SUSTAINABLE DEVELOPMENT REPORT
2005

ALCATEL

Alcatel in Brazil

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Reference

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*Website:
www.alcatel.com*

Glossary p 51

Most of the men and women shown in the photos of this report are Alcatel employees. We sincerely thank them for their kind contribution to this document.

Profile

Alcatel, world leader in telecommunication services

Alcatel offers global and innovative telecommunication services, based on the excellence of its technologies and the skills of its 58,000 workforce. These solutions, which cover the entire telecommunications field, are used by telecoms operators, companies and governments to provide their customers or users with fixed and mobile multimedia services (telephony, high speed Internet, video) in a high speed world. Besides, Alcatel contributes to reducing the digital divide and endeavors to progress in a socially responsible way.

This high added value service offering is the result of real mastery of technical changes and their use, clear strategic choices and discipline in their implementation. It is based on Alcatel's strengths: the wealth of its technology portfolio, its capability to integrate complex projects, its leadership positioning in fast developing markets such as fixed and mobile high speed access, optical transmission and IP technologies, and a long-standing presence in 130 countries.

In 2005, Alcatel achieved sales of €13.1 billion and a net profit of €930 million.

Message from the Chairman and CEO

After the turnaround in 2004, 2005 confirmed our return to growth and our profits, approaching €1 billion, permitted us to issue dividends, something we had not been able to do since 2001 due to the crisis in the telecom industry.

2005 was a year of great satisfaction. First, the market validated our strategic vision, developed back in 2001, concerning the emergence of image-oriented content in the network. The appearence of video will generate an equally important - if not stronger - transformation in the communications industry than that brought on by the Internet or mobile telephony. And Alcatel is clearly the world leader of "triple play" technologies (voice – data – images), which ideally positions it to serve its operator customers who are undergoing transformation. IP television and mobile TV are perceived today as strategic and essential businesses for fixed and wireless operators. Television use today is entering a new era of personalized TV, with the emergence of on-demand programming and interactive services, which are also accessible on the move.

2005 was also a year that confirmed our choice – made several years ago – to reinforce our efforts in emerging countries, which are particularly sensitive to sustainable development and digital divide issues. These countries now account for nearly 50% of our activity. Our performance is closely linked to the success of our mobile communications solutions which are particularly well adapted to these markets. Alcatel's participation in the World Summit on Information Society held in Tunis, Tunisia, testifies to our commitment to pursue this strategy.

Concerning sustainable development, we have been reporting on our accomplishments for the last five years, which gives us a bit of perspective. The social indicators that we publish allow me to raise a topic that is close to my heart; that of the profound transformation that our company and employees went through. If you take a look at the evolution of our workforce, you see that the cutbacks were linked to the bursting of the Internet bubble, but you can also see that nearly 50% of our current employees joined the company less than five years ago, either through recruitment or acquisitions. These numbers illustrate better than anything the extent to which our businesses were transformed; we are now focused primarily on non-tangible assets like software and integration of solutions and services. At the same time, our employees knew how to adapt: teams that had worked on fixed networks for many years were retrained so they could work on mobile networks. We also developed skills in complex project management that successfully meet top industry standards or a marketing expertise adapted to customer expectations be they end-users or enterprises. Of course we spent a lot of time and money on this, but above all, I would like to highlight the efforts made by each and every one of us.

Now a few words about the programs we are committed to:
2005 was an active and fruitful year.

▶ **Career development:** the global roll out of a company-wide performance management program was successfully carried out in 2005, so that the multicultural dimension of the company can be fully taken into account.

▶ **Diversity:** the "Women in Leadership" program, launched in March 2005, was widely promoted to develop awareness throughout the company of both management and employees. This program led to changes in our performance review process in order to ensure that from now on the proverbial "glass ceiling" does not prevent talented women from reaching high-level jobs, just as their male colleagues do. Our action plan covers the next five years. Progress reports will be published regularly.

The progress requirements that we impose on ourselves are the best guarantee of the sincerity of our commitment towards our shareholders, our customers, our employees, and the communities in which we conduct business.

▶ **Supplier relations:** we have established **personalized dialogue** with 130 of our main suppliers in order to ensure that the principles of our Statement on Business Practices are respected and applied. This dialogue was very fruitful as only six audits were needed after this phase and appropriate corrective actions. We will continue this program in the years to come by enlarging it to medium-sized and local suppliers.

▶ **Environment:** thanks to good anticipation of its impact, we were fully compliant with the **European WEEE (Waste Electrical and Electronic) directive** when it came into effect in August 2005. 2006 will also be key as the **European RoHS (Restriction of the use of certain Hazardous Substances) directive** will take effect, limiting the use of certain hazardous substances, such as lead, in our products. This is a major challenge for our teams because they must find substitutes that ensure that our products are as reliable as in the past. We are confident that we can also successfully meet this challenge in due time. The company also kept its ambitious commitment **to reduce, by half, the power consumption of its products over the last three years.**

When it comes to **corporate governance and business ethics,** it is important to mention that Alcatel recently created the position of **Chief Compliance Officer,** underlining our willingness to have state-of-the-art business practices, in accordance with international laws and standards.

We continue to progress in a socially responsible way. We met the **3-year objectives** that we had set for the 2002-2005 period, for the most part. We are entering a new phase with newly-set objectives for the 2006-2008 period. The progress requirements that we impose on ourselves are the best guarantee of the sincerity of our commitment towards our shareholders, our customers, our employees, and the communities in which we conduct business.

Serge Tchuruk

Corporate Governance

The Board of Directors and its committees

Alcatel has applied the strictest recommendations regarding corporate governance, both in France and in the United States. One of these recommendations is to increase the efficiency of the Board of Directors through the creation of specialized committees which examine some of the most complex issues in preparation for Board meetings.

The Board of Directors has three committees, which participate in the corporate governance effort, each with a distinct purpose as defined by the Board:
▸ **the Audit Committee,** created in 1995,
▸ **the Nominating and Compensation Committee,** created in 2001 to replace the Selection and Nominations Committees, originally created in 1995,
▸ **the Strategy Committee,** created in 2001.

Internal rules, specific to the Board of Directors and its committees, were adopted to ensure better operation of the company's corporate bodies and the improvement of financial information. These committees are exclusively comprised of current Board members, who are all independent (with the exception of Serge Tchuruk, who chairs the Strategy Committee).

The Board of Directors needs to include members who are knowledgeable in the highly complex technologies that make up Alcatel's core business, possess the financial expertise necessary for making informed and independent judgments on corporate financial statements and on the application of accounting standards, and have a certain amount of independence with respect to the company's management.

The criteria for independence identified by the Board of Directors combine the definition proposed by the French AFEP-MEDEF reports and the criteria adopted by the New York Stock Exchange. At its March 8, 2006 meeting, the Board of Directors confirmed the independence of eight of its members, accounting for over half of the Board membership.
Each committee may interview the company's top management, and particularly the Chief Financial Officer, the Human Resources Director, or the Strategy Director.

Audit Committee	Nominating and Compensation Committee	Strategy Committee
▷ Financial situation ▷ Accounting principles ▷ Internal control ▷ Statutory Auditors	▷ Composition of the Board of Directors ▷ Stock option plan policy ▷ Capital increases reserved for employees ▷ Remuneration policy	▷ Investments ▷ Growth ▷ Strategy

Furthermore, the Board of Directors meetings are usually preceded by an informal meeting with members of the Executive Committee. The members of the Board of Directors are invited to regular meetings with the company's main operating executives to be more familiar with the company's strategy and planned business developments. They may request the opinions of Senior Executives on any subject deemed appropriate, in accordance with the internal rules of the Board of Directors.

The Board of Directors submits an annual report to the shareholders as part of its "document de référence" on the activities of the Board of Directors and of its committees, as well as on the implementation of the internal control procedures.

Ethics

The Ethics Committee

The Alcatel Ethics Committee, created in 2002, is a permanent structure responsible for the enforcement
of the Statement on Business Practices throughout the company. Its members, the Chief Compliance Officer, the heads
of Legal and Human Resources, were appointed by the CEO. The Ethics Committee is chaired by Jean-Pierre Halbron,
member of the Board and former President of Alcatel.
The mission of the Ethics Committee is: to update the Statement on Business Practices, to handle any allegations
of misconduct and to coordinate local ethics committees, which mirror the composition of the corporate Committee.
The Committee meets every quarter or as circumstances require.
A special email address and telephone helpline are available to employees needing to contact the Ethics Committee.
Strict confidentiality is guaranteed.

Appointment of a Chief Compliance Officer

The scope of this newly created position encompasses oversight of compliance of corporate
practices with international laws and regulations, and with the Statement on Business Practices
with regard to corporate governance and business ethics. The CCO is a member of the Ethics
Committee and reports directly to Serge Tchuruk, the Chairman and Chief Executive Officer of
Alcatel. The creation of this new position underlines the company's commitment to be strictly
compliant with international business practices standards.

Work of the Ethics Committee in 2005	**The Ethics Committee met five times in 2005. During those meetings the Committee:** ▷ approved an update to the Statement on Business Practices, ▷ monitored developments concerning the Costa Rica dossier (concerning corruption allegations made public in 2004 involving officials, which led to the company filing a lawsuit against two of its former employees, the US Securities and Exchange Commission launched an ongoing investigation into the matter) and the action plan implemented by senior management regarding its business relations with agents and consultants; ▷ reviewed local ethics committees reports (USA, China, Italy), ▷ debated employee questions primarily about human resources topics.

Raising awareness of ethical business standards

In 2005, a program has been rolled out to increase
awareness of ethical business standards for employees
that are most potentially impacted, including:
- an online training module titled "Fighting Corruption",
  which country managers, sales team leaders, and
  company legal experts were required to complete;
- presentations targeting a large number of managers
  and sales teams;
- additional training for country managers focusing
  on business relations with agents and consultants.
  In 2006, a similar program will be implemented for
  purchasing teams.

In addition, a training and awareness campaign for
agents and consultants, initiated at the end of 2005,
will be conducted throughout 2006.

Alcatel in Australia

Taking up challenges

For over ten years, Alcatel has been committed to addressing its main economic, social and environmental challenges.

2005 confirmed Alcatel's return to growth, a direct outcome of the strategic vision developed and adopted by the company as early as 2001, concerning the emergence of image-oriented content on digital networks.

The company's ongoing commitment to promote universal access to information has led it to offer innovative solutions, tailored to the need of populations and combining technologies, services, and funding through local partnerships.

Regarding human resources management, the company has actively promoted professional development, continued education, diversity, and dialogue—all key factors for success in a context of demanding international competition.

In the environmental field, Alcatel has consolidated the existing processes, in order to be ready for the implementation of the European directives. It has also kept its commitment to reducing the power consumption of its products by half over a period of three years.

Finally, this year the company has enhanced its relationships with its suppliers, by initiating individualized dialogue to ensure that Alcatel's principles and values are duly respected and applied at the supplier level.

2005 Chronology
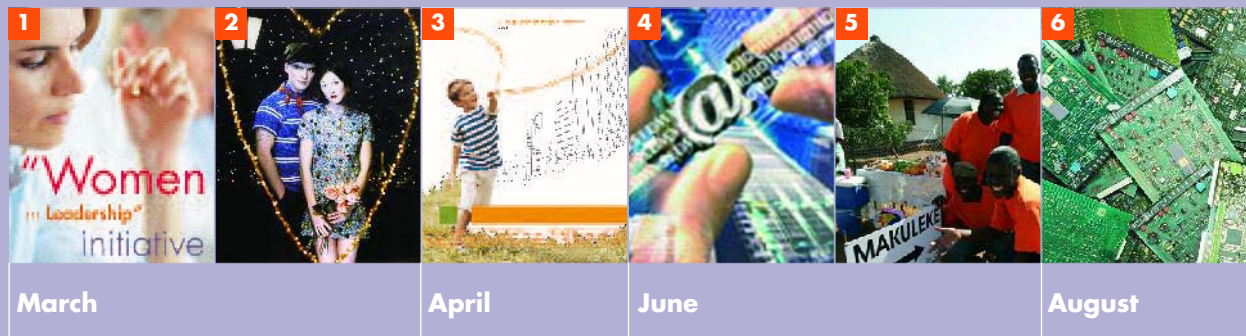
1
1
March

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April

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June

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August

1

Alcatel launches the "Women in Leadership" initiative

[March 8] Serge Tchuruk announces the launch of the "Women in Leadership" initiative.
The initiative, approved by the Executive Committee, is a five-year program aimed at increasing gender balance within company management.
See page 26

2

Alcatel sponsors the "From Paris to Shanghai" exhibition

[March 17-April 17] To celebrate the Year of France in China, the Shanghai Art Museum, in partnership with Alcatel, hosts a photography exhibition entitled "From Paris to Shanghai, three generations of French photographers".

Pierre et Gilles, Les Amoureux de Paris

See page 39

3

Alcatel publishes its 3rd Sustainable Development Report

[April 15] This report presents the fundamental principles guiding the company's approach to social responsibility, and its economic, social, and environmental objectives. It also describes the key milestones of the company's involvement through an illustrated chronology.

4

Alcatel, founding partner of the "Connect the World" initiative

[June 16] "Connect the World" is an initiative of the ITU (International Telecommunications Union) aimed at supporting new initiatives to promote access to information technologies throughout the world. Alcatel decides to become a founding partner of this initiative, alongside other major international companies, intergovernmental organizations, NGOs, and national governments.
See page 19

5

Alcatel contributes to bridging the digital divide in South Africa

[June 30] Alcatel launches an innovative pilot project in cooperation with Manobi, a mobile and Internet service operator for businesses in developing nations, and Vodacom, the main telecommunication operator in South Africa. The project is intended to enable local farmers to monitor market rates in real time.
See page 20

6

Alcatel is ready to comply with the WEEE directive

[August 13] The European Waste Electrical and Electronic Equipment Directive comes into force.
As a manufacturer and a user of electronic equipment, Alcatel is affected by this regulation. Through the creation, in 2004, of a dedicated project team to coordinate the efforts to bring the company into conformance, Alcatel is able to meet the directive requirements on time.
See pages 34 and 35

| **7** | **8** | **9** | **10** | **11** | **12** | **13** |

September **November** **December**

7

Alcatel joins the GeSI (Global e-Sustainability Initiative)

[August 24] By joining the GeSI, Alcatel confirms its desire to develop dialogue with its partners and peers in the telecom sector, to share best practices, but also to benefit from a collective approach on key sustainable development topics.

8

Alcatel supports the "Euro Visions" exhibition

[September 15] As main partner, Alcatel participates in the opening of the "Euro Visions" exhibition, created by Magnum Photos and the Paris Pompidou Center and hosted at the Center from September 15 to October 24, 2005. This travelling exhibition invites Europeans to get to know more about each other.

Martine Franck, Czech Republic

9

Alcatel listed in four major sustainability indexes

[September] Alcatel joins the Dow Jones Sustainability World and ASPI Eurozone indexes. Its FTSE4Good quotation is renewed, and Alcatel has been listed in the Ethibel Excellence Index as of January 2005.

10

Supplier convention in China

[November 8-9] Alcatel organized a two-day convention in China bringing together over 300 corporate suppliers. Alcatel took this opportunity to reaffirm its desire to closely involve its suppliers with its sustainable development policy and share best practices with them.

11

Alcatel at the World Summit on the Information Society (WSIS) in Tunis and at the Bilbao Summit

[November 16-18] As main partner of the WSIS, Alcatel reaffirms its commitment to contributing to bridging the digital divide by focusing on concrete solutions for promoting universal access to information. Alcatel also presented a number of projects at the World Summit of Cities and Local Authorities in Bilbao (Spain), 9-11 November 2005, for use by local governments and administrations, with the goal of improving their efficiency by harnessing information and communication technologies.

