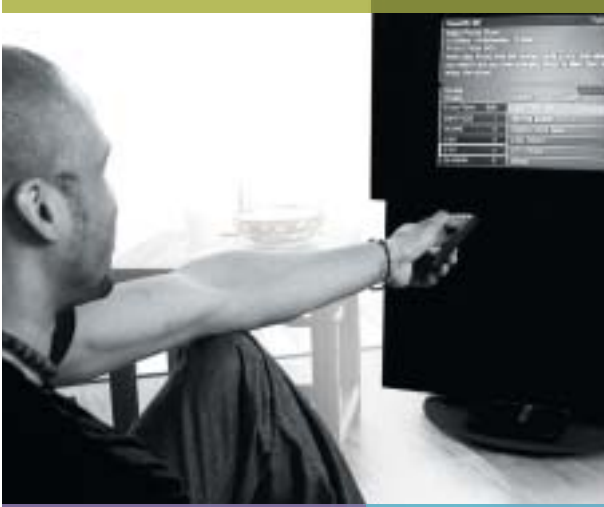ALCATEL

NETWORKS FOR TOMORROW'S

FIXED COMMUNICATIONS

▶ **Activities**
- Design, supply and install access and long-haul fixed communications infrastructure (voice, data and video) for operators
- Propose value-added applications software

MOBILE COMMUNICATIONS

▶ **Activities**
- Design, supply and install mobile infrastructure (voice, data and video) for operators
- Supply broadband solutions, favoring multimedia services
- Offer extensive applications portfolio linked to mobility

PRIVATE COMMUNICATIONS

▶ **Activities**
- Design, supply and install voice-data enterprise networks and provide associated applications and services
- Design and supply satellite-based solutions in voice-data communications for enterprises and operators
- Design, supply and install signalling and communication networks for operators of urban and rail transportation systems
- Network integration and service offerings
- Outsourcing for operator networks

WORLD

€ 5.7 billion in sales in 2003

Solutions
- Wireline telephone networks
- Broadband access networks (DSL, FTTH)
- Optical networks (terrestrial and submarine)
- IP networks, high speed Internet access
- Intelligent networks
- Applications development
  (video over DSL, multimedia…)

Key Figures
- No.1 worldwide for ADSL, 15.8 million lines shipped in 2003 [1]
- No.1 worldwide in optical networks, 15.4% market share in 2003 [2]
- World market leader in multiservice WAN with 17% market share in 2003 [3]
- 345.8 million circuit switched lines installed [4]

1. Source: Dell'Oro (February 2004), 2. Source : RHK (February 2004)
3. Source : SRG (February 2004), 4. Source : RHK (February 2004)

€ 3.5 billion in sales in 2003

Solutions
- GSM/GPRS, EDGE and 3G/UMTS networks and infrastructure
- Mobile solutions for multimedia, video and messaging services
- Applications for mobile services: payment system, positioning system
- Over-the-air transmission networks
- Integration services for application platforms and networks
- Wi-Fi solutions
- Mobile terminals

Key Figures
- Over 300 customers in more than 130 countries [1]
- 12% market share in GSM infrastructure [2]
- A world leader (24% market share) for the supply of wireless transmission solutions [3]

1. Source : Current Analysis Website (November 2003), 2. Source : Alcatel
3. Source : Skylight Research

€ 3.6 billion in sales in 2003

Solutions
- Solutions for voice-data convergence
- IP Telephony
- Multimedia call centers
- Satellite-based systems for telecoms, navigation, meteorology, earth observation and science
- Integrated solutions in signalling and management of urban and rail networks
- Value-added services, operation, maintenance and management of operator and enterprise networks
- Sector-specific applications and solutions (banking, distribution, energy, administration, etc.)

