

Chairman's Report*

In accordance with Article L. 225-37, last paragraph of the "Code de Commerce", year ended December 31, 2003

In accordance with Article L. 225-37, last paragraph of the *Code de Commerce*, transposed from Article 117 of the *Loi de Sécurité Financière* (French financial security act) of August 1, 2003, Gérard Hauser, Chairman and Chief Executive Officer of Nexans, issues this report on "the manner in which the work of the Board is prepared and organized, as well as the internal control procedures put in place by the Company" as well as "any limitations the Board of Directors places on the powers of the CEO."

1 - Preparation and organization of the work of the Board of Directors

1.1 Organization of the work of the Board of Directors

The Board of Directors met nine times in 2003 and more than two-thirds of its members were present at each meeting. The members are notified by the Chairman at least one week before the meeting.

Several days before the meeting, the directors are provided with a file covering each point on the agenda.

The Board of Directors is kept informed of both the Company's and the Group's business development, financial situation and cash position, draws the parent company and consolidated financial statements, as well as the management projections, and reviews the budget. It decides on matters affecting the strategy and running of the Company.

All these matters were addressed by the Board during the 2003 financial year.

Presentations are made to the Board of Directors on a regular basis by divisional, area or product line managers; such presentations help to familiarize the directors with Nexans' core businesses and give them a clearer picture of the internal workings of the company. As an example, in the first half of 2003, the Energy division gave a detailed presentation of the General Market activity, followed by a site visit.

The Board was also consulted throughout 2003 on various external growth projects and was kept constantly informed of the progress of these projects; emergency meetings were called for the Board to take a position on a given matter or provide the Management with guidance.

The Board adopted a new stock option plan and determined the guidelines for calculating the variable portion of the Chairman and CEO's compensation for 2003, on the recommendation of the Appointments & Compensation Committee. Finally, it put in place or formalized a certain number of corporate governance guidelines, and adopted the Rules & Regulations of the Board pursuant to the Bouton and Viénot-Bouton reports.

1.2 Corporate governance: Rules & Regulations of the Board of Directors and Director's Charter

During the second half of 2003, drawing on both the Bouton Report and the combined Viénot-Bouton Report, Nexans strengthened the rules of best practice in corporate governance already in force within the Group. In particular:

- The Board of Directors adopted its Rules & Regulations and a Director's Charter, the terms of which it approved on July 21, 2003.
- The Board broadened the remit of the Compensation Committee, now the Appointments & Compensation Committee.
- It put in place a procedure for the assessment by the Board of Directors of itself and the Chairman.

The Rules & Regulations and the Director's Charter are given to each new member of the Board when they take office.

The Rules & Regulations sets force the areas of competence of the Board of Directors, its *modus operandi* and ethical principles.

* Free translation from the original French report.

In accordance with the Bouton Report, the Rules & Regulations determine which investments or significant restructuring plans such as mergers, acquisitions, disposals or proposed financing or projects, will require the prior approval of the Board of Directors, based on their nature and the amounts involved. They have also strengthened the role and competence of the existing Committees and defined the criteria of independence for directors.

The Director's Charter sets out the rights and obligations of Board members, and reiterates the provisions of the articles of association according to which each director must hold at least ten shares in the Company, it lays down the rules requiring directors to refrain from trading in Company shares during sensitive periods leading up to the publication of the accounts.

1.3 Appraisal of the Board of Directors

The Board of Directors decided to implement, for the first time in autumn 2003, an annual appraisal system of its *modus operandi*, to check that important matters are properly reported, dealt with and discussed during meetings. The system has been implemented on the basis of a detailed questionnaire, approved by the Board and sent to all directors. The questionnaire is a means of assessing, among other things, the relevance of the Board's composition, the frequency of meetings, the relevance and quality of the information provided to it, the support provided by the Committees, and the amount of interaction when discussing points on the agenda.