12

Alcatel attends the Global Compact Summit in Shanghai

[December 1] This event brings together over 400 signatories of the Global Compact, representatives of the civil society and governments from around the world. The summit is a major event in China. It aims at promoting the development by companies of responsible business practices and therefore contributing to a more inclusive and sustainable world economy.
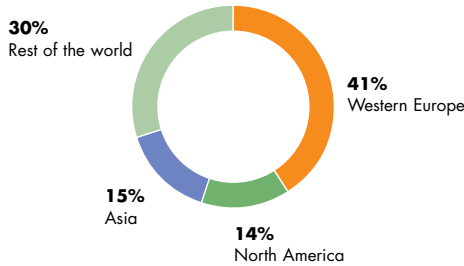
13

Alcatel pursues its dialogue with socially responsible investment funds

[December 8] As part of regular meetings held between the company and the financial community, Alcatel participates in a London road show with socially responsible investment funds.
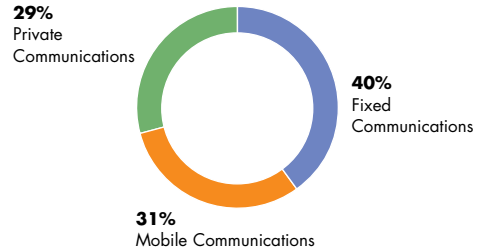
Alcatel in 2005

For full year 2005, sales amounted to €13,135 million, a 8.0% increase at a constant Euro/Dollar exchange rate. Net income (group share) amounted to €930 million or a diluted EPS of €0.68 per share (US$ 0.80 per ADS), which included capital gains on operational and financial assets of €0.17 per share.

Geographical breakdown of sales

- **30%** Rest of the world
- **41%** Western Europe
- **15%** Asia
- **14%** North America

Sales by segment

- **29%** Private Communications
- **40%** Fixed Communications
- **31%** Mobile Communications

Fixed Communications

The fixed networks market is in a state of total transition. Triple play services (telephone, high speed Internet and video) are opening new horizons for operators who can use them to offset the steady fall in revenues from traditional services. The deployment of high speed access, the expansion of video services and the trend toward IP are currently the main energizing factors. All around the world, operators are becoming increasingly interested in multimedia services, a market pulled along by strong demand from new applications such as interactive television on DSL or video on demand. Similarly, the fixed/mobile convergence made possible by the universality of IP and the opening of new generation networks mean that operators can deploy new services for both consumers and enterprises.

In 2005, the supply of these new services and the conversion of operators' networks to "all-IP" allowed the fixed networks market to move forward for the first time since 2001.

Network solutions: toward interactive television and IP networks
Presenting as early as 2001 its vision of network evolution toward image, Alcatel took full advantage of these new market opportunities and 2005 confirmed this leadership : deployment of broadband, routing and optical transport networks, software platforms and applications for television over IP, etc.
In 2005, Alcatel and Microsoft signed a global collaboration agreement to speed up the large scale roll-out of television services over IP (IPTV).

End-users:
the drivers of our
development
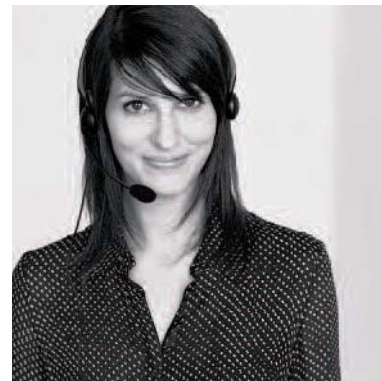
Having broken through the barrier of 2 million IPTV subscribers in 2005, the triple play market is growing rapidly. The number of IPTV subscribers should reach 70-100 million by 2010. Working on more than thirty triple play projects worldwide, Alcatel is indeed a preferred partner for operators because of its portfolio of solutions, its unrivaled experience in service integration and in end-to-end network design.

Access: toward IP and optical fiber
Alcatel is the uncontested leader in broadband access with more than 180 customers in 75 countries.
Its IP offering is ideally suited to the most dynamic applications: integrated video and communication services. By acquiring TiMetra in 2003, it was able to position itself firmly in intelligent IP routers and currently holds a strong number 3 position. Alcatel consolidated its technological lead in optical platforms and is still the world's number 1 for the fifth consecutive year. Finally, Alcatel has developed a comprehensive portfolio of business services so that it can assist operators particularly in the design, installation, maintenance and operation of their networks.

Mobile Communications

In 2005 Alcatel's mobile communications business grew well ahead of the world market, benefiting simultaneously from the ever-increasing penetration of GSM mobile services in developing countries and the growth of UMTS third generation networks.

**GSM deployment in emerging countries: a breeding ground for growth**
Due to the steady spread of the GSM and EDGE technologies in developing countries, Alcatel had a record sales year and became world leader in these countries with 18% market share in 2005.
New customers in countries, such as India and Cambodia, were announced during this period. EDGE technology also grew strongly in 2005 with many deployments in Alcatel's customer base, particularly in France, Romania, Russia and Saudi Arabia.

The deployment of UMTS third generation networks and the implementation of a high speed version (HSDPA) in Western Europe also contributed to Alcatel's growth in 2005.

WiMAX: Alcatel is positioning itself for the future
Through its partnerships with Intel and Samsung and its long term investments in the high speed access technologies, the company has won 30 contracts, particularly in Austria and Poland, building a benchmark customer base.
The company supplied the world's first WiMAX commercial network in 2005 and will be the first supplier in the world to offer a "mobile" WiMAX commercial solution in 2006.
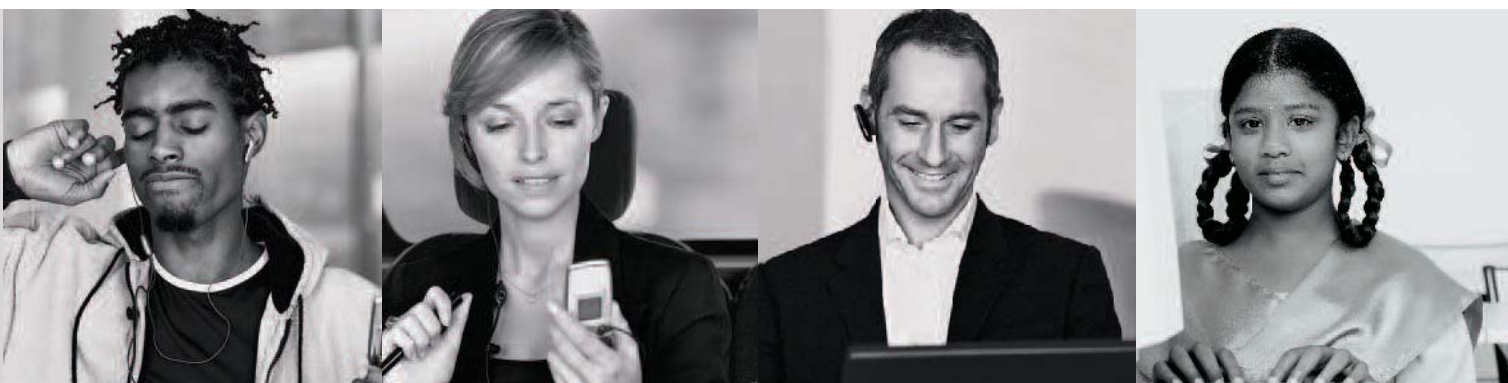
Mobile core network switching: a successful transition
2005 marked the beginning of the transition from conventional switches to intelligent switches (softswitches) in mobile core networks. The company made inroads with new customers, particularly in Western Europe and Asia.
Commercial relations were strengthened with the United States operator T-Mobile where the 10 billion calls handled barrier was broken. These successes bear out Alcatel's strategic decisions making it the benchmark in transforming mobile networks to all-IP.

Mobile applications: strong growth
Applications associated with payment systems and video and music downloading services grew solidly in 2005. The convergence of pre-pay and post-pay invigorated the payment systems replacement market in which Alcatel strengthened its share.
Mobile leisure services, such as video and music, also expanded again in 2005. Capitalizing on its technological experience in video, 3G and satellite, Alcatel has developed a mobile television offering based on DVB-H in the S band technology. This hybrid solution, combining satellite and terrestrial relays, is the fastest solution for deploying mobile television services countrywide.

Some 20% of the world's users of video download services on mobiles use Alcatel's technologies.

*DVB-H
in the S band*

Private Communications

Alcatel is a leading provider of enterprise communication solutions to small, medium, and large enterprises, as well as to public sector institutions worldwide. Alcatel's enterprise portfolio provides business communication applications, including Unified Communications and Contact Centers, an advanced IP Telephony offering, and IP Networking products.

Alcatel also recorded sustained growth in its businesses focusing on vertical markets. Alcatel has been involved in this field for a long time, building up an innovative offering of solutions and services for the four business sectors (transportation, energy, defense and the public sector) whose needs in communication solutions are of strategic importance.

Enterprise Solutions: Focus on IP Convergence
As IP technology continues to fuel growth and innovation, today's enterprises are increasingly deploying solutions that handle voice and data on the same network. The powerful combination of a secure IP network and innovative communications applications is driving investment by enterprises. These new converged IP solutions and applications enable to reduce costs, to offer employees new work organization models and to increase customer satisfaction for enterprises of all sizes.

In 2005, Alcatel's enterprise business increased its focus on providing flexible deployment models of its solutions. Alcatel's Managed Communication Services (MCS) suite provides a wide variety of deployment models, enabling operators and service providers to deliver innovative enterprise solutions.

Integration services:
demand on the increase
Alcatel integrated solutions offer services for multi-vendor and multi-technology and customized communication networks to meet the customer's specific needs. Alcatel can take on - locally and worldwide - some or all of network design, construction, systems integration and OSS (commissioning, services, billing and customer service), deployment, security, operation and maintenance of networks.

Railway signaling: a strong growing market
In the main line railway signaling systems market, 2005 which saw the deployment of the first ETCS lines was a successful year for Alcatel with several lines beginning service, Vienna/Budapest, Berlin/Leipzig and Madrid/Toledo.

Urban transportation is also growing strongly. Alcatel is a pioneer and leader in CBTC (Communications-Based Train Control) technology which increases the frequency of trains in total security while reducing operating and maintenance costs. 2005 was notably marked by the contract signing for the Dubai subway, the extension of the London City Airport line of the Dockland Light Rail and of an electronic engagement system for the Paris RATP.

Satellites: Alcatel Alenia Space at the heart of the Galileo program
2005 was the year in which Alcatel and Finmeccanica formed Alcatel Alenia Space which is now Europe's number 1 provider for satellite solutions and occupies a prominent place in the field of orbital infrastructures.
An originator of the Galileo program, Alcatel Alenia Space is a founding member and benchmark shareholder of Galileo Industry, the entity responsible for developing and deploying the 30-satellite constellation and the related ground segment. Alcatel is likewise at the heart of the future Galileo concession, the operator of the system and supplier of value added services for the transportation, security, mobile telephone and leisure sectors.

Research and Development: a quest for excellence

Over the past several years, Alcatel has maintained a high level of investment in research and development, accounting for about 12% of sales. To leverage this investment, R&D activities are focused on areas with high innovation potential, where the company can reach or strengthen a leading position.

In 2005, Alcatel expanded its innovation capacity by developing its partnership policy and a strategy based on the creation of specialized regional excellence centers, concentrating potential for growth, recognized scientific and technical talents in a rich and dynamic academic and industrial environment. Alcatel R&D is based in four major European countries (France, Germany, Belgium, Italy), the United States and Canada, China and India. Alcatel has indeed been built through a series of acquisitions that brought in a number of skills, resulting in the creation of these excellence centers. The latter ensure the sustainability of Alcatel's investments within existing ecosystems, and the development of the company's presence around these ecosystems.

Research, anticipation of technological breakthroughs and product improvements are permanent challenges to respond to customers and end users' needs and to keep pace in a competitive environment.

In France, Alcatel has mobilized all of its R&D centers to become one of the leading contributors to the collaborative projects initiated as part of the "Competitiveness Clusters" planned under the French Industrial Innovation Agency. The Villarceaux center, dedicated to Research and Development, will become one of Alcatel's major R&D centers in the world, as well as one of the very first Ile-de-France centers in the field of ICTs. The center will be at the heart of the System@tic competitiveness cluster. The company is also one of the leaders in Brittany's "Images and Networks" cluster.

Internationally, several R&D centers have been reinforced, based on two criteria -local skills and position in buoyant markets- with the creation of new research centers in Russia and China. In India, Alcatel, hand in hand with the Indian government, created the "C−DOT Alcatel Research Center" to develop new high bandwidth communications solutions for use in developing countries.

Thanks to these centers, the company can meet the specific needs of certain markets and customers which require development and customization by local teams. Moreover, certain countries demand a significant local technical presence in order to open their markets.

System@tic competitiveness cluster

Seven international R&D excellence centers

▶ **France:** mobile networks, mobile solutions, optical networks, enterprise communications, space.
▶ **Germany:** train control systems, radio technology.
▶ **Belgium:** broadband access networks (xDSL), fixed network solutions.
▶ **Italy:** optical networks.
▶ **United States and Canada:** data networks for enterprises and telecommunication operators.
▶ **China:** fixed and mobile access networks, optical networks.
▶ **India:** software development.

Optimizing and enhancing R&D activities

▸ A new R&D program called "Internal Ventures" was put in place based on the principles of how start-up companies operate and are organized.

▸ Initiatives in recent years to constantly improve the quality and reliability of product development and reduce its cost are bearing fruit. For example, average development project time has been cut by more than 10% per year for the last two years.

▸ Concerning intellectual property, of particular note is an increase in inventions and filed patents on service platforms and new telecommunication applications (television over IP, fixed/mobile convergence, etc).
An increased effort has also been made to protect intellectual property in China, India, Russia and other emerging countries. Finally, Alcatel is developing its range of patent and technology licenses that are generating increasing revenues.

In 2005, many technologies that came out of the research laboratories enhanced Alcatel's product and solution offering. New solutions were introduced to facilitate creation, transport and development of new services such as television and voice over IP and "converged" services reachable, by the final users, from fixed and mobile networks.
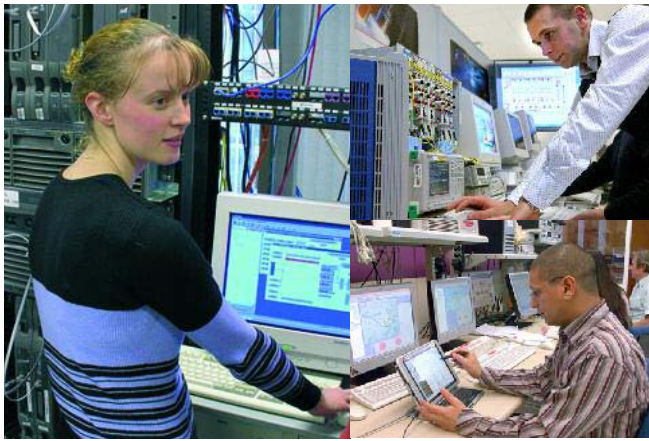
R&D in a few figures

▸ **6** international Research & Innovation Centers: Marcoussis, Stuttgart, Antwerp, Dallas, Ottawa, Shanghai.

▸ An R&D community of over **16,000** people.

▸ €**1.5** billion investment.

▸ **700** new patent registrations in 2005.

▸ A **10,000** active patent portfolio.

▸ **100** collaboration projects with over **50** academic research centers.

▸ **300** experts participating in **100** standards organizations.

Customer Satisfaction

Alcatel formally stated its commitment to customer satisfaction, the top company value, in its Customer Commitment Charter published in 1997. Dialogue has been a key factor for progress in this area.

▸ In 2005, customer satisfaction surveys were conducted with over 50 key customers already benefiting from dedicated improvement plans.

▸ A common "VEGA e-tracking" tool was developed to keep a record of incident tickets and manage maintenance contracts. The tool provides the users with an overview of customer inquiry processing throughout the company. Its "e-alert" feature immediately informs the senior management involved of major network failures.

▸ As part of the "business continuity plans" created in the event of a crisis, a set of tools and methods was developed to guarantee satisfactory customer relations.

▸ Alcatel is similarly committed to providing its customers with accurate information concerning the management of ethical, social, and environmental issues by the company, and ensuring that customer concerns are passed on throughout its supply chain.

Executive Committee members receive a detailed monthly report regarding the issues at hand and the progress being made with respect to the company's customer satisfaction objectives.

As we publish

▶ **Alcatel and Lucent Technologies to merge and form world's leading communication solutions provider**

Alcatel and Lucent Technologies announced on April 2, 2006 that they have entered into a definitive merger agreement to create the first truly global communications solutions provider with the broadest wireless, wireline and services portfolio in the industry.

The transaction, which was approved by the boards of directors of both companies, will build upon the complementary strengths of each company to create a global leader in the transformation of next-generation wireless, wireline and converged networks.

- Combined company will be a global convergence leader with the most comprehensive wireless, wireline and services portfolio in the industry.

- It will feature one of the largest global R&D capabilities in communications.

