corning's 30%. The latter deal, however, is perhaps the more significant. At the time of its announcement, Pirelli stated its intention to re-form itself as primarily a telecom company. It will divest energy cable and truck tyres businesses within the next eighteen months. Telecom and data cable will remain within the new-look Pirelli.
Although the administrative split by Pirelli between energy and telecom cable earlier this year appeared to open up the possibility that one or other would be divested, few expected that this would happen so quickly. A divestiture of energy cable business by Pirelli, especially if (as expected) it is spun off into a new independent company, bears an uncanny resemblance to the recent spin off of Alcatel's cable business into Nexans, both parents intending to focus on telecom and information-related business. In the process one, probably two, highly focussed, cable companies will have been created. Both will combine global leadership in energy cable with a strong position in winding wire and a relatively modest (in the case of Nexans) or non-existent (in the case of a Pirelli spin off) role in telecom/data cable.
With such major changes amongst the larger cablemakers, it is pertinent to ask which way the cable industry is heading. We identify three distinct developments: Firstly, we are facing both industry consolidation and fragmentation, in approximately equal measure. Secondly, focus on cablemaking as a distinct business is growing. Thirdly, most evident in the recent moves of Alcatel and Pirelli, telecom and data cable are becoming more and more part of a package of a telecom service and equipment product offering than an integral part of the wire and cable industry. These three, often conflicting, trends are fundamentally reshaping the cable industry.
A comparison of the top cable companies as they would stand after a Pirelli spin off with the situation a decade shows just how much the industry has changed, in a process that is almost certainly far from complete. In the table and charts opposite we detail the top ten wire and cable companies as they stood in 1992 and as they might stand in 2001/02 after the recent changes, assuming the Pirelli energy cable business is spun off as a whole. Revenue figures are based on 2000 data. Figures, in part, are Metalica Ltd. Estimates.
The first, perhaps surprising observation, is that the share of the top ten companies as a whole will have declined, from 35.6% in 1992 to 32.6% in 2001/02. This will have occurred despite significant acquisitions by some of the top cable companies, including Corning, Draka, Furukawa Electric, General Cable, Pirelli and Superior Telecom. One reason for this is the divestiture of some or all cable activities by many

of the big names in wire and cable in the early 1990s, including Alcatel, AT&T, BICC, Siemens and now Pirelli. Another reason is the huge growth in the share of business outside the home territory of the leading cable suppliers, especially in China. Although the large cable companies have endeavoured to take a share in this growth, local companies have taken much of the market. Also, data cable, an intrinsically fragmented business, has grown in market share, again mitigating against overall industry consolidation.

Business Profile of the Top 10 Cable Companies in 1992 and 2001/02

	Rank	Gross Turnover (US$ bn)	% Cable Business	Other Main Business
Top Ten Companies in 1992				
Alcatel	1	20,9	22%	Telecom Equipment, Electronics
AT&T	8	65,0	2%	Telecom Service, Telecom Equipment
BICC	3	6,5	36%	Construction
Essex	10	1,1	90%+	-
Fujikura	9	2,5	42%	Electronics, Materials
Furukawa Electric	5	5,7	32%	Electronics, Cu/Al Products
Pirelli	2	6,8	41%	Tyres
Siemens	6	52,5	3%	Telecom Equipment, Electronics. Power Engineering
Sumitomo Electric	4	9,0	31%	Industrial Materials, Automotive, Information Technology
Yazaki	7	5,6	26%	Automotive Harnesses, Meters
Top Ten Companies in 2001/02				
Corning	8	6,0	26%	Optical Components, Advanced Maaterials, Information Dsplay
Draka	7	1,6	90%+	-
Furukawa Electric	2	8,1	39%	Information Technology, Batteries, Cu/Al Products
General Cable	5	2,1	90%+	-
Nexans	1	4,2	90%+	-
Pirelli (retained)	9	30,0	4%	Telecom Service & Equipment, Tyres, Real Estate
Pirelli (spin off)	3	3,1	90%+	-
Sumutomo Electric	4	12,3	22%	Industrial Materials, Automotive, Information Technology
Superior TeleCom	6	2,0	90%+	-
Yazaki	10	6,5	19%	Automotive Harnesses, Meters





A second, very clear, difference in the current industry structure as it stands today is the prominence of dedicated cable companies. In 1992 only one dedicated company scraped into the top ten ranking; this was Essex. In 2001/02 we expect there to be five, namely Draka, General Cable, Nexans, Superior Telecom and the Pirelli energy cable business.

Those companies that continue to run cable business alongside other operations will be focussed primarily on telecom equipment and services, and to a lesser extent on information technology and automotive business. Gone is the former link to power engineering, seen in Siemens and ABB (just outside the top ten ranking in 1992). Also, links to other types of business, like the huge tyres operation of Pirelli or the construction enterprise of BICC, will have largely disappeared.