1.4 Committees formed by the Board of Directors

The Accounts Committee

Composition and missions of the Accounts Committee

The Accounts Committee is composed of three members – Georges Chodron de Courcel, Ervin Rosenberg and Jean-Louis Vinciguerra –, all chosen for their financial and accounting expertise.

The missions of the Accounts Committee are to:

- examine the draft accounts to be submitted to the Board, with a view to checking the methods used to prepare them and making sure that the accounting principles and methods used are both relevant and constant,
- examine the scope of consolidation of the companies in the Group,
- ensure that it is made aware of the internal procedures for identifying off-balance sheet commitments and risks, and check that such procedures are sufficient to guarantee the reliability of the information resulting from them,
- monitor sensitive issues,
- examine the work of Internal Audit, give its opinion and review the main conclusions of the missions completed,
- conduct the Auditors selection process and give its opinion to the Board of Directors on their appointment or replacement,
- define the rules for using the Auditor networks for missions other than auditing, in accordance with the applicable regulations,
- carry out any specific investigations it deems necessary, after having informed the Chairman and CEO, if appropriate contacting key executive managers, and report back to the Board.

In the course of its work, the Accounts Committee may request to meet with the Statutory Auditors, the Chief Financial Officer, the Senior Corporate Vice-President, Finance and Cash Management, the Senior Corporate Vice-President, Management Control and Consolidation, the Internal Audit Director and the Director of Nexans' non-ferrous metals activities. The General Management does not necessarily participate in such meetings.

The Appointments & Compensation Committee

Composition and missions of the Appointments & Compensation Committee

In 2003, the Appointments & Compensation Committee was composed of two members – Patrick Puy and Ervin Rosenberg. In 2004, a third member – Gianpaolo Caccini – was appointed by the Board of Directors.

The Appointments & Compensation Committee:

- examines and makes suggestions regarding the assessment of directors' independence, prior to a final decision being made by the Board of Directors,
- proposes to the Board new directors and Board members to be co-opted or proposed at the Annual Shareholders' Meeting, as well as a procedure for selecting and evaluating potential Board members prior to contacting them, as well as planning for appointment of directors in the future,
- proposes to the Board the criteria for determining the fixed and variable portions of Board members' compensation; it ensures that these guidelines are consistent with the annual performance appraisal of Board members, the Company's medium-term strategy and market practices,
- evaluates the Company's policy governing compensation and benefits of all kinds granted to key executive managers who are not Board members,
- defines the Company's policy relating to stock option or share purchase plans (frequency, people concerned, envelope) which it proposes to the Board of Directors, and gives the Board its opinion on plan proposals drawn up by the Management.

1.5 Restrictions which may be placed on the powers of the CEO

Apart from the transactions or decisions that require the prior approval of the Board of Directors as defined in the Rules & Regulations, the Board of Directors has placed no restrictions on the powers of the Chairman and CEO, nor are his powers subject to any statutory restrictions.

2 - Internal control procedures

2.1 Nexans' internal control objectives

In the absence of any French regulations, Nexans has chosen to adopt the definition proposed by IFACI dated October 23, 2003, which defines internal control as follows:

"Internal control procedures are the guidelines, directives and practices in place within an organization, the purpose of which is to:

- make sure that its activities and the conduct of its members:
 - comply with applicable laws, regulations, standards and internal rules,
 - are in line with the values, guidelines and objectives laid down by the corporate bodies and their members, in particular in terms of risk management policy,
- check that the organization's internal and external communications represent fairly the situation and activity of the organization.

Internal control procedures, however well conceived and applied, offer reasonable assurance but cannot provide an absolute guarantee."

The internal control procedures implemented by the management of Nexans, cover the scope of the companies that make up the Group, are intended to provide reasonable assurance that an element of control is exerted over the subsidiaries and that operations are, in line with objectives, effectively carried out and optimized, that financial information is reliable and that relevant laws and regulations are complied with.

Nexans takes a pragmatic approach to internal control. Its internal control procedures take into account the specific aspects of its business and are geared to managing the potential risks associated with its activities that it has identified.