- Serge Tchuruk will be non-executive chairman and Patricia Russo will be the CEO, based in Paris; there will be an equal board representation from both companies in a merger of equals.

The combined company, which will be named at a later date, will have an aggregate market capitalization of approximately €30 billion (US$ 36 billion), based upon the closing prices on Friday, March 31, 2006. Based on calendar 2005 sales, the combined company will have revenues of approximately €21 billion (US$ 25 billion), divided almost evenly among North America, Europe and the rest of the world. As of December 31, 2005, the combined companies had about 88,000 employees.

The merger is subject to customary regulatory and governmental reviews in the United States, Europe and elsewhere, as well as the approval by shareholders of both companies and other customary conditions. Until the merger is completed, both companies will continue to operate their businesses independently.

▶ **Alcatel to pursue the transfer of its satellite activities and critical systems for security to Thales - Alcatel would strengthen its position as the reference shareholder of Thales**

Alcatel announced on April 5, 2006 that the Board of **Thales** had approved the acquisition in principle of its satellite subsidiaries, its railway signalling business and its integration and services activities for mission-critical systems. Alcatel would strengthen its position as the reference shareholder of Thales, with a 21.6% stake, while Groupe Industriel Marcel Dassault should keep its 5% share and the French state would remain the majority shareholder with 27.1%. With this transaction, the industrial and commercial partnership between Alcatel and Thales would be strengthened.

This project is subject to the approval of Alcatel's Board of directors within the framework of its proposed merger with Lucent Technologies, Inc, as well as the approval of its partner in satellite activities, Finmeccanica. The transaction will be further subject to regulatory approvals.

@ | *The press releases are available on www.alcatel.com*

Digital Inclusion

A reinforced commitment to achieving a more inclusive information society

Today, accessing mobile telephony and broadband services is essential for economic and social development. It is a condition to compete in the global economy. To accomplish an inclusive information society, Alcatel partners with local players and offers innovative solutions that enable everyone to benefit from the most advanced services at a highly competitive cost. "Broadband for all" is Alcatel's commitment.

Extracts of Serge Tchuruk's Speech at the First Plenary Session of the General Debate of the World Summit on the Information Society in Tunis

"[…] [Since the last 2003 Geneva Summit], ICTs have been widely confirmed as an essential tool for development. […] More and more initiatives show how ICT benefits can expand to SMEs and individual entrepreneurs. Alcatel participates to such projects in the fishing and agriculture fields in Africa. It clearly appears that, when they have access to tools and information, these small entrepreneurs rapidly take advantages of the technologies to develop their activities.

The situation today

Today, two billion people around the world, or one billion more than two years ago, have access to telephone service using mobile phones. This growth has been particularly beneficial to emerging countries. I would like to emphasize the growing role of regional operators who have chosen to invest at the opening of the markets. They have taken their entrepreneurs' risks and they now largely contribute to the development of their regions. At the same time, the number of people who have access to the network has significantly increased. The drop of network deployment and operation costs enables operators to broaden their offers towards lower-income users. […]

It must be noted, however, that in the broadband area, which allows high speed Internet access, the divide between industrialized countries and emerging ones has widened [in the last two years]. In industrialized countries, broadband subscriptions account for about 20% of telephone lines. In emerging ones, broadband doesn't amount to more than a few percent, in spite of noticeable progress in some areas of the world, like Latin America and China. Yet, broadband is essential to the economy. It is vital for small, medium and large enterprises, and for education. […]

Where do we go from here?

We must pursue and expand the development of mobile. Everyone agrees on the 'one billion more' goal. The focus is of course on inexpensive mobile. […]

"I would like to express once again my conviction that the digital divide is not a fate and that broadband for all is not a dream."

But bridging the digital gap between industrialized and emerging countries necessarily goes through a re-investment in fixed networks, as it is already the case in developed countries. […] They are centred on company services, access to content, voice over IP and, for the most advanced markets, IPTV. […] The promising beginnings of broadband in Latin America are not coming from the blue: they are the results of two main regional operators' investments, the Telmex and Telefonica companies. The mobile operators' growing interest to invest in fixed solutions is also to be noted.

From a technological point of view, broadband can be delivered via a range of technologies that are more and more adapted to a diversity of situations. Even though ADSL on a copper telephone line is still the norm today, the big change is to come from new wireless technologies using either satellites - like the Rascom pan-African network - or new cellular technologies like WiMAX. These solutions enable broadband access even to the most remote villages at little cost. We've been betting on these for quite some time. […] Such a large country as India also understands that it is essential to grasp this opportunity. This is why Alcatel has established close cooperation with this country and set up a joint R&D center to develop these technologies and benefit from large-scale deployment experiences.

In general matters, […] new network technologies built, in particular, on Internet Protocol offer more and more capacities, speed, services, for a fraction of the investment cost of traditional networks. This is an outstanding opportunity for countries which can skip one technological generation and fully come on board the high-speed fixed and mobile world." […]

Alcatel at the World Summit on the Information Society in Tunis

Universal access to Information has been officially recognized as one of the UN Millennium Goals to be reached by 2015, one of the imperatives to "develop a global partnership for development". To this end, the International Telecommunication Union convened a two-phases World Summit on the Information Society (WSIS).

At the first phase in Geneva, December 10-12, 2003, a "Declaration of Principles" and a "Plan of Action" to promote the information society were adopted. The second phase in Tunis, November 16-18, 2005, focused on solutions to implement the action plan agreed upon in Geneva and adopted two texts: The "Tunis Commitment" and the "Tunis Agenda for the Information Society". Alcatel participated as observer in the Summit preparatory meetings and contributed to the discussion along with other representatives of the business sector. The company will continue to work with all stakeholders involved in the process to build innovative projects that will give concrete expression to the commitment expressed by all at the WSIS.

Alcatel booth at the ICT4All exhibition of the Tunis Summit

The ICT4All exhibition invited private companies, NGOs and participating States to showcase concrete solutions contributing to a more effective use of ICTs worldwide. The Alcatel booth comprised three demonstrations areas. The first one focused on multimedia services and evolution to 3G. The second one emphasized the opportunities offered by fixed, wireless, mobile and satellite access technologies to deliver broadband for all. In particular, the company presented the Global Imaging tool, based on WiMAX technology, that allows the transmission of medical examinations from villages to hospitals in the city via broadband connections. The third area demonstrated digital bridge services in the fields of e-health and collaborative work.

On the occasion of the Tunis Summit, Alcatel and Maplecroft, a consulting company specialized in corporate responsibility, launched a global map on digital inclusion

See the interactive map at http://alcatel.maplecroft.com/digital

This map explores the role of ICTs as an enabler of social and economic development. It illustrates how Alcatel's activities play a key role in bridging the digital divide and describes the win-win benefits of engagement in facilitating digital inclusion.

infoDev, a partnership of major public donor agencies, and Alcatel published a joint study in the context of the WSIS

Download the report from www.alcatel.com/DigitalBridge

It highlights opportunities for achieving core development objectives when combining innovative technologies and creative business and financing models, in particular the rural and underserved communities in Sub-Saharan Africa.

Alcatel at the 2nd World Summit of Cities and Local Authorities

Alcatel also participated in the 2nd World Summit of Cities and Local Authorities, held in Bilbao, Spain, November 9-11, 2005, to promote the role of local authorities in the development of the information society. On this occasion, Alcatel presented 16 projects implemented for public administrations and local authorities. These projects demonstrate how Alcatel enables local authorities to build the digital society, by stimulating economic development, providing innovative services for all, bridging the digital divide, and enhancing administration efficiency in areas such as e-government, e-health or e-education.

Alcatel partners with international organizations to bridge the digital divide

Alcatel, founding partner of the "Connect the World" initiative

"Connect the World" is a global multi-stakeholder initiative launched by the International Telecommunication Union to encourage new projects to bridge the digital divide.

It places strong emphasis on the importance of partnerships between the public and private sectors, UN agencies and civil society. It has 22 founding partners, including leading international companies, inter-governmental organizations, NGOs and national governments. Connect the World will focus on three key areas of activity, which are considered to be the primary "building blocks" required to reach the goal of connecting all communities by 2015: (i) enabling environment, (ii) infrastructure and readiness, and (iii) application and services. Alcatel will contribute with concrete actions realized under its Digital Bridge Initiative to the last two building blocks.

Support to the Economic and Social Commission for Western Asia (ESCWA)
Confirming its commitment to bridge the digital divide, Alcatel signed a Memorandum of Understanding (MoU) with the United Nations Economic and Social Commission for Western Asia (ESCWA). This agreement is a major contribution to the realization of ESCWA's regional plan of action for building the information society and highlighting the benefits of Information and Communication Technology as a development enabler for this region. As part of this program, Alcatel and ESCWA conducted a joint workshop in Beirut (Lebanon) in July 2005 to kick-off the project proposed by Alcatel. This workshop was attended by 41 experts representing 7 of the 13 ESCWA countries. The workshop resulted in the definition of 7 concrete projects. Since July, three of these projects are ongoing. In Alcatel's Partnership Center in Cairo, the company established a regional hub to promote innovative ICT ventures. Since September 2005, the hub is operational and ready to host project proposals from all ESCWA's member countries.

Alcatel partners with UNITAR to train local authorities on ICT
In 2005, Alcatel partnered with the United Nations agency UNITAR to create e-administration workshops in China, Poland and South Africa, for local authorities to foster best practices and share technical expertise in information technologies. UNITAR aims at enhancing the effectiveness of organizations through appropriate training and research. It is committed to supporting training programs that are carefully designed and implemented to ensure they make a lasting contribution to national development.

"Whatever your country or region in the world, broadband technologies should be available to everyone. This is Alcatel's commitment"

"THE NUMBERS LOOK GOOD. IT'S A DEAL."

"I AM THE STAR PUPIL OF A VIRTUAL CLASSROOM."

"WHAT A GOAL! RIGHT IN THE TOP CORNER."

Alcatel Digital Bridge Initiative

Alcatel's Digital Bridge Initiative seeks to create win-win solutions based on innovative use of Information and Communication Technologies (ICT) in under-served (usually rural) areas in emerging countries. This is undertaken with the active involvement of local players, in order to create high added value services and applications designed to answer the needs of the local population.

In South Africa: the Makuleke project

In partnership with Manobi, the leading operator of mobile and Internet services dedicated to the rural sector of emerging countries and Vodacom, the main telecom operator in South Africa, Alcatel launched a groundbreaking pilot project in Makuleke (South Africa) to connect rural farmers to real-time market information.

This service enables producers, intermediaries, and wholesalers to use a GSM mobile phone to obtain real-time prices for produce that is being traded on the main wholesale markets of Johannesburg and Pretoria, located hundreds of kilometers away. They can also sell their harvest to other potential buyers (restaurants and lodges for example) by making proposals through SMS to all other Manobi subscribers. Approximately 200 farmers in this town of 15,000 inhabitants are trained to use the service in the pilot phase.

The goal of this project is for the users to break out of their isolation by remedying their lack of information and thus their low competitiveness.

In Tunisia and Egypt: the "Partnership Centers"

Alcatel launched a "Partnership Center" in Tunis in December 2003 and another one in Cairo in September 2005. They are incubation centers located within Alcatel premises and open to local partners, selected on the basis of their proposals. Alcatel provides developers with a platform for the realization of innovative applications and services designed for mobile networks. Situated in some of the emerging countries where Alcatel has a wealth of personnel skills and talent, these "Partnership Centers" are essential places to foster exchanges and share expertise.

Al-Ghazala Technological Park in Tunis

Since its inception, the Tunis center has incubated 20 projects developed by 4 partners. Two of them, "Get Wireless" for meteorological, sport promotion and local flight schedule services and "Progress Engineering" for SMS sport services, have started commercial operation of their services through the mobile networks of Tunisiana and Tunisie Telecom. The Tunis center migrated in September 2005 from an original SMS-only platform to an MMS-enabled one. Three partners are already working on the development of MMS applications.

Alcatel has set an objective to create three new Partnership Centers, by the end of 2008, to incubate local projects

Partnership Center in Cairo

5 projects out of more than 20 submitted proposals have been selected to benefit from Alcatel resources and expertise. It is expected that by the end of the year all of them will have completed their first stage of development and will consider starting field trials through local mobile operator networks. An MMS platform is also available in Cairo.

Contribution of Alcatel Alenia Space activities to bridge the digital divide

Alcatel's activities in the space sector offer great opportunities to help bridge the digital divide. Here are some examples of the projects developed in the fields of e-health, collaborative research and humanitarian emergency.

Healthware: developing telemedicine on a European scale

Alcatel was chosen as coordinator of the Healthware Research & Development project co-funded by the European Commission. Grouping 19 partners in a European consortium, the Healthware project is designed to foster the development of satellite-based telemedicine solutions, in particular those using DVB-RCS technologies (digital video broadcasting – return channel by satellite). The use of DVB-RCS technologies opens new possibilities for highly interactive applications, such as second opinions or surgical video-assistance. The project began in May 2005 for a 3-year period.

Medicin@Païs: a local French program for continuous medical training, assessment and remote sharing of medical data

To remedy the isolation felt by practitioners and the personnel of certain local hospitals in the Nice backcountry, a telemedicine program, called Medicin@Païs, was set up in partnership with the Alpes-Maritimes General Council and the Nice Medical School. This program, deploying communication and remote exchange systems, has emphasized the use of collaborative solutions and enabled 10 local hospitals to not only access the resource and expertise centers of hospitals on the coast but also to directly share information among themselves. Telemedicine is essential not only for the survival of rural hospitals but also to ensure the quality of the medicine practiced in these hospitals.

See page 23 "The Alcatel-Finmeccanica Alliance" to find the description of Alcatel Alenia Space

SpaceforScience program: Alcatel partners with UNESCO and ESA

Alcatel, UNESCO (United Nations Educational, Scientific and Cultural Organization) and ESA (European Space Agency) are working together on the SpaceForScience program. SpaceForScience is part of the UNESCO initiative to strengthen cooperation between scientific centers in South-East Europe. Thanks to this program, 20 scientific institutes will be provided with innovative two-way services such as video conferencing, collaborative environment and video streaming. The satellite application platform is provided and hosted by Alcatel Alenia Space's premises in Cannes. Alcatel Alenia Space is responsible for the deployment of the global network, from the applications platform to the user sites.

Emergesat: a humanitarian emergency tool

Alcatel, the French Space Agency (CNES) and Remifor, a Euro-Mediterranean risk management training and information network, have committed to pool their skills and expertise to collaborate in the design of the emergesat humanitarian aid tool using space-based technologies of telecommunications, Earth observation and location/navigation satellites. Emergesat is dedicated to help all players involved in humanitarian crisis management (NGOs, civil society, international organizations) coordinate their initiatives and communicate with distant stations. It is designed to be quickly deployable and operational, easily transportable, and customizable depending on the situation.

Human Resources

Alcatel in Germany

Human Resources management at Alcatel relies on a forward-looking approach focused on anticipating business needs and ensuring that the company fully leverages its teams' strengths. Promoting career development, continuous learning, diversity, mobility, and dialogue are key success factors to keeping pace with today's competitive market.

Workforce evolution

On December 31, 2005, Alcatel had 57,699 employees. For the first time in five years, new arrivals from recruitment or acquisitions (10,000 people) outnumbered the departures, from cession of activities or completion of restructuring programs (8,000 people).

The extent of the workforce's movements since 2001 shows the transformation undertaken by the company in order to keep up with the evolution of its businesses. Beyond the restructuring linked to the unprecedented telecommunications crisis of 2001 – 2003, the cessions from 2001 to 2005 resulted in 26,000 departures out of a total of 97,000 and the acquisitions resulted in 15,000 arrivals out of a total of 43,000.

During the same period, the company recruited 28,000 people: 34% were in Western Europe, 24% in North America, and 22% in Asia.