Key Figures
- No.1 worldwide for enterprise IP communication systems (IP-PBX) [1]
- A worldwide market leader in multimedia call centers (No.1 in the North American and Asia Pacific regions) [2]
- A world leader in telecommunications satellites (20% market share in 2003) [3]
- A major player in railway management (ETCS, European Train Control System)

1. Source : Dell'Oro (February 2004), 2. Source : Frost & Sullivan (October 2003), 3. Source : Alcatel
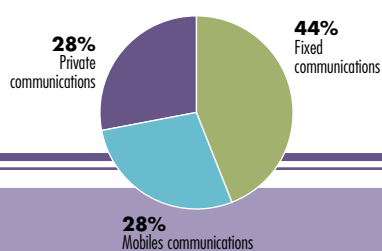
PROFILE

ALCATEL DEVELOPS LEADING-EDGE TECHNOLOGIES AND PROVIDES INNOVATIVE COMMUNICATION SOLUTIONS FOR TELECOM OPERATORS, INTERNET ACCESS PROVIDERS, AND COMPANIES, ENABLING THEM TO DELIVER THE VALUE-ADDED VOICE, DATA AND VIDEO COMMUNICATIONS SERVICES THEIR CUSTOMERS NEED IN A BROADBAND WORLD. IN FIXED LINE NETWORKS, THE COMPANY HAS REINFORCED ITS POSITION AS WORLD LEADER IN BROADBAND ACCESS (DSL, OPTICAL FIBER). IN MOBILE NETWORKS, ALCATEL CONTINUES TO INCREASE ITS MARKET SHARE THANKS TO GSM/GPRS SOLUTIONS AND OFFERS A WELL-RECOGNIZED UMTS SOLUTION. IN BOTH FIXED AND MOBILE, ALCATEL DEVELOPS HIGH ADDED-VALUE MULTIMEDIA SOLUTIONS SUCH AS VIDEO, ONLINE GAMING, AND MMS.
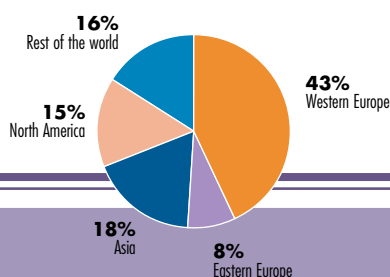
NEARLY ONE THIRD OF ALCATEL'S BUSINESS IS DEVOTED TO THE DEVELOPMENT OF END-TO-END TELECOMMUNICATION SOLUTIONS FOR ENTERPRISES, INDUSTRIES, AND THE PUBLIC AND PRIVATE SECTOR WHO MAKE THEM AVAILABLE TO THEIR CUSTOMERS, EMPLOYEES AND THE PUBLIC.

WITH SALES OF 12.5 BILLION EURO IN 2003 AND A WORKFORCE OF 60,000 EMPLOYEES, ALCATEL OPERATES IN 130 COUNTRIES.
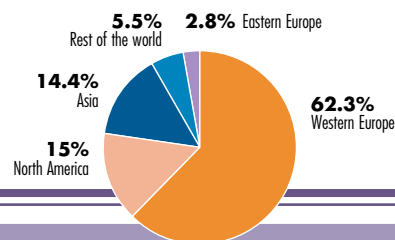

Distribution of sales by segment (in %)*
- 44% Fixed communications
- 28% Private communications
- 28% Mobiles communications

Sales revenue by geographic region (in %)
- 16% Rest of the world
- 43% Western Europe
- 15% North America
- 18% Asia
- 8% Eastern Europe

Headcount per geographic area (in %)
- 5.5% Rest of the world
- 2.8% Eastern Europe
- 14.4% Asia
- 62.3% Western Europe
- 15% North America

*Note: Fixed and mobile communications are solutions for telecom operators. These solutions comprise networking infrastructure, as well as applications and associated services, and are developed with the operators'end users in mind, whether private customers or businesses.
Private communications target large companies, public and private institutions, local authorities and are developed for the companies own communication needs.

MESSAGE FROM THE CHAIRMAN AND CEO

▶ This is Alcatel's second annual sustainable development report. Last year, we described our sustainable development activities and listed our social, environmental and economic objectives. In this report we will tell you about the progress we've made.

Alcatel is emerging from a difficult time during which it had to adapt to a brutal recession in the telecommunication market. In 2003, the company continued to downsize the workforce in order to ensure the continuation of the company and to enable it to return to growth when times improved.

We confirmed our position as a major player in the telecommunication solutions arena, albeit through a profound transformation of the company. This means moving progressively from being a telecoms equipment supplier to that of a communication solutions provider, a more complex business, but a higher value-added one. Beyond strategic repositioning, this is a cultural change and a project that all of our teams can share.