All the procedures in force within the Nexans Group, whether or not they relate to financial information, have been established centrally at holding company level. They are then implemented in each country and entity, and periodic reports are sent to the functional department in charge, which retains overall control.

2.2 Organization and description of the internal control procedures in place

2.2.1 Parties involved and structures in place: organization of the Group

Since July 1, 2003, the Nexans Group has been organized as follows:

The countries are responsible for income from operations. Their performance continues to be monitored by market and by product, through a defined financial reporting procedure.

The countries are grouped into areas – Europe, North America & Asia and Rest of the World – which are responsible for managing, coordinating and supervising their own operations.

Each area is managed by a commercial development team, an industrial and logistics support team and a financial control team.

The country and area managers are responsible for ensuring that the guidelines and directives issued at Group level are implemented and complied subject to applicable regulations.

The corporate-level functional departments are also involved in internal control.

The **Strategic Operations Department**, which is responsible for the strategic development of the entire Group, comprises:

- *The Marketing Department*

whose mission is to:

- familiarize itself with Nexans' various markets, businesses and products,
- define Nexans' position in each of its market segments,
- formulate product and market strategies in collaboration with the countries and areas,
- establish development priorities and plans,
- establish Nexans' strategic plan.

To achieve this it relies on a central marketing team and product managers in the countries. It also relies on the existing financial reporting system.

- *The Development and Economic Intelligence Department*

whose mission is to:

- monitor competition,
- identify opportunities for external growth for the Group.

- *The Industrial Management Department*

manages the area and country level Industrial Management Departments, which are responsible for the performance of Nexan's manufacturing plants.

- *The Technical Management Department*

manages all the Group's research and development effort, in particular through its Competence Centers and the Research Center.

- *The Information Systems Department*

Conscious of the importance of information systems as a factor in Nexans' competitiveness, a Steering Committee has been formed within the Information Systems Department to assist the Executive Committee when deciding on budgetary priorities and Group strategy.

- *The Purchasing Department*

whose mission is to define and control the implementation of procedures for the purchase of goods and services within the Group with a view to rationalizing cost, quality, time, technology, etc.

The Group is managed by the **Executive Committee** which has seven members in addition to the Chairman and Chief Executive Officer. They are:

- the three Executive Vice-Presidents in charge of the areas,
- the Senior Corporate Vice-President, Strategic Operations,
- the Chief Financial Officer,
- the Senior Corporate Vice-President, Human Resources,
- the Senior Corporate Vice-President, Communications.

The last four people are in charge of the Group's four functional departments, which are the Strategic Operations Department, the Financial and Administrative Department, the Human Resources Department and the Corporate Communications Department.

The role of the Executive Committee is to define and manage Group strategy, allocate the necessary resources to implement it, set objectives for the entities that make up the Group and monitor the achievement of such objectives.

Finally, the **Board of Directors** is involved in internal control, notably via the Committees, as described above.

2.2.2 Parties and structures dedicated to internal control

a) The Accounts Committee

As a result of the powers it has been granted by the Board of Directors and the Rules & Regulations, as mentioned above, the Accounts Committee plays a crucial role in implementing internal control processes, exercising such control and monitoring the procedures in place.

b) The Internal Audit Department

The Internal Audit Department was created on January 1, 2002 following a decision made by the Chairman of the Group. Although in organizational terms it comes under the Financial and Administrative Department, it effectively reports directly to the Chairman. Its work is approved and controlled by the Accounts Committee.

The missions of the Internal Audit Department, defined in an Audit Charter, cover financial and administrative as well as operational matters. Its missions are to:

- identify, analyze and measure risks,
- make sure that an internal control mechanism is in place and is functioning, and ensure that internal control procedures are complied with,
- carry out financial audits,
- carry out operational audits in liaison with the departments concerned, suggest corrective action and methods of implementation,
- identify and promote best practice.

Accordingly, the Internal Audit Department undertakes audits to verify that the measures that have been implemented are effective and adapted to potential risks.