Alcatel workforce transformation 2001-2005
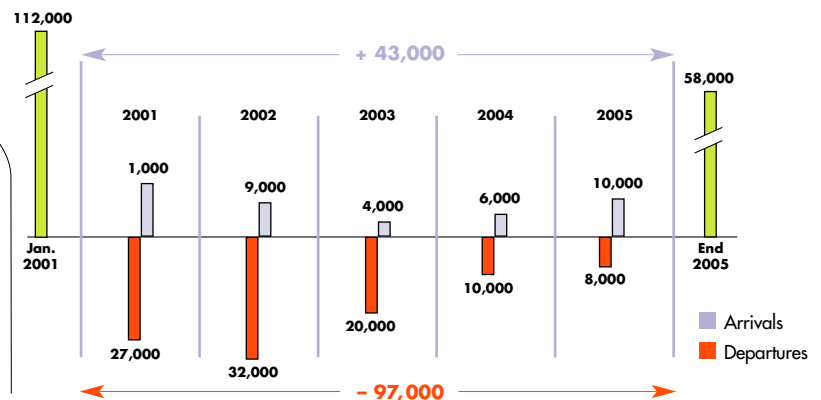

The Alcatel-Finmeccanica Alliance:

On July 1, 2005 Alcatel and Finmeccanica announced the creation of two joint companies: Alcatel Alenia Space (67% Alcatel-owned and 33% Finmeccanica-owned) and Telespazio (67% Finmeccanica-owned and 33% Alcatel-owned). The goal of this alliance was for the two companies to consolidate their leadership in telecommunication satellite systems and services.

Alcatel Alenia Space combines Alcatel Space and Alenia Spazio's activities. The company concentrates on the design, development, and manufacturing of space systems, satellites, payloads, instruments and associated ground systems for civilian and military applications. The headquarters of Alcatel Alenia Space are located in Cannes (France), with plants in France, Italy, Belgium and Spain. Alcatel Alenia Space is the European leader in satellite systems. In 2005, the company employed approximately 7,200 people.

Telespazio combines Telespazio with Alcatel Space Services and Operations activities. It concentrates on operations and services for satellite solutions, which includes control and exploitation of space systems as well as value-added services for networking, multimedia and earth observation. Its headquarters is located in Rome (Italy) with plants in Italy, France and Germany. With estimated 2004 sales of €350 millions and around 1,400 people, it will be a key player in the space services market. In 2005, Telespazio employed approximately 1,300 people.

Alcatel's total headcount of 57,699 employees is calculated using proportionate consolidation of the parts held by Alcatel in each one of these joint companies (67% of the headcount of Alcatel Alenia Space and 33% of the headcount of Telespazio).

2005 Alcatel key figures

Headcount by segment (%)

Headcount by region (%)
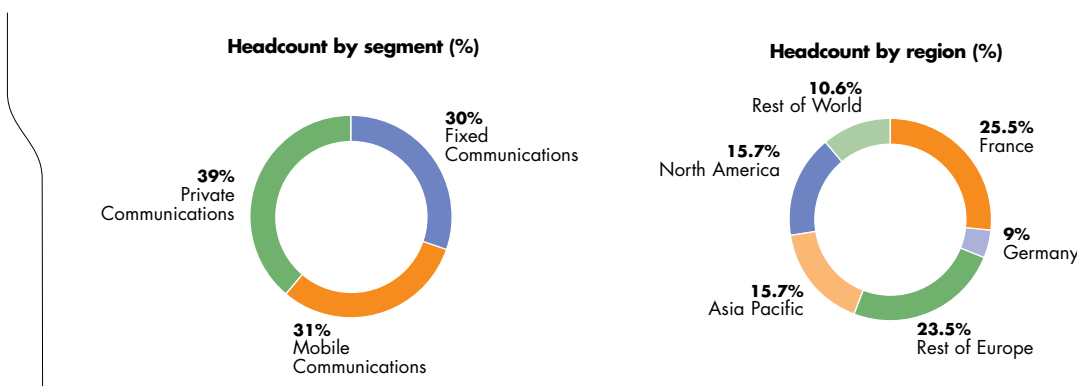
Optimizing talent

Managing global performance

With the worldwide deployment of the Global Performance Management Program in 2005, all managers and professionals at Alcatel now have a common web-based, self-service tool to manage their performance and facilitate discussions on their professional development. Alcatel local units were key to the successful roll-out of the tool through providing communications and training to employees.

The Global Performance Management Program helps managers set clear, consistent objectives, measure employee success and promote dialogue. It provides employees with the opportunity to share a common language across the company's worldwide organization. Thanks to this improved process, Alcatel's management can better ensure that employees' development needs match those of the business.

Among all Alcatel professionals who had a development review with their manager during the annual performance management cycle, more than 70% have subsequently benefited from development-related opportunities such as mentoring, coaching, or formal training.

The objective is to have learning and development activities agreed upon during the annual performance review for all managers and professionals by 2008.

Developing the next generation of leaders

The development of talent at Alcatel is managed through several processes. The main one is the organization of annual individual interviews, resulting in setting up professional development plans that maps career expectations to business needs.

One tool to support talents in understanding their development needs is the 360-degree feedback process. Together with a person trained in coaching, they review the results of the feedback and build a career development plan identifying the development enablers required to reach their professional aspirations.

For employees identified as future leaders, Alcatel offers a Leadership Development Program. A key part of this program is a competency evaluation center that allows participants to be assessed against Alcatel's Leadership Profile.

Reinforcing key learning priorities

Key learning priorities to support Alcatel's corporate strategy are in Sales and Marketing, with an added emphasis on Product and Project Management. The success of the integrated development program launched in 2004 to support the Alcatel sales population, led to its extension through 2005. To better optimize support to technical and non-technical sales teams, qualification programs remain essential to Alcatel's educational offering. A new program was set up to reinforce the qualification of product managers with state-of-the-art methodology and tools.

Alcatel provides a variety of flexible learning solutions to employees and customers. Courses can be taken via classroom, e-learning, or virtual learning, when students are linked via Internet or intranet connections through a web conference tool. Alcatel University has 15 branches around the globe to support employee learning.

Thanks to shared initiatives between the Alcatel University network and local organizations, e-learning usage rose by 70% in 2005, reaching 22% of all employee training as compared to 13% in 2004. The increase is mainly due to the inclusion of more e-learning in large scale programs such as technical certification of sales support, project management or training on ethics. An average of 25% of training was delivered online. However, online learning has been taking off more slowly in the largest units, where traditional classroom courses are more efficient for product training.

Diversity at Alcatel

As stated in its Social Charter, "Alcatel is a global company committed to diversity, tolerance and equal opportunity for all". To make this commitment tangible, Alcatel has taken initiatives in the fields of cultural and gender diversity. By signing the French Diversity Charter in 2005, Alcatel once again reaffirmed its dedication to promoting diversity within its workforce.

Bringing cultural diversity into the workforce

Alcatel's commitment to diversity is a natural consequence of its multi-national workforce. In 2005, 25 nationalities were represented among Alcatel employees holding top executive positions. Moreover, in line with the 2002-2005 objective to "reinforce cultural diversity within management teams", around 70 different nationalities are today represented among managers and professionals.

Alcatel's willingness to bring more cultural diversity into the workforce has also led to a partnership with AIESEC, a non-profit international student platform with a global network of more than 800 universities. With a wealth of candidates from 90 countries, the program allows Alcatel to source high-potential university students and graduates and offer them internship opportunities across the company's worldwide organization.

Alcatel – AIESEC Partnership in 2005

The pilot program, begun in 2005, resulted in 35 internships at seven different Alcatel locations. Graduates from Ukraine, India, Canada, Germany, Poland, Belgium, China, Bulgaria, Korea, Portugal, Peru, Colombia and Uganda started work on a large variety of projects in France, Germany and Belgium. The partnership contract has been renewed for 2006 to extend the program to other Alcatel units around the world.
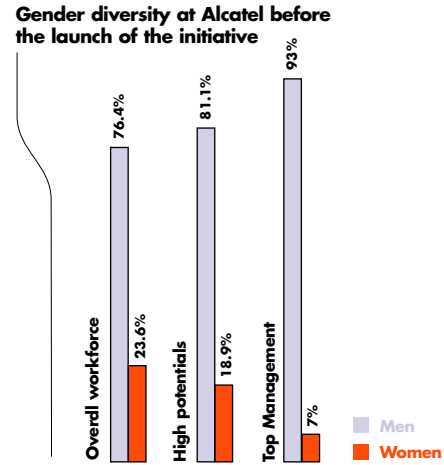
Gender diversity: a business imperative

Women are hired by the company at entry level in approximately equal proportion to their availability on the job market. There are women in Alcatel's senior management, but few compared to the total percentage of women in the company's talent pool.

To remedy this situation, Alcatel Chairman and CEO, Serge Tchuruk, launched the Women in Leadership initiative in 2005 to increase gender balance in top management.

"My Excom colleagues and myself believe that improved gender diversity in our leadership pipeline is a business imperative, boosting effectiveness and innovation."

Serge Tchuruk, March 2005

Gender diversity at Alcatel before the launch of the initiative

	Men	Women
Overall workforce	76.4%	23.6%
High potentials	81.1%	18.9%
Top Management	93%	7%

To increase the number of women in Alcatel top management positions, actions must be carried out at different levels:

▸ The company will investigate whether the number of women targeted for recruitment can be increased, taking into account the needs of the professional profiles that the company is looking for, i.e. with an emphasis on scientific and technical skills.

Alcatel plans to evaluate, on a country-by-country basis, by the end of 2006, whether it can improve the proportion of women hired depending on their availability on the high-tech local labor market.

▸ It is also essential to build awareness among management and the women themselves. In this respect, a dedicated action plan has been put in place. It includes the organization of gender diversity awareness meetings for management, the creation of a dedicated discussion forum on the company's intranet, the presentation on the intranet of video interviews of women currently holding top management positions at Alcatel and willing to share their personnel and professional experience, the promotion of internal and external women's networks.

▸ Moreover, mobilizing human resources teams is critical to ensure that the "Women in Leadership" program becomes one of their top priorities. In 2005, Alcatel's human resources network met several times on this subject. Specific tools for training, mentoring and coaching have also been developed to support women in their career development. During the Organization and People Reviews, held once a year, a special focus will be given to women's career development. (The outcome of the Organization and People Reviews is the identification and tracking of Alcatel's global talent, as well as the creation of succession plans and succession pools for all critical positions in the company).

As a result, the percentage of women in Alcatel's leadership pipeline is expected to increase by 10% by the end of 2008.

▸ Finally, it is necessary to adopt a case-by-case approach, taking into consideration the current situation of each site and countries' social and cultural specificities. To this end, managers in each country are asked to work in cooperation with the women's network built locally to establish their own action plans.

Alcatel's Leadership Pipeline identifies those employees who have the potential to become tomorrow's top leaders. It is composed of High Potentials (75%) and Corporate High Potentials (25%). In 2005, women represented 17.3% of the total Leadership Pipeline, that is around 400 out of 2,450 people. Creating a critical mass of female role models among the company's leadership will be key to improving the working conditions that will benefit both men and women at all levels of the company.

Sharing diverse business experiences: functional mobility

Together with cultural and gender diversity, Alcatel is actively promoting functional mobility. Bringing new business experience and perspective into a team is key to its creativity and efficiency. In 2006, Alcatel will develop specific programs to enhance functional mobility in order to offer enlarged career pass to its employees.

Teleworking: promoting a more flexible work environment

Alcatel continues to promote the practice of teleworking across the worldwide organization to enable employees to better balance their private and professional lives. Voluntary telework contracts have been a part of Alcatel's way of working since 2001, when the company introduced a major teleworking project in Belgium.

In addition to Belgium, teleworking policies and contracts for employees are currently also available on a voluntary basis to Alcatel employees in Australia, the US, the UK, France, Spain, Italy, Germany and Norway.

Today nearly 60% of Alcatel's employees in Belgium do part of their work from home, and 80% of managers are satisfied with the results. Alcatel supplies employees with the full range of communication tools they need to stay connected to their teams and offices.

Alcatel in North America has updated its flexible work options program including flextime, telework, part time, reduced workweek and job sharing. Improvements to the teleworking program include an upfront ergonomic assessment with an automated application process. E-Learning courses are available to educate managers and employees on virtual work environments. An annual acknowledgement form was developed to capture metrics to evaluate the program.

The teleworking program at Alcatel's location in Spain, launched in 2004, now has 10% of the total headcount participating. Satisfaction is measured through surveys and 360° feedback from the teleworking employees, their managers and their colleagues. The overall results from the surveys have been positive, and increasing numbers of employees are requesting teleworking contracts.

In order to develop teleworking on a larger basis, Alcatel will create common guidelines, support documents, shared best practices, by 2007.

Alcatel's European Committee for social Information and Dialogue (ECID)

In addition to the two annual meetings of the ECID, in 2005, Alcatel organized a trip to China for the committee members. Members visited the Alcatel site in Shanghai as well as some of its competitors sites. The goal of the trip was for participants to better understand China, its development, its strengths and weaknesses. The ECID delegation met French business development experts in Shanghai and Canton as well as Chinese union leaders in Beijing. The delegation was thus able to observe the evolution of competition in the Chinese telecom market.

Social Responsibility in the Supply Chain
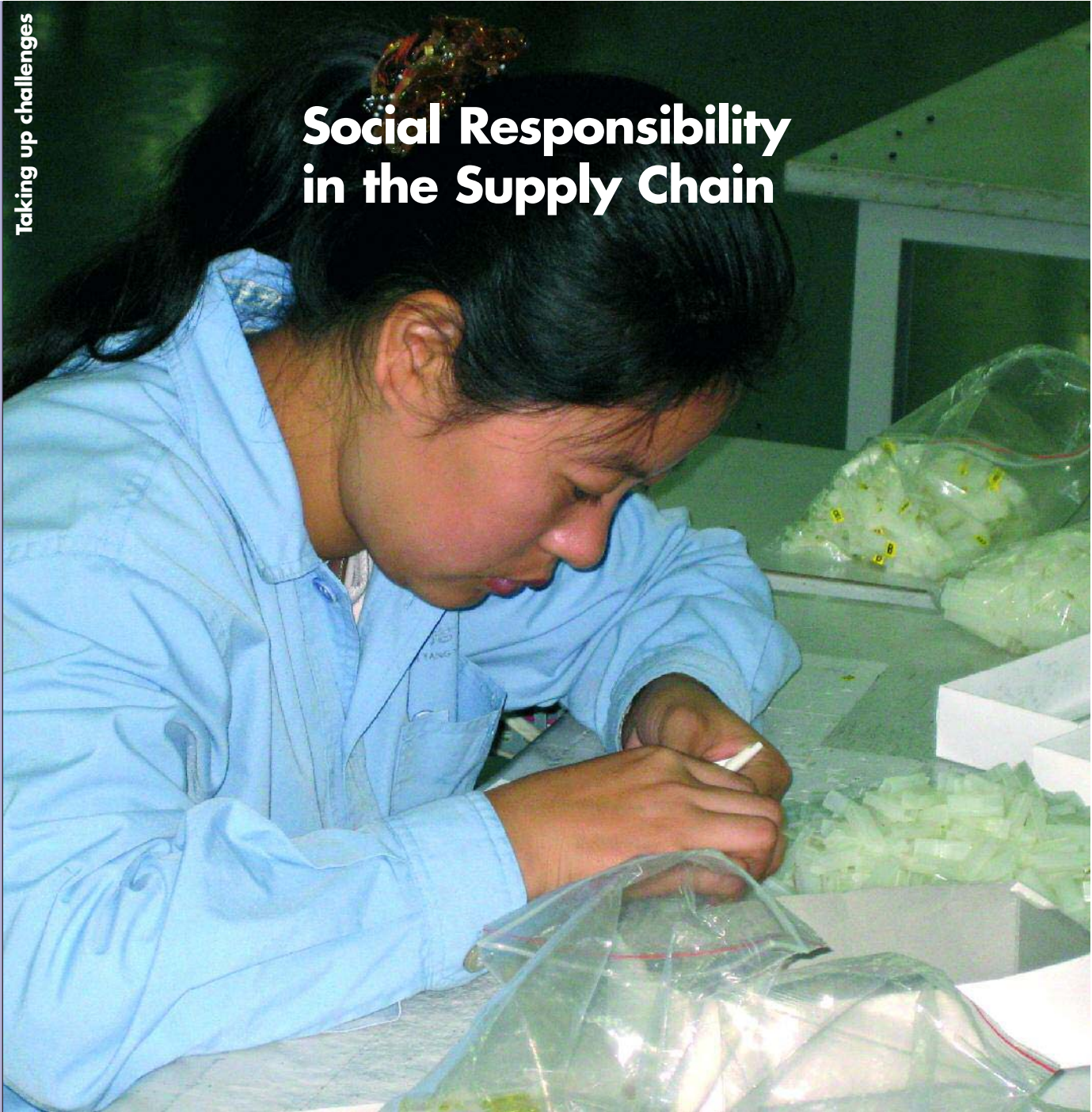
Alcatel Supplier in China

In 2005, Alcatel reaffirmed its commitment to further involve its supply chain in its social responsibility policy.
The survey, initiated in 2004 with Alcatel's main suppliers enabled the company to evaluate the extent to which these suppliers have taken into consideration the company's requirements with respect to ethical, social, and environmental standards, and to develop a close working relationship with each of them in order to progress in these areas. Ongoing, regular dialogue is the cornerstone of Alcatel's approach towards its suppliers, considered to be key partners in the company's sustainable development strategy.