Also in 2003, Alcatel created a sustainable development organization which relies on a global network of correspondents. One of its first projects was to disseminate Alcatel's Statement on Business Practices to every employee. In addition, a Social Charter was created that enriches the Statement on Business Practices. The environmental performance of our products improved and we continued to participate in citizenship projects focusing on health, education and culture diversity.

2003 was also important because we signed the United Nations Global Compact. In doing this, we confirmed our long-term commitment to responsible business practices. We have set ambitious but realistic goals to meet our commitments and to improve our products and services. Our business is in itself able to reduce the digital divide, therefore offering great opportunities for sustainable development. As responsible corporate citizens, we will make the most of these opportunities. ◀

"Our business is in itself able to reduce the digital divide, therefore offering great opportunities for sustainable development."

Serge Tchuruk

SUSTAINABLE DEVELOPMENT: COMMITMENT THROUGH ACTION

Alcatel's sustainable development strategy is based on strict guidelines published in policies and charters, as well as social, environmental and economic objectives for improvement defined by the company's executive management.
For many years now, Alcatel has combined its economic development with being a socially and environmentally responsible company. As examples, for over 10 years Alcatel sites have benefited from an environmental management system; and through its "Digital Bridge" initiative, Alcatel technologies serve development.
In 2003, Alcatel joined the United Nations Global Compact, reinforced its corporate governance practices, updated its Statement on Business Practices, and elaborated its Social Charter.

Alcatel joins United Nations Global Compact

Alcatel is now one of the 1,200 enterprises that have already subscribed to the United Nations Global Compact, the objective of which is to involve companies, non-governmental organizations (NGOs) and governments, in an effort to achieve a more sustainable and inclusive global economy.
The program is based on the following nine principles:

Human Rights
- to support and respect the protection of internationally proclaimed human rights
- to avoid complicity in human rights abuses

Labor Standards
- to uphold the freedom of association and the effective recognition of the right to collective bargaining
- to eliminate all forms of forced and compulsory labor
- to abolish child labor
- to eliminate discrimination with respect to employment and occupation

Environment
- to support a precautionary approach to environmental challenges
- to promote greater environmental responsibility
- to encourage the development and diffusion of environmentally friendly technologies

"We commit to integrating the Global Compact and its principles into the company's strategy, corporate culture and day-to-day operations."

Serge Tchuruk

THE GLOBAL COMPACT

ALCATEL IN 2003:
ON THE PATH TO RECOVERY

[With a budget equivalent to 13% of
sales in 2003, Alcatel pursues its strategy
of state of the art research programs.]

▶ In 2003, telecom equipment suppliers again struggled, mainly due to investment cutbacks by operators. Alcatel simultaneously continued to reduce operating costs, maintain a significant research and development budget, and consolidate or even grow its market share in key areas. Figures for 2003 primarily reflect the return to operating profitability.

Fixed Communications: world market leader in broadband access

While the voice communications market has reached maturity, the fixed networks sector continues to be driven by steady growth in the number of DSL lines (broadband access) and operators' desire to offer added-value services to their subscribers. Moreover, network migration to IP (Internet Protocol) solutions is opening new growth perspectives.

Thanks to its leading position in DSL – 37% market share worldwide – Alcatel helps operators to provide their customers, using existing networks, with broadband access and revenue-generating services: online gaming, video-on-demand, teleworking, etc.

In the voice market, Alcatel has consolidated its leadership with an installed base of over 335 million voice lines, deployed in 177 countries around the world. The objective for the coming years is to enable the progressive migration of this base to next-generation networking, which allows for the convergence of voice, data and image.

Global multimedia mobile solutions

While the mobile telecommunications market for voice services has reached maturity in developed countries, multimedia data traffic is now pushing third-generation (3G) mobile technology. In pursuit of this evolving market, Alcatel entered into a partnership with Fujitsu and now benefits from three years of sales experience in Japan which has attracted the attention of numerous European operators.

With the introduction of broadband mobile systems, subscribers can enjoy the same services as on PCs (Internet, news, gaming, video, music, etc.), whenever they want, wherever they are. Alcatel deploys a complete offering, which assists operators in building customer loyalty, by enabling the delivery of a rich mix of diversified content. Moreover, communicating is simpler than ever for subscribers, who can use a wealth of new multimedia messaging resources.

