Draka Holding

– Press Release –
Amsterdam, 31 August 2004

HALF-YEAR FIGURES 2004

OPERATING RESULT EXCLUDING NON-RECURRING ITEMS UP BY 57%, MAINLY OWING TO VOLUME GROWTH OF 10%

		1st half 2004		1st half 2003
Net turnover	€	796.1 million	€	697.7 million
EBITDA[1]	€	47.9 million	€	54.0 million
Operating result excluding non-recurring items	€	19.2 million	€	12.2 million
Operating result [1]	€	17.1 million	€	22.1 million
Net result excluding non-recurring items	€	3.5 million	€	4.8 million negative
Net result [1]	€	1.4 million	€	5.1 million
Earnings per share [1,2]		€ 0.15 negative		€ 0.04
Cash flow from operating activities	€	20.8 million negative	€	21.0 million

- **Net profit for the first half of 2004 turned out at € 1.4 million; excluding non-recurring items, the net result was € 3.5 million positive compared with € 4.8 million negative in 1H 2003.**
- **Turnover was up 14.1%, mainly owing to volume growth of 10.1% thanks to positive developments in communication and transport activities.**
- **Operating result excluding non-recurring items was € 19.2 million, an increase of 57.4% compared with the first half of 2003.**
- **Operating margin on ordinary activities increased to 2.4% (1st half 2003: 1.8%), mainly because of better capacity utilisation due to volume growth.**
- **Profit recovery continues for Telecommunication Cable and Systems; operating result € 2.2 million positive in first half of 2004 compared with € 4.5 million negative in first half of 2003.**
- **Cash flow from operating activities € 20.8 million negative, owing to increase in working capital connected with significant rise in turnover; operating working capital as a proportion of turnover reduced to 30.1% (1st half 2003: 31.5%) despite sharp rise in the price of copper.**
- **Outlook for second half of 2004: continuation of organic growth in combination with expected reduction in margin pressure as price increases feed through. Consequently, Draka expects the net result on ordinary activities in the second half of 2004 to turn out higher than in the first six months of the year (provided there is no unexpected increase in copper prices).**

[1] 2004 including non-recurring items totalling a net amount of € 2.1 million negative; 2003 including book profit on sale of building totalling € 9.9 million.
[2] Per ordinary share after dividend on preference shares.

Half-year results 2004

In the first half of 2004, Draka profited from a cautious economic recovery in Europe, the company's most important geographical market. Draka succeeded in achieving volume growth in various segments of the cable market, particularly cable for the transport industry and communication cable. Selling prices did not, however, show any recovery and continued to be squeezed in the standard low-voltage cable segment. Margins also came under pressure as a result of the sharp increase in the price of copper, which the company was unable to pass on in full to its customers. However, thanks to the marked volume growth and the ongoing focus on cost control, Draka succeeded in reporting a sharp improvement in the operating result (excluding non-recurring items) for the first half of 2004.

Net turnover

Draka posted net turnover of € 796.1 million in the first six months of 2004, an increase of 14.1% compared with the corresponding period in 2003. The increase in sales was mainly accounted for by marked volume growth (10.1%) due to the positive developments in the transport segment and the increased demand for communication cable (both optical fibre and copper). The remaining 4% growth in net turnover was explained by:

1) The sharp increase in the price of copper, averaging 50% compared with the first half of 2003, had an upward effect on turnover. The sustained pressure on selling prices, on the other hand, had a depressing effect on turnover. As a result of both developments turnover was lifted by 6.7%;
2) Exchange rate movements reduced turnover by 2.7%.

Operating result

The operating result including non-recurring items came in at € 17.1 million, down by € 5.0 million compared with the first half of 2003. The operating result includes a non-recurring charge amounting to a net figure of € 2.1 million, made up of a restructuring provision (€ 3.2 million) for some of Draka's activities in the United Kingdom and a book profit on a real estate transaction in France (€ 1.1 million). The real estate transaction concerned the sale of an empty factory due to re-allocation of activities. In the first half of 2003, the company reported non-recurring income of € 9.9 million. On a like-for-like basis, excluding non-recurring items, the operating result rose by 57.4% to € 19.2 million.

Operating margin

The operating margin on ordinary activities increased to 2.4% from 1.8% in the corresponding period in 2003, the improvement being mainly accounted for by volume growth, which enabled better plant utilisation to be achieved. The ongoing focus on cost control also made a positive contribution. Some of the improvement in the margin was, however, eroded because of the continued pressure on selling prices and the fact that it was not possible during the period to pass on the full amount of the higher copper price to customers.

Net financial expenses remained unchanged, at € 16.9 million. Taxation was € 0.3 million positive, partly owing to the utilisation of loss relief. The results of non-consolidated participating interests totalled € 1.0 million, compared with € 0.1 million for the first six months of 2003.