Permanent dialogue

Alcatel endeavors to work in partnership with its suppliers, to share best practices with respect to social responsibility, to assess their policies and practices in this field, and to assist them, when necessary, in implementing improvement processes. This commitment is formally stated in the company's Sustainable Development Purchasing Charter.

Continuous monitoring
Alcatel constantly monitors the performance of its suppliers in key areas of sustainable development. To this end, the company implemented regular monitoring procedures. Controls start at the supplier selection stage and continue throughout the business relationship, using a reassessment process.

Alcatel's Purchasing Department formalized strict guidelines to assist the purchasing teams in evaluating suppliers' practices as regards ethical, social and environmental matters. These subjects are among the 11 criteria used by Alcatel to assess suppliers, along with financial strength, pricing, manufacturing capacity & responsiveness, quality, innovation, human resources management, risk management, service and support, logistics and strategic fit with Alcatel.

Moreover, suppliers' sustainable development performance is regularly monitored by Alcatel's purchasing community and reported in a dedicated tool: the "Supplier Rating System". Thanks to this tool, the assessments' results are available online to all purchasing managers.

Building awareness among the purchasing community
Since it plays a key role in ensuring that the supply chain complies with Alcatel standards, the purchasing community is particularly aware of sustainable development issues. In 2006, the Purchasing Department will focus on extending training on these topics to all company purchasing managers, by making specific modules available to them.

Reinforced assessment process
From the end of 2004 to mid-2005, Alcatel's Purchasing Department conducted a survey of 130 of its suppliers worldwide, accounting for over 45% of the company's total purchase volume.

The purpose of this questionnaire-based assessment was to help suppliers understand Alcatel's expectations and to map their performance with regard to social responsibility. This analysis was based on demanding criteria—such as a request that written evidence of ethical, social, and environmental policies be provided.

Throughout the survey process, Alcatel endeavored to maintain constant cooperation and individual dialogue with each supplier. The company initiated discussions with certain suppliers to define, whenever necessary, the measures to be taken in order to improve their practices. Alcatel purchasing managers are responsible for monitoring their implementation.

130

Number of Alcatel suppliers assessed worldwide in 2004-2005.

Respect of ethical and social standards

If a supplier is found to be in serious violation of the company's ethical and social requirements, and fails to develop an action plan to remedy the situation, Alcatel may choose to break off all business relations with this supplier, as set out in every purchasing contract: "Seller recognizes that violation of such principles will be considered as a breach of contract."

Key steps of the audit process

1
Visit
of the factory

2
Inspection
of safety equipment

3
Inspection of the housing
and the canteen

4
Interviews with management

5
Document analysis

The assessment derived from these on-site audits addressed the following nine areas of international labor law:

- Child labor
- Forced labor
- Health and safety in the workplace
- Freedom of association and right to collective bargaining
- Discrimination
- Disciplinary practices
- Working hours
- Remuneration
- Management System

The local labor law governing the supplier's activities was also taken into consideration by each audit.

6
Interviews with employees

7
Closing meeting

After reviewing survey results, and at the end of this dialogue process, Alcatel concluded that out of all the suppliers assessed, only six required auditing.

These six supplier audits were conducted on-site by a team of three to four Alcatel employees, including internal auditing specialists, members from the purchasing department and quality and customer satisfaction department, or health and safety and environment specialists, as well as a local employee having appropriate knowledge of local legislation. Each audit involved a three-day on-site visit.

Prior to conducting the audits, the audit teams participated in a training session to become familiar with the Social Accountability 8000 (SA 8000) auditing referential, based on the international labor standards defined by International Labor Organization conventions, the Universal Declaration of Human Rights, and the International Convention on the Rights of the Child.

At the end of each audit, the Alcatel team presented the key findings of the assessment to the supplier's management team and encouraged them to comment and to propose a corrective action plan, when needed. The internal audit department is entrusted with monitoring the proper implementation of these improvement plans.

In 2004 and 2005, Alcatel focused its action on those suppliers who accounted for the largest purchase volumes for production. In 2006, this approach will be expanded to include medium-size or regional suppliers.

The objective of the Purchasing Department is to evaluate by 2008 the Sustainable Development performance of about 500 companies, accounting for 70% of Alcatel's total purchasing volume.

Supplier Convention in Shanghai:

In November, Alcatel organized in Shanghai (China) a two-day convention gathering over 300 company suppliers. This was the opportunity for Alcatel to reaffirm its intention to closely involve its suppliers in its efforts to promote sustainable development. In particular, two round tables were organized on matters related to Corporate Social Responsibility in the supply chain. An emphasis was put on social and ethical issues, through the presentation of the audit referential SA 8000, as well as on subjects related to environment. In particular, the company highlighted the necessity to involve its suppliers in its efforts to become compliant with the European WEEE and RoHS directives. This meeting reinforced dialogue with the suppliers and allowed to share best practices in the field of Sustainable Development.

USA: Alcatel and suppliers' diversity

To fulfill its customers' expectations and comply with the U.S Small Business Act, Public Law 95-507, Alcatel launched a program to expand business relationships with diversity suppliers.

Diversity suppliers are companies:
- That do not have a dominant position in their market and whose employees and/ or sales volume do not exceed the limitation defined by US legislation.
- That are mainly (more than 51%) owned by minorities, women, disabled veterans and/or operated and controlled by people from these categories.
- That are established in underprivileged areas and located far from cities and industrialized zones.

Alcatel's relationships with these suppliers are always conducted fairly, in strict respect of ethical purchasing and competition standards.

Environment

Alcatel in France

As a responsible company, Alcatel is convinced of the increasing urgency to protect the natural environment. This responsibility leads Alcatel to act as soon as it is technically, economically, and commercially possible. The company takes timely and appropriate measures so that its products and services are more respectful of the environment, while at the same time making them more competitive and responsive to customer needs.

2005 Key highlights

▶ **Product compliance with new directives**
Thanks to the creation, at the beginning of 2004, of a dedicated project team, Alcatel was able to meet the August 2005 compliance deadline of the European WEEE directive (Waste Electrical and Electronic Equipment). In parallel, Alcatel increased its effort to put on the market products compliant with the RoHS (Restriction of the use of certain Hazardous Substances) directive as soon as it enters into force on July 1, 2006.

▶ **Improvement of energy efficiency**
For some years, Alcatel has made efforts to improve the energy efficiency of its equipment by reducing their power consumption and/or by increasing their functionality. In 2005, energy efficiency improved by about 16%.

▶ **Management of supplier environmental data**
Alcatel is working to improve the overall environmental performance of its products. In this context, the company is completing its procedures so as to reinforce its relationships with suppliers and improve the use of the environmental information that the suppliers provide.

▶ **Product environmental performance: ecodeclarations**
In 2005, Alcatel reached its goal of supplying ecodeclarations with at least 95% of its products to better inform its customers of the environmental performance of its equipment. Since then, the ecodeclaration is a standard part of the product documentation.

*
WEEE: Waste Electrical and Electronic Equipment

RoHS: Restriction of the use of certain Hazardous Substances

Product power consumption: reduced by half in the last three years

At the end of 2002, Alcatel committed to reducing the energy consumption of its new products by 20% per year over three years, representing a total of about 50%. In 2005, the average reduction was about 16% compared to 2004, which totals more than a 47% overall reduction since 2002, falling just slightly short of the original target.

This difference actually comes from an increase in product functionality which is so important that it slows the possibilities for improving energy efficiency as it cannot be entirely compensated by technological progress.

However, in most cases, this progress was coupled with a reduction in the weight and size of products, which also contributed to reducing environmental impact.

Furthermore, **in telecommunications networks, the notion of standard product is disappearing; each piece of equipment is in fact customized to network configurations into which it will be integrated.** Consequently, further improvements must be evaluated on the scale of the global communications solution. In 2006, Alcatel will focus on evaluating the pertinence of this approach and the possibility of defining the energy performance of a telecommunication network as a whole.

-47%

average reduction in product energy consumption over the last three years.

Reduction of new product energy consumption
(Base 100 in 2002)
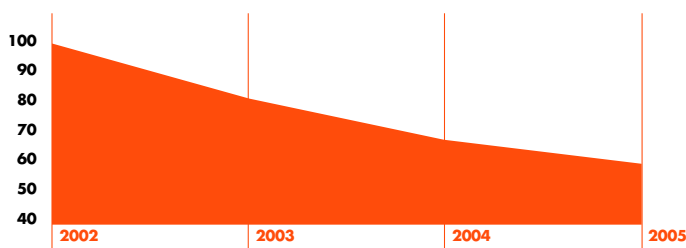
Ensured end-of-life equipment management

As of August 13, 2005 when the WEEE directive (2002/96/CE) went into effect, Alcatel implemented a system that enables it to fulfill the obligations required of suppliers of electrical and electronic equipment in Europe:

▷ From now on, all equipment is labeled as specified by the directive.

▷ A service provider has been selected to manage the collection and treatment of equipment at end-of-life for the whole company (see below).

▷ An internal information campaign about the directive requirements and about the related means put in place helped raise awareness among the company's different sale teams and legal entities.

▷ Alcatel, as an equipment producer, was registered with each of the pertinent European states in accordance with local requirements.

It should be noted that the transposition of the European directive into national laws created requirements, for example to make products traceable, that may vary from one country to the next. Some of these national requirements are still unclear. These differences mean that efforts must be maintained to adapt the company's overall system to the national contexts.

In order to respond to this, the project team that has been working on this since early 2004 will continue its work in 2006.

Convinced of the benefits of dialogue between stakeholders to find good solutions to meet different needs, Alcatel has become involved in EICTA in an ad-hoc working group of equipment manufacturers and recyclers, in order to understand the information on products that these recyclers really need. Then, Alcatel was able to define the substances and components in its equipment that were pertinent to identify, localize and document to ensure the most efficient and safe treatment for recyclers.

*
EICTA: European Information & Communications Technology Industry Association

An operational system is in place

Alcatel decided to call upon an external partner to ensure the collection and treatment of its end-of-life equipment throughout the European Union. Veolia Environment Services, a specialist in waste management with previous experience in electrical and electronic equipment treatment, was chosen to ensure this role. They will manage the organization, coordination and overall setting up of solutions in accordance with national legislation related to electrical and electronic waste.

The definition of the service expected from this partner and of the technical requirements benefited from the internal expertise acquired by some Alcatel sites in Europe through long-standing procedures set up for selective collection of and treatment adapted to electronic wastes (see the Italian example on the opposite page). The limitation of the waste transportation distances, resulting from a dense network of dismantling sites, was a strong requirement of the expected service in order to limit related costs and to also reduce the environmental impacts of transportation.

The service is in the process of being deployed both at the operational level and for collection of the information necessary to ensure full traceability of the treatment operations. This information, in the medium term, will enable them to report on recycling efficiency and identify possible difficulties met with treatment of equipment which could be considered at the design stage.

Veolia Environnement Services is the Waste Management business of Veolia, world leader in environmental services. With more than 270,000 employees the company has operations all around the world and provides tailored solutions to meet the needs of industrial and municipal customers.

Italy and United States, two examples of local initiatives implementing the company's guidelines

**Recycling of "electronic waste" in place
for eight years at Alcatel in Italy**

Since 1992, Alcatel has been committed to manage waste generated by its own activities, including waste from electrical and electronic equipment, while protecting the environment. A management system was then put in place integrating procedures for collection from the various sites, transportation, recycling and waste recovery.
Thanks to this experience, Alcatel adapted its procedures to take into account the Italian decree No. 22, 1997 called "decreto Ronchi" which promotes recovery of waste by reuse, recycling and energy recovery. The WEEE directive led Alcatel in Italy to adapt existing procedures dealing with collection and transportation, so as to additionally cover waste coming from Alcatel's customers.

**In the United States, Alcatel put in place a system
to recycle electronic waste**

In the United States, Alcatel put in place a collection and recycling program to be able to both cover customers needs and manage its own electrical and electronic waste.
A network of subcontractors able to collect, recycle and recover electrical and electronic waste through Canada and United States was identified. Audits of recycling facilities enabled the company to make sure that waste treatment was compliant with local legislations.
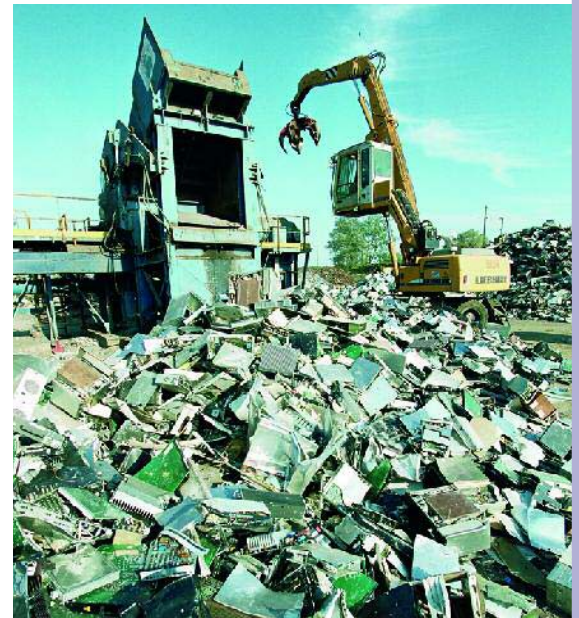
The different steps of a collection and treatment process

1

Collection and transportation

Electrical and electronic waste are first separately collected, then transported and grouped together in a single place.

2

Reuse

After checking, some of the collected equipment may be resold.

3

Dismantling

Printed circuit boards, cables, connectors, plastic parts and metallic parts are separated.

4

Component removal

Components which can be reused are removed from printed circuit boards. Mercury containing components, and batteries are removed as well and separately treated.

5

Precious metal extraction

Printed circuit boards are first shredded. Broyats are then smelted to recover metals like gold, silver, copper, lead, etc. Connectors are also treated to recover precious metals, more particularly gold.

6

Refining

Cables and metallic parts are refined and introduced again in the supply chain as a raw material (material recycling).

7

Incineration

Residual parts are incinerated with energy recovery.

Continuation of migration towards RoHS compliant products

From July 1st 2006, the European directive 2002/95/CE will restrict the use of certain hazardous substances in most electronic equipment. As soon as the directive was published, Alcatel tackled the huge challenge to substitute the concerned substances. Alcatel committed itself to be able to offer the European market, in due time, compliant products that present the level of reliability and performances expected from network infrastructure equipment. However, as that can only be guaranteed after long duration tests, it was decided to take advantage of the possibilities given by exemptions agreed by the European Commission, as long as guarantees are not granted.

In 2005, Alcatel amplified its effort. It was a matter of, on the one hand, reinforcing the research of compliant and cost efficient subsitutes and, on the other hand, managing the huge flow of new information coming from suppliers:

▷ **Research of reliable and cost efficient solutions**
To ensure compliance of its equipment, Alcatel has to address two major technical challenges: to find substitutes to lead-based solders with long-standing reliability, and to replace hexavalent chromium used to protect mechanical parts.
In both cases, long duration reliability tests have to be carried out to check that new solutions will bring the robustness and reliability expected from Alcatel equipment.
Alcatel's and sub-conctractors' production tools had to be adapted in order to be able to use these new solutions.

▷ **Supply chain adaptation**
For each of the hundreds of articles purchased by the company (raw materials, components, sub-assemblies), its availability and its appropriateness to new assembling processes and to finished product conformity requirements must be checked with suppliers. Relevant Alcatel IT tools have been adapted to meet this need and to bring reliable and relevant information to each of the impacted business units within the company.

In 2005, further to preliminary studies carried out within the frame of a corporate project gathering all Alcatel entities involved, each product line concerned by the RoHS directive undertook to migrate its products towards compliance within the framework of specific projects.

Current progress of the whole migration projects enables us to confirm that all Alcatel products put on the European market after July 1st 2006 will be compliant with the directive requirements.