While a new industry structure appears to be emerging, we should be careful in assuming it has any permanence. The telecom service and equipment link with cable is nothing new, we have seen it before in AT&T (amongst other companies). The trail of divestiture of AT&T's cable business through Lucent, Avaya, a management buyout of copper telecom business and now the direct sale (through Lucent) of fibre optic business is all too evident. What is clear is that the wire and cable industry is still in a state of transformation. More change must be expected before any form of stability will become apparent.

News in Brief

(provided by Metalica, UK)

Pirelli Reinvents Itself: Near the end of July, **Pirelli SpA** acquired 23% of the shares in **Olivetti** from **Bell S.A.** in a cash deal valued at Euro 7 billion. Together with the shares already held in Olivetti directly and by the co-investor Benetton family through **Edizone Holding SpA** this gives Pirelli and Benetton a 27% stake and a controlling interest in Olivetti. In turn, Olivetti has a 55% stake and controlling interest in **Telecom Italia.** The deal, in total, gives Pirelli and Benetton control over a Euro 110 billion business empire. Some of the cash for the deal originated from the Euro 3 billion gained from the sale of fibre optics components business to Cisco and Corning last year, but there remains some to be found. On July 30th Pirelli announced the new industrial strategy underpinning the acquisition. The company is to focus on telecommunications as a service, components, fibre and cables provider. Some profitable businesses, including car and motorcycle tyres and real estate, also will be retained. Other traditional business, including all energy cable operations and truck tyres, will be divested within the next eighteen months for an assumed price of Euro 2 billion.

Lucent's Fibre Optic Unit is Finally Sold: After months of negotiations in which the value tag placed on **Lucent Technology's** optical fibre and fibre optic cable (OFS) business unit has fallen from US$7-8 billion to less than US$3 billion, buyers have finally been found. The main buyer is **Furukawa Electric,** paying US$1.875 billion, with **Commscope** and **Corning** also taking shares, paying US$650 million and US$225 million respectively. This brings the total figure paid to Lucent to US$2.75 billion. Furukawa Electric and Commscope will both take shares in separate cable and optical fibre joint ventures covering all operations except those in China. The Furukawa and Commscope venture will take on major optical fibre and fibre optic cable facilities in the United States, Germany, the United Kingdom and Brazil. Additionally, Furukawa will become sole owner of Lucent's speciality fibre business. The China optical fibre works in Beijing and cable plant in Shanghai will be taken on by Corning. In 2000, Lucent's OFS division achieved an operating profit of US$375 million on sales of US$1.925 billion. As well as the physical plant and market share, this major investment by Furukawa offers in access to MCVD fibre production techniques, most suitable for complex and premium fibres as well as its own VAD method, most suitable for low cost production of commodity products.

Furukawa Electric Expands in China: While **Corning** picked up the Chinese operations of Lucent, **Furukawa Electric** plans also to increase its presence here. Furukawa plans to invest US$12.1 million in building a new cable plant at an existing joint venture Shaanxi, in which it has a 70% stake. Capacity will be raised from the current 500,000 fibre km to 2.0-2.5 million fibre km. The plant is scheduled to become operational in 2002.

Corning Delays Expansion Plans – but also Makes Investments: With slowing growth in the fibre optic cable business, Corning has endeavoured to cut costs, shedding staff and delaying planned investments in the United States. It plans to delay the construction of an optical fibre facility at Oklahoma City by 12-18 months, with start up now planned for 2004/05. Capacity additions at Concord will be delayed until the first half of 2002. In Asia it is still investing. As well as buying Lucent's Chinese interests, it is jointly purchasing with the state telecom service provider VNPT the **FOCAL** fibre optic cable plant near Saigon in Vietnam.

Hua Eng Invests in China: Taiwanese cablemaker **Hua Eng** is to set up an energy cable plant in mainland China. It plans to invest US$9million in the venture.

Further Realignment in Automotive Harnesses: Four wire harness plants of **Siemens VDO Automotive** have been sold to **Alcoa Fujikura Ltd** (AFL). The plants, with a total workforce of 5,600 and net sales of Euro 200 million, are located in the Czech Republic (Stribo), Portugal (Seixal), Belgium (Brussels) and Mexico (Puebla). The move continues Siemens' strategic withdrawal from the business of harness assembly in deals with AFL and Yazaki, reported in recent months. It will bring AFL's total workforce to over 40,000.

Delphi Automotive Wire Plant Closure: In October **Delphi Automotive** is to close its Olvega cable and harness plant in Spain with the loss of 560 jobs. Work will be transferred to Delphi's nearby Tarazona facility.

Copper Telecom Cable Plant Closure: The closure of the Newport, United Kingdom copper telecom cable facility has been announced by its owner, **Pirelli SpA.** Capacity at the site had been as high as 3.5 million pair km, but has fallen in recent years. Fibre optic cable production at the Newport site will continue.

The ICF Newsletter is published several times each year by The **International Cablemakers Federation**, P.O.Box 26, A-1014 Vienna

Telephone (+43 1) 532 96 40, Fax (+43 1) 532 97 69
e-mail renate@icf.at