Net result
The net result for the first six months of 2004 turned out at € 1.4 million (first half of 2003: € 5.1 million). On a like-for-like basis, excluding non-recurring items, the net result over the first half of 2004 was € 3.5 million positive compared with € 4.8 million negative for the corresponding period in 2003. This was in line with Draka's previous forecast.

EPS
Allowing for the dividend to be paid on preference shares (€ 4.6 million), the net result per ordinary share turned out at € 0.15 negative (2003: € 0.04 positive). Excluding non-recurring items, the net result per ordinary share amounted to € 0.05 negative (2003: € 0.44 negative). The number of ordinary shares in issue was 20,922,004, a fractional increase compared with 31 December 2003 (20,820,236).

Telecommunication Cable and Systems Product Group

	1st half 2004	1st half 2003
Net turnover	€ 134.4 million	€ 130.5 million
Operating result	€ 2.2 million positive	€ 4.5 million negative
Operating margin	1.6%	–3.4%
Capital employed	€ 254.9 million	€ 262.4 million

Following the sharp decline in demand for telecommunication cable in 2002 and 2003, the market showed a slight recovery in the first half of 2004. This was mainly caused by limited growth in the demand for optical fibre cable, with the Chinese market showing above-average growth. In addition, the market for radio frequency cable (RF cable – feeder cable for mobile telecommunication base stations) exhibited a marked revival due to the investments in UMTS networks. Demand for copper telecommunication cable was down, particularly in North-West Europe. Telecommunication cable prices, however, remained under pressure across the board.

Within the Telecommunication Cable and Systems Product Group, Draka achieved volume growth of 24% in the optical fibre activities, again increasing market share. This volume growth was achieved by Draka's joint venture YOFC in China in particular, which was able to take optimum advantage of the above-average growth of the Chinese optical fibre market. Draka also increased sales in the European market. The recent announcements of several major fibre-to-the-home projects in America and also in Europe give Draka cause to be optimistic about the medium-term prospects for the optical fibre market.

Draka's RF cable activities were able to benefit from the marked recovery of the market. In contrast, demand for copper telecommunication cable was down, in line with market trends.

Turnover for the Telecommunication Cable and Systems Product Group rose by 3% to € 134.4 million. The volume growth in optical fibre cable and RF cable was almost wiped out by the drop in demand for copper telecommunication cable and the price squeeze. The operating result nevertheless continued to improve and came in at € 2.2 million positive compared with € 4.5 million negative in the first six months of 2003. Draka succeeded in countering the effect of the price pressure with the increased volume and additional cost savings.

Low-Voltage and Special-Purpose Cable Product Group

	1st half 2004	1st half 2003
Net turnover	€ 660.4 million	€ 570.7 million
Operating result	€ 22.3 million	€ 22.4 million
Operating margin	3.4%	3.9%
Capital employed	€ 736.1 million	€ 771.7 million

Developments affecting the Low-Voltage and Special-Purpose Cable Product Group in the first six months of 2004 showed a mixed picture: difficult market conditions for standard low-voltage cable while the market segments concerned with data communication cable, cable for the oil & gas industry and cable for the transport industry exhibited pleasing growth.

Demand on the part of OEMs increased in the first half of 2004. Sales of cable for the oil & gas industry exhibited marked growth, and there was a significant increase in sales of cable for the transport industry. In the oil & gas market, Draka profited from the increased level of investment by the oil companies and the greater number of new tankers under construction. Within the transport segment, demand for aircraft cable was only slightly higher but sales of automotive cable increased significantly, mainly as a result of the substantial orders (total volume € 100 million over a period of three years) that were secured in 2003. The demand for elevator cable was on a par with the first six months of 2003.

As regards cables for buildings, the market for standard low-voltage cable remained difficult in the absence of any recovery in construction activities in North-West Europe. Although volumes were comparable to those of the first half of 2003, the sales were achieved in a highly competitive market, with the result that selling prices showed a further decline (approximately 5%). For Draka's data communication cable activities, on the other hand, the recovery in demand first seen in the second half of 2003 continued in the first half of 2004. Turnover showed a marked increase, with higher volumes for both the copper and the optical fibre activities.

Turnover for the Low-Voltage and Special-Purpose Cable Product Group in the first half of 2004 increased by 15.7% to € 660.4 million. A substantial proportion of this increase was accounted for by the positive developments in the transport, oil & gas and data communication segments of the cable market. In addition, the sharp increase in the price of copper had the effect of increasing turnover, especially for the standard low-voltage cable activities, where the share of copper to overall production costs is greatest. The operating result was down by 0.4% at € 22.3 million and the operating margin shrank to 3.4% compared with 3.9% in 2003. Positive effects on the results, such as the improved capacity utilisation and control of costs were cancelled out by the pressure on prices for standard low-voltage cable and the tighter margin resulting from the substantial increase in the price of copper. However, it is expected that the pressure on margins due to the sharply increased copper price will ease in the second half of 2004 as the price increases introduced in the first half of the year feed through.