Substances concerned by the RoHS directive

▸ **Lead**

▸ **Mercury**

▸ **Cadmium**

▸ **Hexavalent Chromium**

▸ **Polybromo-biphenyls (PBB)**

▸ **Polybromo-diphenyl-ethers (PBDE)**
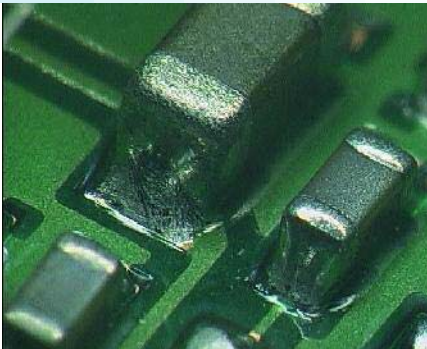
Before test
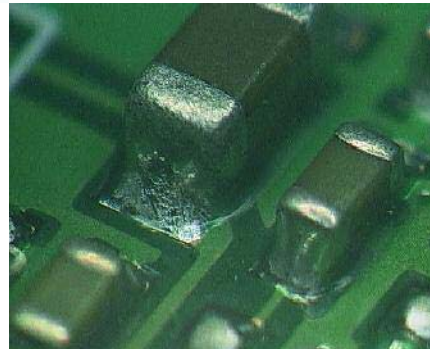
After test

Example of soldered joints realized with new lead free process after mechanical tests (vibrations, shocks, torsions, thermal variations, etc.). The test demonstrates there are no cracks on the weld.

Health and electromagnetic environment

The topic of "health and radio frequencies" related to mobile telephony continues to attract the attention of the public, the media, governments, and the industry at large throughout the world.

Over twenty expert committees have issued their conclusions on the matter over the past decade.

All reports, including those that take into consideration the most recently published results, reaffirm that at this time, human exposure to radio frequencies that do not exceed international recommended levels, has not been found to be associated with health hazards, regardless of the population segments, including children. These conclusions have been confirmed by a report published by the World Health Organization (WHO) on its Internet site (www.who.int/peh-em/) in July 2005, following a symposium to discuss the management of scientific uncertainty in public health policies.

Alcatel contributes to international research and programs for the distribution of scientific knowledge, whether through the Health and Radio Frequencies Foundation in France, or through professional international organizations, such as the Mobile Manufacturers Forum (MMF), the GSMA and Wi-Fi Alliance associations. These contributions often serve as references when answering questions from the public, the media, and the authorities of numerous countries, and notably in Europe, Asia and Latin America.

Exposure limits as set by the ICNIRP, the international organization commissioned by the WHO, have now been adopted by multiple countries and standardization bodies, such as the IEEE SA, for example. Alcatel very carefully checks the compliance with these standards at the product design stage, including for new technologies and services currently under development, such as WiMAX and mobile television.

WiMAX

Environmental management at Alcatel sites

Since 1992, Alcatel has been committed to an environmental plan, which strives to reduce the consumption of natural resources, waste production, and discharge into water and air at its sites.

In 2005, the company continued to optimize power consumption at its main sites, especially where service activities are developed. For example, the new building unveiled in Antwerp, Belgium, in early 2006, is more functional that the historic building in the city center, particularly in terms of space management, energy conservation, and CO_2 emissions.

Total CO_2-equivalent emissions (in tons)

Year	Emissions
2002	453,327
2003	347,000
2004	292,546
2005	292,514
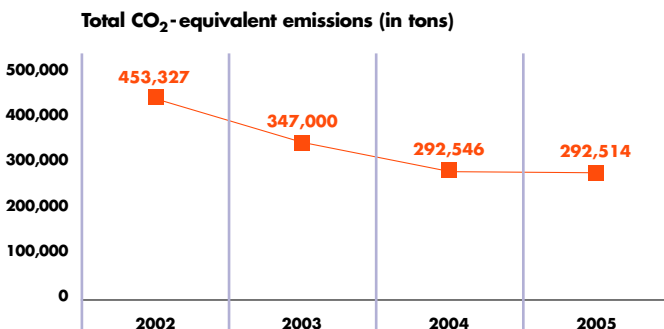
Since 2002, changes in the company perimeter, reduced energy consumption at the main sites, improved energy efficiency in the new buildings, and optimized gas consumption share in the overall fossil energy consumption, have contributed to the decrease in total CO_2-equivalent emissions reported by the company.

Corporate Citizenship Actions

Alcatel and photography

Through its support of photography, Alcatel has been committed for four years to promote cultural diversity and dialog between people. In 2005, its photography sponsorship program gave birth to two international exhibitions. Moreover, the company continues to develop long-term relationships with local communities in which it operates.

"Euro Visions - the new Europeans by Magnum Photographers "

On May 1, 2004, 10 countries and 75 million citizens joined the European Union: Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Czech Republic, Slovakia, and Slovenia.

With support from European institutions, Alcatel has sponsored the travelling exhibition "Euro Visions", inviting Europeans to get to know more about each other. Through the personal vision of 10 photographers from the Magnum Photos agency, each of them exploring one of the 10 countries integrated into the European Union in 2004, this exhibition showcases a Europe in full and rapid transformation. After Paris and Milan, "Euro Visions" will be shown in other large Europeans cities during 2006 and 2007.

Lise Sarfati ©
Lithuania

This initiative is the second part of the France-China years. In 2003, Alcatel participated in the year of China in France by supporting two exhibitions.

Pierre et Gilles ©
Les Amoureux de Paris, 1990
Collection Groupe Lhoist

"From Paris to Shanghai"

To celebrate the 2005 "Year of France in China", the Shanghai Art Museum, in partnership with Alcatel, hosted the photography exhibition entitled "From Paris to Shanghai, three generations of French photographers".
This exhibition explored three great periods of French photography, from the 1950's to today and brought together 35 renowned photographers.
In this context, Alcatel also organised a discussion forum where Chinese photographers had the opportunity to exchange their views on photography and its role in society with French photographers from the exhibition "From Paris to Shanghai".

The Alcatel Atrium in Paris: a place for discovery and exchange

At the heart of Alcatel's headquarters, the Atrium hosts four or five exhibits per year. It invites Alcatel's employees, partners, and customers to discover original artworks while broadening their knowledge of the company activities and of the regions where it operates.

Italy

Alcatel awarded the European Union 2005 cultural prize

On the occasion of the Italian "Enterprise & Culture" Award Contest, Alcatel won the 2005 "European Commission" award. This recognition was given to the European company that best invested in culture in Italy. Alcatel supported numerous artistic cultural projects in Italy, in particular "The Kennedys", a photo exhibition covering the lives of John and Robert Kennedy, and the reopening of Milan's Theatre alla Scala.

Local initiatives

In addition to its photography sponsorship program, Alcatel has been committed for many years to support on a long-term basis local initiatives in the fields of culture, education and training, health and human services. Some examples are described below, others are available on the company's Internet website.

South Asia, New-Orleans and Pakistan
Alcatel contributes to the relief efforts after natural disasters

2005 was marked by disasters of significant scale. Alcatel joined forces to help reconstruct the disaster-hit countries by organizing employee donation campaigns, by matching its employee contributions in full to support NGOs on the ground working on emergency relief, by providing adapted equipment and technical assistance, and by working with governments and local operators to rebuild network infrastructures in devastated regions.

In **South Asia**, on the initiative of the employees working in the countries hit by the tsunami, Alcatel provided telecommunication equipment to local operators and organized donation collection. In Sri Lanka, with Telecom Sans Frontières (TSF), Alcatel helped deploy satellite links for hospitals, enabling victims to contact their families and friends.

In **Pakistan**, Alcatel partnered with the government and SCO, the local telecom operator, to provide a telecommunications satellite hub connected to three VSAT stations in order to restore voice networks in quake-devastated areas. These emergency TDM-type/VSAT satellite stations are called "Fly Away" because they are folded up and placed in special containers designed for rough transport conditions, by road and helicopter. They can be easily deployed, and automatically aimed at a satellite for fast and efficient implementation. Alcatel also held technical and operational courses for SCO, who maintained and operated the ground stations.

In the **United States**, after the hurricane Katrina, Alcatel set up an online system to collect donations. For each dollar given by an Alcatel employee, the company contributed an equivalent amount.

Télécoms Sans Frontières

For two years, on the occasion of the holiday season, Alcatel has been supporting the activities of "Télécoms Sans Frontières" by donating a certain sum to the organization for each printed greeting card. TSF teams, specialized in emergency telecommunications, install communication centers whatever the terrain, even in the midst of severe devastation. They place their equipment at the disposal of the rescue teams, the NGOs, and the local authorities.

Portugal
Avósn@Net opens the web to seniors

In 2005 Alcatel launched the "Avósn@Net" program in partnership with the Municipality of Cascais in Portugal. The goal of the initiative was to train senior citizens to the usage of information and communication technologies, giving them access to all resources available on the Internet and thus enhancing their integration in society. The "Avósn@Net" program took place from April to June 2005. The training sessions, provided by Alcatel employee volunteers, enabled the training of 70 people in Alcatel's Portugal facilities.

China

Alcatel Shanghai Bell has supported the "Ninglang Hope School" project for three years

Since 2002, Alcatel Shanghai Bell (ASB) has contributed to the development of an educative initiative in Ninglang, an isolated region in the South-West of China. For three years, a project manager from Alcatel has been following-up the main stages in Ninglang: construction of the school, installation of multimedia equipment, donations of books and computers, and creation of the Alcatel Ninglang Education Fund to provide students and teachers with financial support.
Moreover, Alcatel employees donate every year to the dedicated fund. This allowed the company to grant 735 students and 30 teachers an Alcatel Scholarship in 2005. Additionally, 168 ASB employees have committed to sponsoring Ninglang children until they complete their elementary school education.

Egypt

Alcatel supports Egyptian tomb excavation project

Alcatel supported the Hypogees/MAFB (La Mission Archéologique Française du Bubasteion) project at Saqqara in Egypt, a 5,000-year-old burial site. Four years ago, Dr. Zivie, archaeologist and director of the Hypogées's project, discovered the tomb of Netjerwymes, a trusted envoy to Ramses the Great. Netjerwymes' burial chamber contains a statue of Ramses standing in front of a much larger statue of Hathor, the goddess of creation and guardian of the dead. Given the importance of this discovery, Alcatel decided to support, during 2005, the restoration and conservation of the Netjerwymes Tomb to facilitate its display to the public in the near future.

France

Alcatel partners with BrailleNet on its digital library project

Alcatel supports BrailleNet and its digital library project for visually impaired people. The Hélène library enables visually impaired people equipped with a dedicated computer that translates files in Braille or provides vocal speech, to access books available in digital format, via the Internet. The Hélène server comprises 2,100 books in French, from classics to recent books.
On the 1st of January 2006, the first book catalogue dedicated to the youth was opened. This catalogue is already composed of 200 books and will be extended during 2006.

BrailleNet has been working since 1997 to make the web accessible to everyone and fosters, in this respect, any technological development favouring school integration for visually impaired children into ordinary classes.

Russia

Training on new information technologies

Alcatel launched an educational program in partnership with Russia's leading telecommunications universities to provide students with knowledge in information and telecommunications technologies. The program includes scholarships, regular Alcatel seminars on a wide range of subjects related to telecommunications as well as a contest for the best diploma paper. The company also gives students the opportunity to follow courses at the Alcatel Training Center in Moscow and in local Alcatel offices. As part of this program, a computer classroom providing high-speed Internet access has been created in the Moscow Technical University of Communications and Informatics (MTUCI). A laboratory equipped by Alcatel was also opened in the Siberian State University of Telecommunications and Information.

Alcatel in Turkey

Evaluating progress

Alcatel's listing in four major sustainable development indexes underlines the company's commitment to a continuous progress based approach. Assessment results from rating agencies serve as improvement levers for the company. As such, they are regularly presented to the Sustainable Development Steering Committee, as a tool for setting priorities and defining subsequent action plans.

Sustainable development at Alcatel is managed through a cross-departmental structure that brings together, once a month, all company actors involved in sustainable development, and monitors the follow up and performance of corporate initiatives.

New objectives have been defined for the 2005-2008 period, with respect to economic, social, and environmental aspects. Two additional categories of objectives have also been created: one relates to reducing the digital divide, the other to social responsibility within the supply chain.

For the fourth consecutive year, Alcatel is publishing social and environmental indicators as required by the French NRE Law, in addition to the most relevant indicators with respect to its activities. The company also reports on the implementation, as part of its strategy, of the UN Global Compact and Global Reporting Initiative guidelines.

Alcatel and the 10 principles of the "Global Compact"

"We commit to integrating the 'Global Compact' principles in our strategy, in our corporate culture and in our day-to-day activities."

Serge Tchuruk

Charters

Statement on Business Practices Section 11

Social Charter Sections 2 and 7

Human rights

1. Support and respect the protection of internationally proclaimed human rights

2. Make sure that there is no complicity in human rights abuses

Alcatel actions

▷ Alcatel Statement on Business Practices stipulates that "Alcatel will support and respect the principles of international human rights set out in the United Nations' Universal Declaration of Human Rights, the International Labor Organization's fundamental conventions and the Global Compact within its sphere of influence."

▷ The Statement on Business Practices was distributed at all Alcatel locations worldwide and was translated in 10 languages.

▷ An e-learning module and dedicated web pages on the subject are available on the intranet to all employees.

▷ Ethical clauses are included in all contract with suppliers. The violation of theses clauses is considered as a breach of contract.

Labour standards

Social Charter Sections 2, 4, 5 and 6

3. Uphold the freedom of association and the effective recognition of the right to collective bargaining

4. Uphold the elimination of all forms of forced and compulsory labor

5. Uphold the effective abolition of child labor

6. Uphold the elimination of discrimination in respect to employment and occupation

Alcatel actions

▷ The Social Charter states Alcatel's position on human rights, health and safety, freedom of association, anti-discrimination, supplier and subcontractor relations, working conditions, and professional and local development.

▷ The Social Charter has been communicated to all Alcatel employees worldwide.

▷ Follow-up internal audits are conducted regularly to ensure that the clause related to the Statement on Business Practices is included in contracts with suppliers and subcontractors.

▷ Installation project managers are responsible for controlling within the different sites the respect of Alcatel's principles by suppliers and subcontractors.

▷ Suppliers' ethical policies and practices were assessed in the framework of the survey launched by Alcatel in 2004 to evaluate its suppliers' commitment to sustainable development.

▷ The « Women in Leadership » Initiative was launched in March 2005. This five-year program approved by Alcatel's Executive Committee strives to increase gender balance in Alcatel's top-management. It promotes women's career development through networking, mentoring, training and awareness-building.

To strengthen Alcatel's commitment to the utmost ethical and legal standards, a Chief Compliance Officer (CCO) has been appointed, reporting directly to Alcatel's Chairman and CEO. He has authority to actively ensure that Alcatel conducts its business in accordance with its high principles, among which are those stated in the United Nations Global Compact that the company signed in 2003. He is member of the Ethics Committee.

Environment

7. Support a precautionary approach to environmental challenges
Alcatel actions

▷ In the field of health and electromagnetic environment related to mobile telephony:
  – Alcatel contributes to the international research effort and very carefully checks the compliance with the exposure limits set by the ICNIRP, the international organization commissioned by the WHO, when designing its products.
  – Information sessions regarding electromagnetic environment at work are regularly organized for employees.

8. Undertake initiatives to promote greater environmental responsibility

Alcatel actions

▷ Alcatel established a system dedicated to manage electrical and electronic product end-of-life. This system relies on rigorous specifications guaranteeing that end-of life operators treat waste in an efficient and environment-friendly manner.
▷ An environmental clause is included in all contract with suppliers.
▷ The environmental policies of 130 of Alcatel's suppliers have been assessed as part of a survey conducted from the end of 2004 to mid-2005.

9. Encourage the development and diffusion of environmentally friendly technologies

Alcatel actions

▷ Environmental ecodeclarations are available for each product.
▷ From 2002 to 2005, Alcatel implemented a program to reduce by 20% per year its products' energy consumption.
▷ From July 2006, all Alcatel products put on the European market will be compliant with the European directive requirements, restricting the use of certain hazardous substances, such as lead, mercury and cadmium in most electrical equipment.
▷ E-learning, teleconference, teleworking are becoming more commonly used within the company.