Alcatel's technological solutions are among the most advanced in the industry, namely for multimedia messaging services (MMS), where Alcatel has established a worldwide track record for performance and video streaming.

In addition, Alcatel continues to increase its market share in infrastructure thanks to the performance of its GSM/GPRS solutions, a field where it continues to innovate in parallel with developments in 3G wireless telephony. This highly competitive offering, particularly with regard to its price/quality ratio, explains why Alcatel equipped 25% of new networks, deployed in 2003 in Eastern Europe, Asia Pacific, Africa and the Middle East.

Condensed three-year income statement
(in millions of euros)

	2003	2002 restated*	2001
Sales	12,513	16,014	25,353
Operating income	332	(606)	(361)
Net loss	(1,944)	(4,745)	(4,963)

* Due to the divestment of the optical components and battery businesses, announced respectively in May and October 2003, and in order to ensure that the accounts are comparable, the income statement for 2002 has been restated.

Integration and service

Alcatel is unique as a world player in telecommunications because of its capacity to address such a widely diverse community of customers: fixed as well as mobile network operators, administrations, local authorities, and companies of all sizes.

Alcatel brings to market various offerings, adapted to a broad spectrum of needs. Customers include energy businesses (for instance, the petroleum industry), a sector where internal telecommunications are of strategic importance. Other sectors are health care, e-government, and transportation, where security and customer service are primary concerns. Insurance companies and large retailers are two additional sectors that share a need for quality of service to customers, often relying on dependable call centers.

Consulting, integration, and outsourcing – service is an essential component of this activity, with the main mission to bring the complete portfolio of Alcatel's and its partners' technologies to customers.

Solutions for the transportation sector: a growing activity

Alcatel develops telecom solutions for signaling in the urban and rail transportation businesses.

With sales growing strongly worldwide, this activity meets two key requirements: improved safety, plus efficiency in managing the flow of passengers and freight.

The significance of capital expenditure for infrastructure in this arena makes it necessary to achieve maximum efficiency in operations. Alcatel has pioneered the deployment of solutions that meet new European traffic regulation standards.

As such, in 2003 it signed numerous equipment contracts with Europe's railways. Several major equipment contracts were also signed for metropolitan networks, notably in New York, London, and Guangzhou (China).
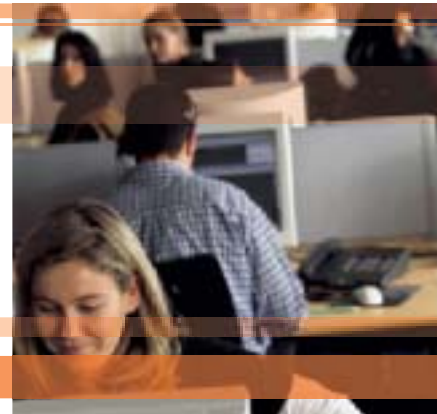
Alcatel's train control systems provide safe, reliable short headway between trains for improved throughput and passenger service.

Many customers from the transport, services and insurance sectors are equipped with **Alcatel multimedia contact centers.**
Alcatel is one of the leaders in the field of multimedia contact centers.

SUSTAINED EFFORT IN RESEARCH AND DEVELOPMENT

KEY FIGURES

- 6 research centers, serving worldwide markets in specialized fields of competency, gathering together 600 researchers (Dallas-USA, Ottawa-Canada, Marcoussis-France, Stuttgart-Germany, Antwerp-Belgium and Shanghai-China).

- 22 main development centers, in 10 countries: France, Germany, Belgium, Italy, Spain, Romania, Slovakia, USA, Canada, China; with additional R&D centers in India, Tunisia, Morocco, Turkey, Australia, and the Ukraine.

- A community of 15,000 employees, coordinated by a central management team, reporting to a Chief Technical Officer (CTO).

- Spending in 2003: 1.6 billion euro, which is 13% of net sales.

- Research focused on competitive factors for 2G and 2.5G wireless platforms, voice services, and optical networks.

- 50% of spending was for segments with strong potential (3G, multimedia applications, broadband access, VoIP, NGN).