A risk "roadmap" was launched in 2002, which was conducted jointly by the Internal Audit Department and a firm of consultants. The aim was to identify risks and areas of risk and evaluate their impact on the financial position of the Nexans Group and its income.

Risks were identified through interviews with Executive Committee members, the managers of corporate functions, product line managers and country managers.

Risks were evaluated according to the frequency with which they are likely to occur and the gravity of the consequences which may result from the occurrence of the risk. The level of risk was evaluated and graded before and after application of existing internal procedures.

An audit plan has been drawn up on the basis of the risk roadmap. This covers a broad spectrum, including:

- Cash management and exchange rate risks
- Non-ferrous metal hedging risk
- Purchasing process
- Inventories process
- Sales process
- Projects (particularly capital expenditure and restructuring)
- Legal, insurance, safety/security and environment
- Information systems
- Human Resources

The Audit Plan is reviewed and updated annually by the Accounts Committee.

At the end of each audit carried out, a report is drawn up by the Internal Audit Department, containing certain recommendations which it diligently follows up. These reports are sent to the Chairman and CEO, the Chief Financial Officer, the appropriate member(s) of the Executive Committee and the audited entities. In addition, an annual report of the work carried out by the Internal Audit Department is submitted to the Accounts Committee and the Executive Committee.

c) The Risk Manager

The role of the Risk Manager was originally to manage Group insurance matters. In December 2003, the role of the Risk Manager was broadened to encompass risk management in general.

His missions are now to:

- propose a strategy for managing operational, commercial, industrial and financial risks by seeking the optimum balance between insurance cover, prevention and other measures and the acceptance of certain risks,
- buy insurance providing optimum cover at the best possible price,
- implement and manage the global insurance program,
- manage the network of brokers and other consultants,
- set up and coordinate a network of internal insurance specialists within each unit in the Nexans Group,
- propose and monitor the introduction of measures other than insurance for risk prevention and management.

The scope of the areas covered calls for close cooperation with the functional departments at corporate level and the management at area level, to define and put in place financially viable solutions in line with the directives laid down at Group level.

The Risk Manager also works closely with the Internal Audit Department.

d) The Disclosure Committee

This Committee, set up in October 2003, is composed of the Chief Financial Officer, the two managers of the Management Control and Consolidation Department, the General Counsel and the manager of corporate/stock market law, the Internal Audit Director, the Risk Manager and two risk area controllers.

The Committee's objective is to identify information that the Company must disclose to its shareholders and the market.

Its remit covers:

- identification and evaluation of any significant non-financial information,
- producing a questionnaire aimed at subsidiaries to identify the risks; evaluating the methods in place for passing information back up the parent Company,
- compiling significant information,

- identifying and defining matters that should be investigated by the internal audit team to assess and if necessary improving the reliability of the procedures in place and the information provided.

2.2.3 Specific aspects of internal control procedures relating to financial and accounting information

(a) Main players and links between them

The Corporate Financial and Administrative Department, which includes eight functional departments:

- The Management Control and Consolidation Department
- The Finance and Cash Management Department
- The Internal Audit Department
- The Legal Department
- The Tax Department
- The Investor Relations Department
- The Mergers and Acquisitions Department
- The Non-Ferrous Metals Department

As well as the Risk Manager.

All these departments report to the Chief Financial Officer.

In addition, the Financial Departments in each country report to both the Country Manager and the Corporate Financial and Administrative Department.

This system ensures coordinated and consistent processing of financial information.

(b) Key points concerning the procedures relating to financial and accounting information

Financial and accounting information is generated in consolidated form as follows:

1 – Preparation of financial and accounting information

Information is obtained from the accounting systems of the legal entities whose accounts are maintained according to local accounting principles and then restated in accordance with the accounting principles used by Nexans (French GAAP) to prepare the consolidated financial statements.

The breakdown by sector and product line is based on the legal entities' financial statements. These accounts are prepared according to standard accounting principles defined in numerous procedures. In particular, to ensure consistency of information, each line of the operating statement for the entity and for its product lines is precisely defined in the accounting manual used by all the entities in the Group.