Anti-corruption

10. Work against all forms of corruption, including, extortion and bribery
Alcatel actions

▷ Training sessions on how to tackle corruption are organized for sales managers in each geographical area where the company operates.
▷ E-learning courses regarding the Statement on Business Practices and the fight against corruption are available on the intranet and have been highly publicized within the company.
▷ On the occasion of the Chief Compliance Officer appointment, a DVD addressed to all Alcatel's agents and consultants was made, emphasizing Alcatel's commitment to Corporate Social Responsibility, especially its continuous willingness to fight against all forms of corruption.

Charters

Environmental Charter
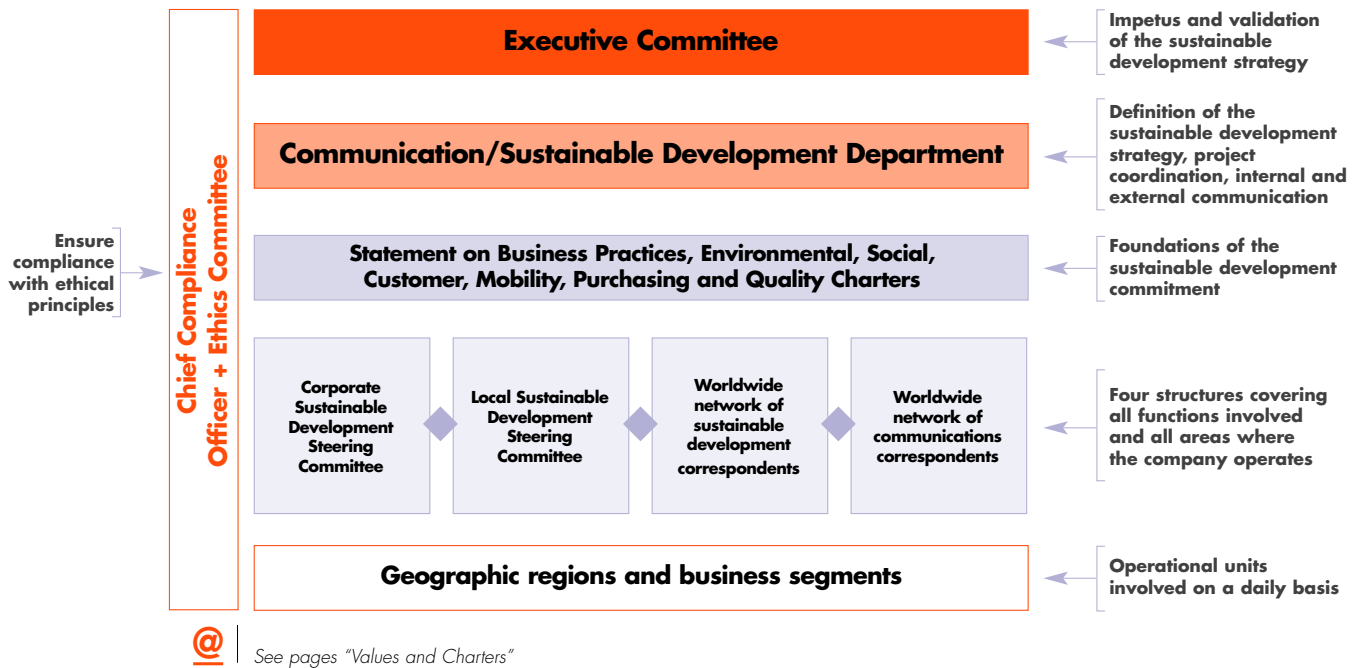
Sustainable Development Purchasing Charter

Statement on Business Practices Sections 3, 4 and 6

Sustainable Development Purchasing Charter

Sustainable Development Management

A cross-departmental organization

At a corporate level, the Sustainable Development Department is part of Corporate Communications. This central team works in close collaboration with a Sustainable Development Steering Committee and a network of around 30 correspondents worldwide. The Steering Committee is made-up of representatives from all the departments involved : Human Resources, Environment, Quality and Customer Relations, Digital Bridge, Purchasing, Legal, Global Risk & Insurance, Investor Relations, Research & Innovation, Public Affairs, Marketing, Corporate Communications and Audit. This committee meets once a month to define the priorities, follow-up action plans and discuss current sustainable development issues.

Ensure compliance with ethical principles →	**Chief Compliance Officer + Ethics Committee**		
	Executive Committee	←	Impetus and validation of the sustainable development strategy
	Communication/Sustainable Development Department	←	Definition of the sustainable development strategy, project coordination, internal and external communication
	Statement on Business Practices, Environmental, Social, Customer, Mobility, Purchasing and Quality Charters	←	Foundations of the sustainable development commitment
	Corporate Sustainable Development Steering Committee ◆ Local Sustainable Development Steering Committee ◆ Worldwide network of sustainable development correspondents ◆ Worldwide network of communications correspondents	←	Four structures covering all functions involved and all areas where the company operates
	Geographic regions and business segments	←	Operational units involved on a daily basis

@ | *See pages "Values and Charters"*

Two sustainable development steering committees **have been** created in China and Brazil

Their objective is to:
- ▸ Disseminate and implement the company's strategy
- ▸ Define priorities and follow-up projects at the local level
- ▸ Share best practices with other network member countries
- ▸ Ensure coordination with the corporate steering committee

Thanks to its work in the field, the internal audit department constitutes an important way to disseminate and control that the company's priorities in the area of sustainable development have actually been taken into account.

A continuous collaboration with the internal audit department

The internal audit department plays a key role in monitoring the company's progress in terms of Corporate Social Responsibility. It makes improvement recommendations and is responsible for following-up the implementation of corrective action plans.

In 2005, a series of follow-up internal audits were launched to verify that all corrective actions agreed upon in 2004 had been timely implemented. These audits covered environmental aspects (eco-design, compliance with European directives) and social ones (inclusion of a clause related to the Statement on Business Practices in supplier contracts and awareness of the company's Social Charter). They showed that among the 40 corrective actions defined in 2004, 36 had been implemented in due time. Only four of them had to be delayed for a few months. Composed of 50 independent professionals from 12 different nationalities, this department reports directly to the company's Executive Committee and Audit Committee of the Board.

Risk management

Alcatel proactively manages the risks related to its business. Each functional and operational department is responsible for managing its own risks. The Sustainable Development Department defines and coordinates action plans taken in areas where related risks have been identified. Financial risks as well as extra-financial risks identification, assessment and mitigation processes are described in the "document de référence" on pages 13 to 15.

Notations to leverage progress

Alcatel is listed in four major sustainability indexes:
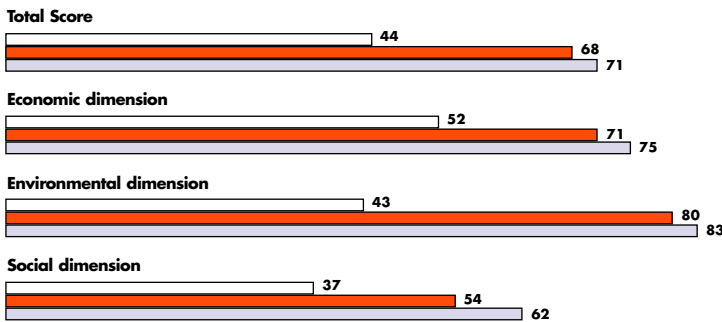DJSI, FTSE4Good, ASPI Eurozone® and Ethibel Excellence.

In September 2005, the company was added to the Dow Jones Sustainability World and the ASPI Eurozone Indexes. Its membership, since 2002, within the FTSE4Good Index Series, was renewed.
As of January 2005, Alcatel was also added to the Ethibel Excellence Index.

The company was assessed and rated by all indexes in terms of corporate governance, human resources strategy, supply chain standards, environmental management, digital inclusion, dialogue with stakeholders, and corporate citizenship.
As part of its continuous improvement approach, Alcatel's assessments performed by rating agencies, as well as feedback from other stakeholders of the company, are regularly examined by the Sustainable Development Steering Committee. The results are taken into account when defining priorities and related action plans.

The **Dow Jones Sustainability World** Index (DJSI World) covers the top 10% of the largest 2,500 companies in the Dow Jones World Index in terms of economic, environmental and social criteria.

Total Score
44
68
71

Economic dimension
52
71
75

Environmental dimension
43
80
83

Social dimension
37
54
62

Results of Alcatel's assessment by SAM, the agency performing the evaluation for the DJSI. Industry group: Communications Technologies

☐ **Industry group's average score**
■ **Alcatel**
▨ **Industry group's highest score**

Since 2002, Alcatel has been a member of the **FTSE4Good** Index Series, designed to identify companies that are working towards environmental sustainability, developing positive relationships with stakeholders and upholding and supporting universal human rights.

The **ASPI Eurozone®** index comprises the 120 leading sustainability performers among the companies listed in the Eurozone stock exchange.

Benchmark: company/industry sector

	Human Resources	Environment	Customers & Suppliers	Corporate Governance	Community involvement	Human Rights
Alcatel	37	42	44	43	37	56
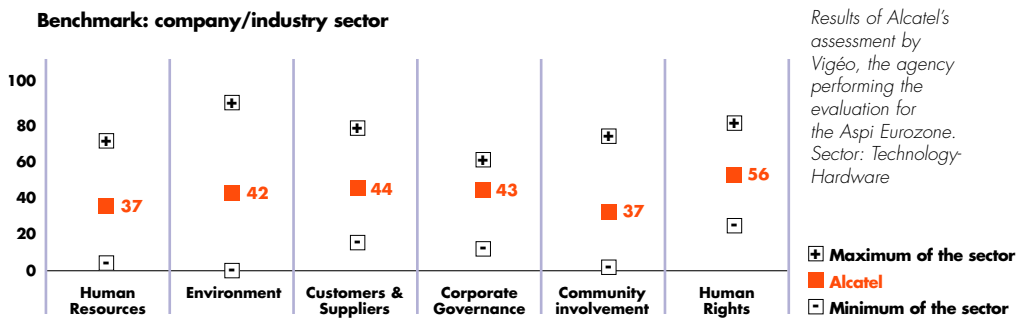
Results of Alcatel's assessment by Vigéo, the agency performing the evaluation for the Aspi Eurozone. Sector: Technology-Hardware

⊞ **Maximum of the sector**
■ **Alcatel**
⊟ **Minimum of the sector**

The **Ethibel Excellence** index contains both the pioneer companies and the best-in-class companies in terms of sustainability across sectors and regions.

Sustainable development indicators

Social indicators	2003	2004	2005	2005 Perimeter
Research and Development				
R&D Budget/Sales	12.7%[1]	12%[2]	**11%**[2]	100%
Headcount				
Total Alcatel headcount as of Dec. 31	60,486	55,718	**57,699**	100%
Total non-Alcatel workforce	2,215	2,102	**1,568**	100%
Number of recruits	2,240	3,634	**5,880**	100%
Headcount increase due to acquisitions and insourcing	1,692	2,083	**3,544**	100%
Headcount reduction due to outsourcing or transfers	– 6,959	– 3,841	**– 622**	100%
Headcount reduction due to redundancies	– 8,806	– 2,325	**– 2,137**	100%
Headcount reduction due to natural departures (retirements, end of temporary work contracts, resignation, deaths)	– 3,443	– 3,004	**– 3,349**	100%
Diversity				
Percentage of women/headcount	23.3%	23.6%	**23.1%**	100%
Asia-Pacific	23.6%	27.8%	**26.6%**	100%
Europe, South America, Middle-East, Africa and India	22.7%	22.3%	**21.4%**	100%
North America	25.8%	25.2%	**25.5%**	100%
Percentage of women amongst Alcatel's leadership pipeline	16.7%	17.1%	**17.3%**	100%
Number of disabled employees *	301[3]	615[6]	**689**	90%
Training				
Training budget (as a percentage of payroll)	1.5%[4]	1.6%	**1.8%**	80%
Total hours of training per employee	18[4]	21	**25**	80%
Percentage of training time via e-learning technologies	11%[4]	13.0%	**22%**	80%
Mobility				
Number of expatriates worldwide	1,718	2,113	**1,532**	100%
Expatriates by host region				
Europe	531	748	**583**	
North America	109	122	**119**	
South America	98	92	**45**	
Middle-East, Africa and India	524	767	**441**	
Asia-Pacific	456	384	**344**	
Health and Safety				
Number of days of absence due to work related accidents per employee	0.15[5]	0.11	**0.07**	90%[7]
Rate of frequency (number of accidents per year per 1 million hours worked)		3.98	**2.44**	90%[7]
Performance management**				
Percentage of managers and professionals who had an annual performance review		81%[8]	**85%**	100%

(1) French accounting rules
(2) IFRS rules
(3) Perimeter: France
(4) Perimeter: 65%
(5) Perimeter: 76% (main units excluding China)
(6) Perimeter: 83%, all main units excluding Canada (due to local privacy law)
(7) Perimeter: all main units
(8) Perimeter: 55%, units in the scope of the 2004 performance management survey

Social indicators: definition and methodology

The perimeter of 2005 social reporting, specified for each indicator, is measured in terms of percentage of Alcatel employees covered by the indicator.
Alcatel figures are consolidated at a corporate level either:
- through the corporate financial information system (headcount, including gender),
- through the corporate HR information systems (training, mobility and performance management).
- or through the sustainable development reporting tool (health and safety, disabled employees).
The person responsible for reporting in each HR domain works with a specialized network of correspondents located throughout the world.

2005/2004 evolution

The perimeter of two indicators -disabled employees and performance management- has been extended.
*Data collection for the indicator corresponding to the number of disabled employees was expanded to include all company units over 300 employees, including Canada thanks to compliance with local laws.
**The performance management indicator was improved by making company-wide use of a specific tool and process, extended to all of Alcatel's managers and professionals in 2005, to track one-on-one performance reviews.

Environmental indicators	Unités	2003	2004	2005	2005 Perimeter
Consumed energy and CO_2 emission					
Consumed electricity	GWh	747	740	**781**	100%
Consumed electricity per employee	MWh	12.3	13.3	**13.5**	100%
Consumed fossil energy	GWh	310	251	**272**	100%
Consumed fossil energy per employee	MWh	5.1	4.5	**4.7**	100%
Total consumed energy, including hot and chilled water	GWh	1,057	990	**1,081**	100%
Total consumed energy per employee	MWh	17.5	17.8	**18.3**	100%
Indirect emissions of CO_2, linked to consumed electricity	tCO_2 [1]	264,000	236,397	**241,648**	100%
Indirect emissions of CO2 per employee	tCO_2 [1]	4.4	4.2	**4.2**	100%
Direct emissions of CO_2, linked to consumed fosil energy	tCO_2 [1]	83,000	56 149	**50,866**	100%
Direct emissions of CO_2 per employee	tCO_2 [1]	1.4	1	**0.9**	100%
Total emissions of CO_2 [2]	tCO_2 [1]	347,000	292,546	**292,514**	100%
Total emissions of CO_2 per employee [2]	tCO_2 [1]	5.8	5.2	**5.1**	100%
Water and wastes					
Consumed water	m^3	2,356,000	2,320,382	**2,334,541**	100%
Consumed water per employee	m^3	39	42	**40**	100%
Production of hazardous waste	t	3 090	2 313	**1,747**	100%
Production of hazardous waste per employee	kg	51	42	**30**	100%
Percentage of hazardous waste recycled [3]	%	86	64	**55**	100%
Production of non-hazardous waste	t	24,620	24,289	**21,242**	100%
Production of non-hazardous waste per employee	kg	407	436	**368**	100%
Percentage of non-hazardous waste recycled [3]	%	65	67	**66**	100%
Other emissions					
Solvents	No significant quantities, indicator not relevant and not consolidated.				100%
Halogenated hydrocarbon	Idem				100%
Discharge into water (heavy metals)	Idem				100%
Miscellaneous					
Production sites, ISO 14001 certified	%	50	65	**60**	100%
New products covered by ecodeclarations	%	83	91	**> 95**	100%
Purchasing volume covered by ecodeclarations	%	65 [4]	85	**> 85**	100%

(1) tCO_2: CO_2 equivalent tons
(2) Emissions of CO_2, linked to consumed hot and chilled water are not taken into account

(3) recycled: not released and not burned without energy recovery
(4) Perimeter: Europe

Environmental indicators: definition and methodology

The 2005 environmental reporting perimeter includes all locations worldwide, owned or leased, housing Alcatel employees. Figures are consolidated at a corporate level, from data reported by 52 locations (49 in 2004), each one housing more than 300 employees, representing together 81% (79% in 2004) of Alcatel employees. Extrapolation hypotheses are used, based on ratios per employee, to cover 100% of Alcatel.
Figures are cross-checked with historical data existing since 1992.