MAJOR ACHIEVEMENTS

750 patents filed, chiefly in the fields of IP, wireless infrastructure, and fixed and mobile applications.

10 "firsts" or world records notably in optics.

A major success in the field of Very-High-Data-Rate Digital Subscriber Line (VDSL) standards. In fact, 350 experts are participating in the definition of international norms and standards, with key contributions coming from Europe, the USA, and China in the areas of fixed and mobile access technologies, IP, and optical networks and systems.
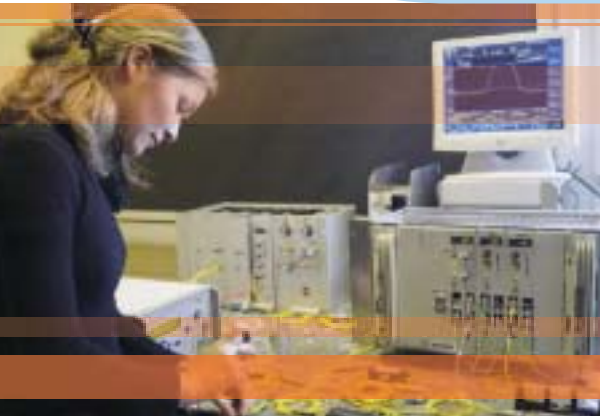
Alcatel Technical Academy: a first report

The first three-year cycle covering the period 2001-2003, concluded with nearly 1,300 applications being reviewed and more than 600 nominations made, out of which 10 scientists were awarded the title of "Alcatel Fellow".

Also of note, 300 scientific and technical articles were published in 2003, and a new university partnership was made, the first in the Asia Pacific region, with the University of Technology, Sydney (Australia).

ETHICS:
SHARED VALUES

[
The Statement on Business Practices sets forth Alcatel's commitment to carrying out its activities in accordance with the strictest ethical business standards, the laws and regulations in effect in the countries in which it operates, and locally accepted principles of good corporate citizenship.
]

▶ In 1997, Alcatel published its Statement on Business Practices in accordance with the strictest ethical standards. Regularly updated, these guidelines express Alcatel's commitment to uphold basic rights and promote fair trade in the conduct of its day-to-day business affairs. In 2003, the company's signing of the Global Compact further underscored this policy. Alcatel is committed to good corporate citizenship in terms of human rights, labor standards and respect for the environment.

Values and charters

In 1997, Alcatel adopted a **Statement on Business Practices (SBP),** which has been updated several times. This Statement, the foundation of Alcatel's ethics policy, expresses the company's commitment to carry out its activities in accordance with the strictest ethical business standards and the laws and the regulations in effect in the countries in which it operates.

- The **Environmental Charter** (1992) explains the entire scope of its commitment to protecting the environment, and includes requirements for employee awareness.
- Since 1997, the **Customer Commitment Charter** has mobilized all of Alcatel's resources and teams to achieve customer satisfaction.
- The **Internal Mobility Charter** (1999) defines and organizes employee mobility within Alcatel, and is one of the cornerstones of the Group's social policy.
- The **Social Charter,** prepared in 2003 and signed by the Chairman at the beginning of 2004, complements the Statement on Business Practices, and sets the rules regarding human resources.

Principles widely communicated internally

A major training and communication campaign was launched in cooperation with the management organizations concerned, to support the dissemination of the Statement on Business Practices to all employees, because of modifications made since its creation in 1997. The Statement on Business Practices is now also accessible as an e-learning module on the Alcatel intranet, available in several languages.

Now that all Alcatel employees have been informed, they have a confidential channel to report any infraction of any of the ethical principles, either to their immediate superior, to a human resources manager, to their local ethics committee, where available, or to the central Ethics Committee.