2 - The process

In the last quarter of each year a budget is drawn up by the entities in each product line. The budget is discussed by the local and area management and presented to the Group's General Management for final approval, after which it is broken down by month.

Each month, the entities prepare a report broken down by product line, the results of which are analyzed by the management in the business review. The figures are compared with the budget and with the previous year's results. The consolidated results by area and by product line are analyzed by the Group's General Management at an area meeting.

The consolidated financial statements are drawn up each quarter. A special procedure (called closing meetings) applies to year-end accounts. During the closing meetings, the Country managers present their latest income projections, and the main orientations for the closing statement are determined.

Off-balance sheet commitments are reviewed by the Consolidation Department based on information provided by the subsidiaries and by the Finance and Treasury Department, the Non-Ferrous Metals Department and the Legal Department.

3 - The procedures

Forty-six procedures relating to financial and accounting information, and more generally corresponding to the areas of competence falling within the area of competence of the Financial and Administrative Department, are currently in force within the Nexans Group. In addition to accounting and financial rules, these procedures deal with sensitive issues or identified risk factors specific to Nexans' business that could have an impact on its assets or income. This is the case, for example, with the management of risks associated with exchange rates, interest rates and fluctuation of non-ferrous metal prices that is controlled by the Finance and Treasury Department and the Non-Ferrous Metals Department, who report regularly to the corporate Financial and Administrative Department. Checks are carried out by the Auditors and the Internal Audit Department to make sure that internal control procedures are working properly and that they are complied with.

(c) Rules specific to the management of risks linked to non-ferrous metals

In view of the importance of non-ferrous metals (copper, aluminum) to Nexans' business and the risks associated with price fluctuations, Nexans has put in place a special procedure for managing non-ferrous metals and created a dedicated Non-Ferrous Metals Department, which reports to the Financial Department, to supervise the implementation of these procedures.

The basic rules are as follows:

- the principle is the systematic hedging of metal prices and their structure as soon as the risk arises,
- this principle is applied by each legal entity for which position limits are set. These limits are reviewed regularly according to the development of each entity's business. It is part of the Internal Audit's task to ensure that the limits are complied with,
- this principle is reflected in the consolidated financial statements by the recording of unexpired commitments,
- each company issues a daily report of its positions in metric tons and in value after going to market and a monthly report of its commitments and results on metals in its end of month accounts.

Hedging is managed centrally by experienced teams used to trading on the European and North American markets.

Trading on these markets is carried out through first-rate brokers whose financial stability is regularly checked to minimize counterparty risks.

(d) Centralized cash management

Nexans has put in place a centralized system for managing cashflow, covering:

- international cash pooling,
- centralized bank commitments,
- centralized foreign exchange risk management.

2.2.4 Details of other internal control procedures

There are approximately sixty additional internal control procedures covering areas such as:

- human resources
- communications
- purchasing
- information systems
- quality
- intellectual property
- insurance
- legal

- The industry and the environment:

A charter has been drawn up relating to management of risks which covers the protection of property, accident prevention and human safety, and environmental safety.

The aims of this charter are to:

- identify and quantify the risks to which Nexans is exposed,
- define the priorities, and recommend prevention and control measures to reduce the frequency and magnitude of such risks,
- organize insurance arrangements accordingly,
- organize crisis management plans.

The implementation of the above is managed by the Industrial Management Department in liaison with the Financial and Administrative Department, the Risk Manager and the Legal Department, with extensive interaction between the corporate departments and designated people at various levels of the organization.

A reporting and monitoring system exists for environmental matters which relies mainly on a questionnaire sent annually to the country industrial managers/plant managers, and which is supplemented by audits carried out by a firm of consultants.

- The Group also has a code of conduct called the "Nexans Business Ethics and Conduct" which lists a number of principles and rules of best practice to be observed.

March 12, 2004



Gérard Hauser
Chairman and Chief Executive Officer