Financial position

In 2004, Draka's policy continued to focus on generating an optimum free cash flow. In the first half of 2004 Draka made significant progress in achieving its objectives for 2004 as a whole, namely to reduce the operating working capital to approximately 27% of turnover and to restrict capital expenditure.

The cash flow from operating activities in the first six months of 2004 amounted to € 20.8 million negative (first half of 2003: € 21.0 million positive). This drop in cash flow from operating activities was accounted for entirely by the increase in working capital as a consequence of the significant increase in turnover. However, compared with the first half of 2003, operating working capital (stocks plus trade debtors minus trade creditors) increased by only € 8.8 million to € 457.5 million, so that the working capital ratio turned out at 30.1% compared with 31.5% for the corresponding period in 2003. On the basis of these favourable underlying developments, Draka believes that the objective of reducing the amount of operating working capital as a percentage of turnover to approximately 27% at year-end 2004 is achievable (year-end 2003: 28.4%).

Balance sheet total as at 30 June 2004 amounted to € 1,420.4 million, an increase of € 141.4 million compared with the position as at year-end 2003. This increase was entirely accounted for by an increase in current assets. Net investments in tangible and intangible fixed assets totalled € 8.0 million.

Shareholders' equity as at 30 June 2004 amounted to € 365.7 million, an increase of € 3.4 million (or 0.9%) compared with 31 December 2003. The movement in shareholders' equity was the combined effect of currency translation (€ 2.0 million positive) and the net result for the first six months of 2004, amounting to € 1.4 million.

Compared with year-end 2003, the solvency ratio (equity to total assets) deteriorated and worked out at 25.7% (year-end 2003: 28.3%). This decline is entirely explained by the increase in the balance sheet total (11.1%) compared with only a fractional increase in shareholders' equity (0.9%). Guarantee capital, made up of shareholders' equity, the provision for deferred tax liabilities and the long-term portion of the subordinated loans, amounted to € 558.0 million, representing 39.3% of the total invested capital (year-end 2003: 44.0%). The drop in the relative amount of the capital base is likewise explained by the increase in the balance sheet total.

The net interest-bearing debt increased in the first six months of 2004 by 7.2% to € 596.9 million, connected with the financing of working capital. The net gearing (debt/equity ratio) worked out at 163.2% compared with 153.7% as at year-end 2003. At 30 June 2003 net gearing stood at 164%.

Outlook

In the second half of 2004, Draka expects conditions in the cable market to be similar to the first six months of the year. This implies an improvement compared with the second half of 2003. Draka accordingly expects to achieve organic growth in the second half of 2004 as well. Although volume growth can be expected, the pressure on prices will remain, especially for standard low-voltage cable. The expectation is that the squeeze on margins due to the sharp increase in the price of copper will ease in the second half of the year as a result of the price rises which have been implemented (provided there is no unexpected increase in copper prices). As regards cost control, Draka will continue to pursue the programmes started in 2003. The ongoing production optimisation projects and associated efficiency projects are expected to lead to additional cost savings in the second half of the year.

Barring unforeseen circumstances, Draka expects the net result on ordinary activities in the second half of 2004 to turn out higher than for the first six months of the year (provided there is no unexpected increase in copper prices).

The debt position will improve considerably in the second half of 2004, despite the consolidation of Alcatel's optical fibre and optical fibre cable activities with effect from 1 July 2004. This will be achieved as a result of the successful placement of new shares (€ 150 million) in July 2004 and by the policy of generating an optimum free cash flow (by further reducing operating working capital to around 27% of turnover coupled with a restrictive capital expenditure policy).

In addition to the above matters, the management will be focusing on the integration of Alcatel's optical fibre and optical fibre cable activities with those of Draka into Draka Comteq in the months ahead, the main aim being to ensure that the expected savings due to industrial synergies, amounting to € 20 million, are achieved at operational level in 2005.

Board of Management
Amsterdam, 31 August 2004

Annexes:
Consolidated balance sheet as at 30 June 2004
Consolidated profit and loss account (1 January 2004 – 30 June 2004)
Consolidated cash flow statement (1 January 2004 – 30 June 2004)
Movements in shareholders' equity
Segmented information per Product Group

Financial agenda 2004 & 2005 (subject to change)

Publication of trading update for second half of 2004	**November 2004**
Publication of full-year results for 2004	**Monday, 7 March 2005 (before start of trading)**
Annual General Meeting of Shareholders in the Barbizon Hotel, Amsterdam	**Monday, 9 May 2005** **Start: 2:30 p.m.**
Publication of trading update for first half of 2005	**June 2005**
Publication of half-year results for 2005	**Tuesday, 30 August (before start of trading)**