Alcatel's 4 corporate values

- CUSTOMER SATISFACTION
- INNOVATION
- TEAMWORK
- ACCOUNTABILITY
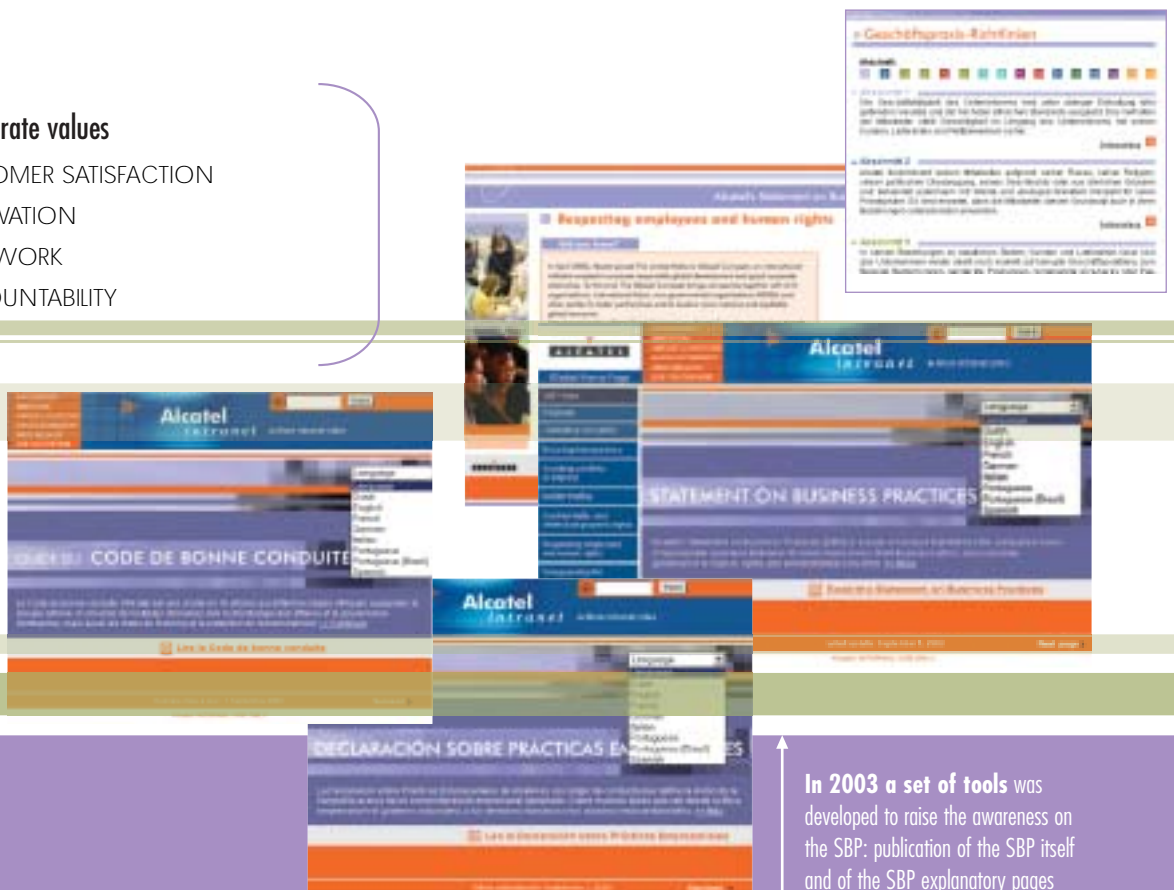
In 2003 a set of tools was developed to raise the awareness on the SBP: publication of the SBP itself and of the SBP explanatory pages on intranet in 9 languages, SBP guide brochure, posters, SBP e-learning module…, available on country and corporate homepages.

Best practice in corporate governance

Alcatel follows the strictest rules in terms of corporate governance.

In accordance with new regulations on corporate governance in France and in the USA, Alcatel has been careful to abide by the best corporate governance practices in terms of the proper operation of its Board of Directors and improved financial reporting.

In 2003, this led to the approval of amendments to the Directors' Charter and to the adoption of new internal rules for the Board of Directors and its committees (Nominations and Compensation, Audit, and Strategy).

Each year, the Alcatel annual report describes the functioning and activities of the Board of Directors and its committees.

Transparent partner relations

Shareholders and investors

Alcatel constantly strives to make up-to-date and regular information available, both to shareholders and to investors and analysts.

Moreover, numerous tools are available to the financial and shareholding community:

- an annual report,
- a shareholders letter,
- analyst and investor meetings,
- financial advertisements,
- a toll-free number,
- shareholders meetings.

Alcatel entered into 2004 with an updated Website, easier to navigate, in order to facilitate queries.