2005/2004 evolution

This year, for the first time, the total power consumption includes hot water vapor and chilled water purchases. This change in methodology partially explains the increase in the company's total energy consumption.
In addition, in line with the independent auditors' recommendations expressed in 2004, the gas consumption fraction of the total fossil energy consumed was measured with greater accuracy. This accuracy explains the decrease noted in the total greenhouse gas emissions.
Reported waste quantity does not include WEEE (Waste Electrical & Electronic Equipment). The latter is the subject of a specific action plan described herein.
The lower rate of ISO14001 certifications for production sites results from the integration of non-certified sites following acquisitions.

GRI reference table

The goal of the Global Reporting Initiative (GRI) is to formalize international standards for economic, environmental and social reporting. It is an official collaboration center for the United National Environment Program (UNEP) and works in cooperation with the Global Compact.

For the second year, Alcatel draws a parallel between the information published in its Sustainable Development report and the indicators defined by the GRI.

For some elements and indicators, this table refers to the "document de référence" published by the company and available on the www.alcatel.com web site. This reference table is based on the general indicators defined by the GRI and does not take into account the specific indicators listed in the "GRI Telecommunications Sector Supplement". Indeed, as mentioned in this Telecoms supplement, they apply primarily to telecommunications operators and are not as relevant for equipment manufacturers.

Reporting elements

GRI elements	Report page
Vision and Strategy	
1.1	2-3
1.2	2-3
Profile	
2.1	1
2.2	1, 10-13
2.3	10-13
2.4	10-13
2.5	1
2.6	*"Document de référence"*
2.7	1
2.8	1, 10 à 13, 23
Report Scope	
2.10	Back covers
2.11	Covers
2.12	8
2.13	48-49
2.14	23
2.15	23
Report profile	
2.19	48-49
2.20	52
2.21	52
2.22	*"Document de référence"*
Structure and governance	
3.1	4
3.2	*"Document de référence"*
3.3	4
3.4	4
3.5	*"Document de référence"*
3.6	46
3.7	46
3.8	*"Document de référence"*
Overarching Policies and Management Systems	
3.14	46
3.15	9
3.16	28-37
3.17	16-21, 28-41
3.18	23
3.19	Inside covers
3.20	49
GRI Content Index	
4.1	50

Economic performance

GRI Indicators	Report page
Direct economic impacts	
Clients	
EC1	1
EC2	*"Document de référence"*
Indirect economic impacts	
EC13	16-21

Environmental performance

GRI Indicators	Report page
Energy	
EN3	49
EN4	49
EN17	33
EN18	33
EN19	33
Water	
EN5	49
Emissions, effluents, and waste	
EN8	49
EN9	49
EN10	49
EN11	49
EN12	49
EN31	49
Suppliers	
EN33	49
Products and services	
EN14	32-37
EN15	32-37

Economic performance

GRI Indicators	Report page
Labour practices and decent work	
Employment	
LA1	23
LA2	23
Labour/management relations	
LA13	*"Document de référence"*
Training and education	
LA9	48
LA16	24
LA17	24
Diversity and opportunity	
LA10	26
LA11	26
Human rights	
Strategy and management	
HR1	46
HR2	28-31, 44
HR3	28-31, 44
HR8	5
Non-discrimination	
HR4	25, 26, 44, 46
Freedom of association and collective bargaining	
HR5	44, 46
Child labour	
HR6	44, 46
Forced and compulsory labour	
HR7	44, 46
Disciplinary practices	
HR9	5, 46
HR10	5, 44, 46
Society	
Bribery and corruption	
SO2	5, 44, 46
Political contributions	
SO3	46
Competition and pricing	
SO7	46
Product responsibility	
Customer health and safety	
PR1	37
Products and services	
PR2	33
PR8	15, 46

Glossary

Broadband
Terms used for high speed data connection available to the final user. This term is also used for all the technologies capable of supporting a data rate greater than 2 Mbit/s, or supporting an equivalent information transfer rate.

Digital bridge initiative
In 2001, Alcatel and a variety of partners (international organizations, operators, local authorities...) launched the Digital Bridge initiative. The goal is to propose solutions that are adapted to local needs, and that combine technology, services and financing.

DVB-H (Digital Video Broadcast Handheld) in the S band
The Alcatel Mobile TV solution is based on a unique combination of DVB-H-based terrestrial and satellite broadcast delivery in the S band that complements existing 3G/UMTS networks. The S-Band is a telecom frequency band reserved for satellite usage, which is immediately adjacent to the 3G/UMTS spectrum and is available across continents

EDGE (Enhanced Data rates for GSM Evolution)
Enhancement to the GSM and the US TDMA wireless communication standards that increases data rate up to 473 kbit/s. EDGE is a full part of the family of third generation (3G) standards that will enable voice, video and multimedia transmissions.

GeSI
An initiative, launched in 2001, of Information and Communications Technology (ICT) service providers and suppliers, with the support of the United Nations Environment Programme and International Telecommunication Union. GeSI aims to influence the sustainability debate, inform the public of its members' voluntary actions to improve their sustainability performance, and prompt information and communicate technologies that foster sustainable development.

GPRS (General Packet Radio Service)
A packet-based wireless communication service that promises data rates up to 114 kbit/s and continuous connection to the Internet for mobile phone and computer users. GPRS is based on GSM and will complement existing services such as circuit-switched cellular phone connections and the Multimedia Message Service (MMS).

GSM
(Global System for Mobile communications)
GSM is the world's most widely used digital mobile telephony system. It supports circuit mode mobile communication services such as SMS.

Information and Communication Technologies (ICT)
A general term that designates the converging Information (computer equipment, data networks, Internet) and Communication (wire-line and wireless telephony networks) Technologies and the services and applications they offer to their end-users.

IP (Internet Protocol)
The Internet Protocol (IP) is the method or protocol by which data is sent from one computer to another over the Internet.

IPTV (IP Television)
A class of IP/Ethernet television and video services primarily targeted at the Consumer market, delivered over Broadband connections from an end to end IP Network.

ISO 14001
The ISO 14001 standard is an international standard which identifies those elements of an Environmental Management System necessary for an organization to effectively manage its impact on the environment. Compliance with this standard can be certified by an accredited third party, on a voluntary basis.

NRE law
This French law for "Nouvelles Régulations Economiques" (New Economic Regulations) was voted on May 15, 2001. This legislation regulates finance, competition and companies. Article 116 of the law makes it mandatory for French companies, that are quoted on the stock exchange, to provide information on an annual basis (either in the annual report or by a special sustainable development report) on the environmental and social impact of their products and activities.

Partnership Centers
Alcatel has created several "Partnership Centers" in emerging countries to allow Alcatel to work with local companies to help them accomplish multimedia service projects adapted to the needs of local users. The goal is to support the creation and distribution of a maximum number of value-added services derived from telecommunication infrastructures. This initiative will also contribute to the economic and social development of the countries where the centers are located by developing local skills and creating new jobs in the telecommunications sector.

Sarbanes Oxley Act
The Sarbanes-Oxley Act was signed into law on 30 July 2002. The act is administered by the Securities and Exchange Commission (SEC), which sets deadlines for compliance and publishes rules on requirements. Sarbanes-Oxley is not a set of business practices and does not specify how a business should store records; rather, it defines which records are to be stored and for how long.

"System@tic competitiveness cluster"
The competitiveness clusters are a combination, in some regions of the French territory, of companies, training and research centers engaged together around innovative projects. The "System@tic competitiveness cluster" based in the Paris area deals with complex telecom systems, car and transports, security and engineering, Alcatel is the leader of the telecommunication domain.

UMTS (Universal Mobile Telecommunication Systems)
Third Generation (3G) is a term given to the next generation of mobile communication systems that offer enhanced services, such as multimedia and video. The main 3G technologies include UMTS and CDMA200.

WI-FI (Wireless Fidelity)
Wireless local area network technology, can also be used to provide remote wide area network connectivity at "hot spot" locations such as airports, hotels and shops.

WiMAX (Worldwide Interoperability for Microwave Access)
WiMAX is a wireless industry coalition whose members organized to promote standards for Broadband Wireless Access networks. WIMAX 802.16 technology is expected to enable multimedia applications with wireless connection and enable networks to have a wireless last mile solution.

XDSL (digital Subscriber Line)
Digital Subscriber Line (DSL) technology works on the existing copper telephone line to a residence, also known as a "twisted pair". It uses sophisticated digital coding to utilize more of the existing space on the wire, without interfering with the normal phone conversations. DSL technology comes in different flavors, with ADSL and Very high speed Digital Subscriber Line (VDSL) the best known.

Independent verification statement

ERNST & YOUNG

INDEPENDENT VERIFICATION STATEMENT ON SOCIAL AND ENVIRONMENTAL REPORTING PROCEDURES

At the request of Alcatel, we have reviewed the reporting procedures related to the social and environmental information published in the 2005 Sustainable Development report, as well as the following qualitative assertions:

- At corporate level, the Sustainable Development Department is part of Corporate Communications. This central team works in close cooperation with a Sustainable Development Steering Committee and a network of around 30 correspondents worldwide (p. 46).
- From the end of 2004 through mid-2005, Alcatel's Purchasing Department conducted a survey of 130 of its suppliers worldwide, accounting for over 45% of the company's total purchase volume, on their Corporate Social Responsibility policy and practices (p. 29).
- Six supplier audits were conducted on-site (p. 31)
- Alcatel decided to call on an external partner to ensure the collection and treatment of its end-of-life electrical and electronic equipment throughout the European Union (p. 34).

These reporting procedures and the social and environmental information presented in this report are the responsibility of Alcatel. Our responsibility is to report on our findings, based on the work carried out, and to formulate recommendations to the departments concerned.

Nature and scope of our work

We have completed the following agreed-upon procedures:

- Gaining an understanding of the reporting procedures and conducting interviews at the head office with the Human Resources Manager responsible for Sustainable Development issues and the Environmental Director for sites.
- Conducting interviews with the Human Resources and Environment correspondents from Alcatel Italia in Vimercate, Alcatel CIT in Vélizy and Alcatel Alenia Space in Toulouse in order to assess the application of the procedures and the utilization of the computer-based reporting tool. These three entities represent 26% of the company's total workforce in 2005, bringing the share of the company's total workforce covered by the work we performed during fiscal year 2004 and fiscal year 2005 to 39%.
- Performing random tests on some of the indicators reported by these sites.
- Together with the Sustainable Development Director, searching for supporting documents with respect to the above-mentioned qualitative assertions (report of meetings on the network organization, survey questionnaire, audit reports, services contract, etc.).

The procedures we performed are less detailed than an audit carried out for the purpose of providing a high or moderate level of assurance with respect to the data; however, they have enabled us to report the following findings:

- The social and environmental reporting procedures have been disclosed to the various contributors and properly applied at all levels examined.
- The computer-based reporting tool used to report on social and environmental data deployed at the company's significant entities is properly mastered by its various users.
- As compared to the previous financial year, the social and environmental reporting procedures were improved by a better description of the reporting network and by further specifications on the reporting scope.
- Within the scope of a process of ongoing progress, the controls performed when the data is collected on the sites should be intensified. In addition, the definitions of certain indicators require more precision in the reporting procedures.

We would also like to draw your attention on the methodological precisions, presented in pages 48 and 49 of the report.

With regards to the qualitative information we have reviewed, our findings are consistent with the assertions expressed in the paragraphs concerned.

Neuilly-sur-Seine and Paris-La Défense, March 22, 2006

Barbier Frinault & autres
ERNST & YOUNG

Christian Chiarasini

ERNST & YOUNG et Associés
Environment and Sustainability Services

Eric Duvaud

Sustainable Development objectives

Social objectives

▶ Increase the percentage of women in Alcatel's Leadership pipeline by 10% by the end of 2008.

▶ Evaluate on a country-by-country basis, by the end of 2006, whether the company can improve the proportion of women hired depending on their availability in the high-technology local labour market.

▶ Have learning and development activities agreed upon during the annual performance review for all managers and professionals by the end of 2008.

▶ Create common guidelines, support documents, shared best practices, by the end of 2007 in order to develop teleworking on a larger basis.

Environmental objectives

▶ Ensure compliance with the RoHS* directive of products put on the European market as from July 2006.

▶ Expand compliance with the RoHS* directive of products put on the worldwide market by the end of 2008.

▶ Pursue efforts to improve the energy efficiency of Alcatel's communication solutions, by :
   – investigating by the end of 2006, the feasibility to measure energy efficiency of a whole communication network.
   – improving by the end of 2008 the energy efficiency of high capacity broadband lines and of radio transceivers by 20%.

* RoHS : Restriction of the use of certain Hazardous Substances

Economic objectives

Full year 2006

▶ Revenue growth to outpace carrier market growth which is expected at mid single digits.

▶ Slight improvement in the operating margin.

▶ Improvement of free cash flow generation.
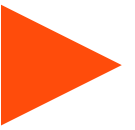
CSR in the supply chain objective

▶ Check, by the end of 2008, the sustainable development performance of suppliers representing 70% of Alcatel's total purchased volume.

Digital inclusion objective

▶ Set up, through Alcatel's digital bridge initiative, three new "Partnership Centers" to incubate local projects, by the end of 2008.
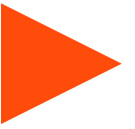
reward your senses ▶

- ▶ Design, supply and installation of fixed communications infrastructure (telephony, Internet, video) for telecommunications operators
- ▶ Design, supply and installation of converged fixed/mobile networks
- ▶ Supply of multimedia applications
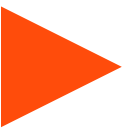- ▶ Integration of end-to-end complex solutions

share your desires ▶

- ▶ Design, supply and installation of mobile communications infrastructure (telephony, Internet, video) for telecommunications operators
- ▶ Design, supply and installation of converged fixed/mobile networks
- ▶ Supply of multimedia applications
- ▶ Integration of end-to-end complex solutions

develop your potential ▶

- ▶ Design, supply and installation of fixed and mobile communications infrastructure (telephony, data transfer) for enterprises and public institutions
- ▶ Design, supply and launch of satellite-based solutions for satellite operators
- ▶ Design, supply and installation of signaling and communication networks for operators of urban and rail transportation systems
- ▶ Integration of end-to-end telecommunication networks for private companies (transport, energy)

Fixed communications

▶ **Wireline circuit-switched telephone networks**

▶ **Seamless Voice over IP (VoIP) core networks**

▶ **Broadband access networks over copper (DSL) and optical fiber (FTTH)**

▶ **Optical transmission networks (terrestrial and submarine)**

▶ **IP and ATM data networks**

▶ **Multimedia services (Video on Demand, interactive television)**

€5.2 billion revenues in 2005

No. 1 worldwide for ADSL: 35% worldwide market share with 21.6 million lines shipped [1]

No. 1 worldwide for optical networks with 16% market share [2]

Among top 3 vendors worldwide in IP routers [3]

Over 380 million circuit-switched lines installed [4]

(1) Source Alcatel   *(3) Source Synergy*
(2) Source RHK   *(4) Source Alcatel*

Mobile communications

▶ **Wireless circuit-switched telephone networks (GSM/GPRS/EDGE/UMTS/HSxPA and CDMA)**

▶ **Seamless Voice over IP (VoIP) core networks**

▶ **Radio transmission networks**

▶ **Multimedia user services (messaging, video, music)**

▶ **Applications for mobile operators (value-based billing)**

▶ **Wireless transmission networks (WiMAX and Microwave)**

€4.1 billion revenues in 2005

Over 360 clients worldwide

13% market share worldwide in GSM infrastructure [5]

No. 2 worldwide with 17% market share in wireless transmission networks (microwave) [6]

Video solutions enabling 20% of today's mobile video users

(5) (6) Source Alcatel

Private communications

▶ **Voice over IP (VoIP) and voice-data convergence solutions for enterprises**

▶ **Multimedia call centers**

▶ **Satellite-based systems for telecoms, navigation, meteorology, observation, and science**

▶ **Integrated signaling, communication, and management solutions for railway networks**

▶ **Professional services for operators and enterprises**

€3.9 billion revenues in 2005

No. 1 in Europe for enterprise IP communications systems with 19% market share [7]

No. 1 worldwide in multimedia contact centers (Genesys) [8]

No. 1 in Europe in telecommunication satellites [9]

No. 2 position worldwide in railway management (ETCS, European Train Control System) [10]

(7) Source Gartner   *(8) (9) and (10) Source Alcatel*

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ALCATEL