What is more, educational sessions are now organized to introduce shareholders to the basic concepts of telecommunications.

Alcatel held its annual Shareholders'Meeting on April 17, 2003 in Paris, France, which was attended by more than 1,800 shareholders.

Customers

In order to progress in its goal of customer satisfaction, the first of its corporate values, written in the Customer Commitment Charter since 1997, employees undergo specific training. This criteria is now a central component in evaluating their performance.

A global approach to the supply chain

In 2003, the Corporate Purchasing Department undertook added actions to ensure that its suppliers and subcontractors respect the principles of the Alcatel Statement on Business Practices. This meant that a new clause was added to all upcoming contracts. In 2004, this clause will be added to all purchasing contracts, regardless of when they were originally negotiated, as well as a clause relating to respect and protection of the environment.

All Alcatel suppliers must also provide relevant environmental information for each product, as stipulated by the ECMA (European Computer Manufacturers Association) international standard.

In 2003, there was an information campaign for employees who manage work on customer sites. They have been requested to make sure that subcontractors respect the Alcatel Statement on Business Practices, especially section 11, which concerns the elimination of all forms of forced and compulsory labor, and the abolishment of child labor.

ETHICS COMMITTEE: THE YEAR'S ACTIVITY

At the end of 2002, an Ethics Committee was created to implement the Statement on Business Practices. Chaired by Jean-Pierre Halbron, member of the Board of Directors and former COO, the committee is comprised of directors from the legal, human resources, and financial communications departments.

Its mission includes updating the Statement on Business Practices, treating allegations of misconduct, and coordinating the work of local ethics committees, which mirror the composition of the corporate committee.

The Ethics Committee met four times in 2003:
- it finalized its own rules of conduct;
- approved the formation of three local committees (USA, China, and Italy);
- debated specific questions submitted by Alcatel employees;
- ratified Alcatel's first Social Charter.
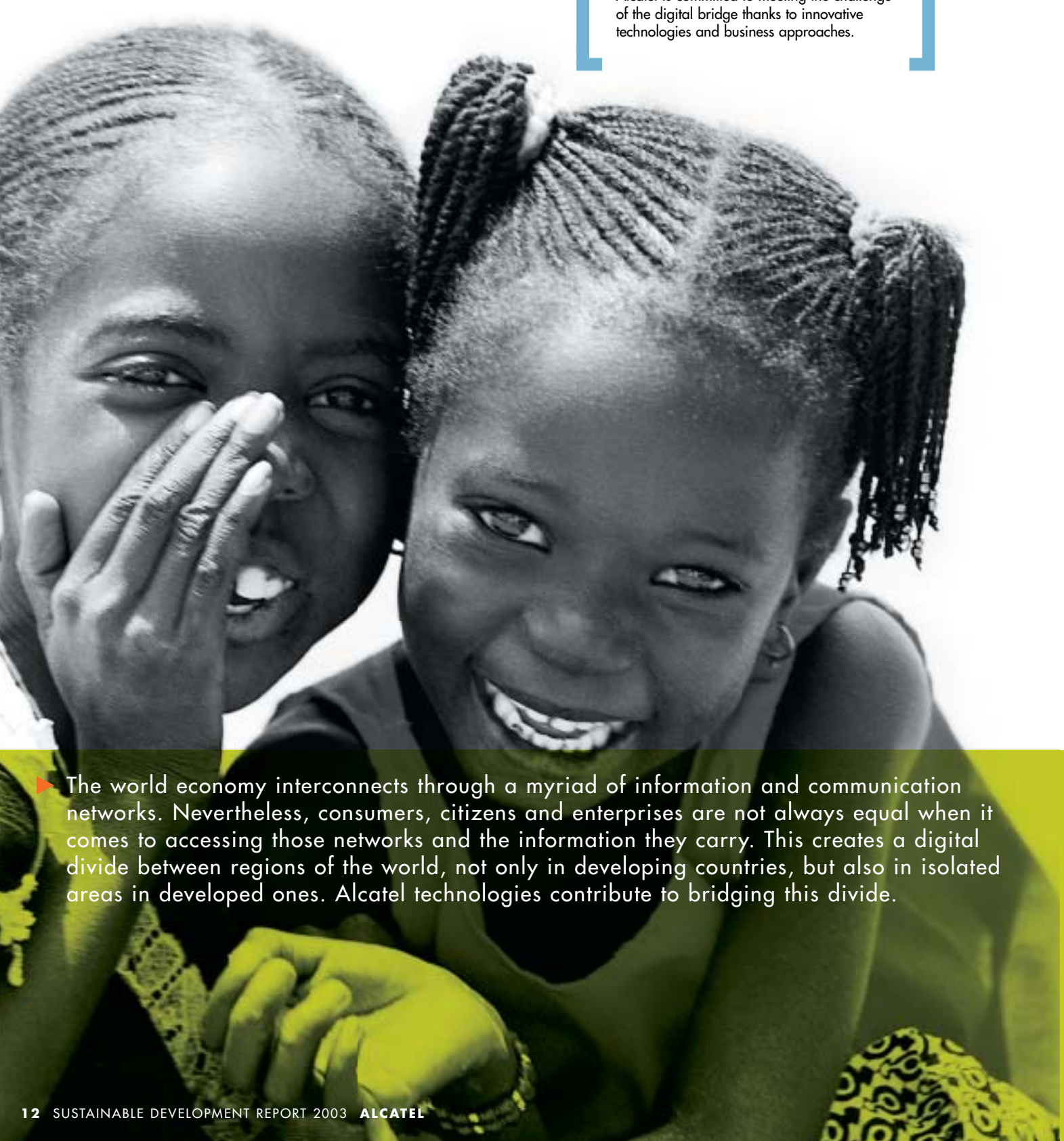
The Corporate Purchasing Department and the project teams on the field have intensified their actions in order to ensure the support of suppliers and subcontractors to the ethical program that was put in place by Alcatel. Above, in Thailand, one of the Group's main partners working with its Services team.

TELECOMMUNICATIONS: GATEWAYS TO DEVELOPMENT

Alcatel is committed to meeting the challenge of the digital bridge thanks to innovative technologies and business approaches.

▶ The world economy interconnects through a myriad of information and communication networks. Nevertheless, consumers, citizens and enterprises are not always equal when it comes to accessing those networks and the information they carry. This creates a digital divide between regions of the world, not only in developing countries, but also in isolated areas in developed ones. Alcatel technologies contribute to bridging this divide.

"Universal and affordable access to ICT is a priority." *

DSL, wireless, optics, IP, and satellite communications – Alcatel's technology portfolio provides for transmission, access, connectivity, and services, making its offering one of the most diversified in the world. Whether for local, private, public or non-governmental organizations, Alcatel delivers solutions that are adapted for different needs, uses, geographic constraints, and budgets.

Alcatel is a member of the working committee created by the United Nations Department of Economic and Social Affairs, which examines the contribution of information and communication technology (ICT) to a country's development. Alcatel brings its skills to the decision-making process in order to determine strategy and implement pragmatic solutions.

Alcatel actively participated in the World Summit on the Information Society (WSIS), held in Geneva in December 2003, an ITU (International Telecommunication Union) initiative, which for the first time was open to the public.

Sarbuland Khan, UN Department of Economic and Social Affairs, Newslink Q4 2001

Alcatel puts its telecom networking experience to work for economic and social development around the world.

In **Namibia,** the Alcatel LMDS (Local Multipoint Distribution Service) solution, in conjunction with high-capacity urban microwave radio systems, enables the national operator, Telecom Namibia, to offer end-users access to broadband services, by linking the LMDS base stations to the point of presence in the fiber-optic network.

In **Colombia,** Alcatel brings the Colombian operator, Edatel, an efficient, low-cost solution that enables it to offer advanced fixed communication services from a GSM mobile network. In fact, for rapid network deployment in rural and suburban regions, wireless solutions are more effective than land lines especially when end-users are geographically dispersed.

In **China,** Alcatel is installing over one million DSL lines in 18 southern provinces, including Shanghai, Sichuan, Jiangsu, Hubei, Guizhou, Zhejiang, Guangdong, Fujian and Shaanxi. Also in China, Alcatel has won a contract for the turnkey delivery of a two-way satellite broadband Internet access network, dubbed "DSL in-the-sky", to deliver broadband access in rural areas.
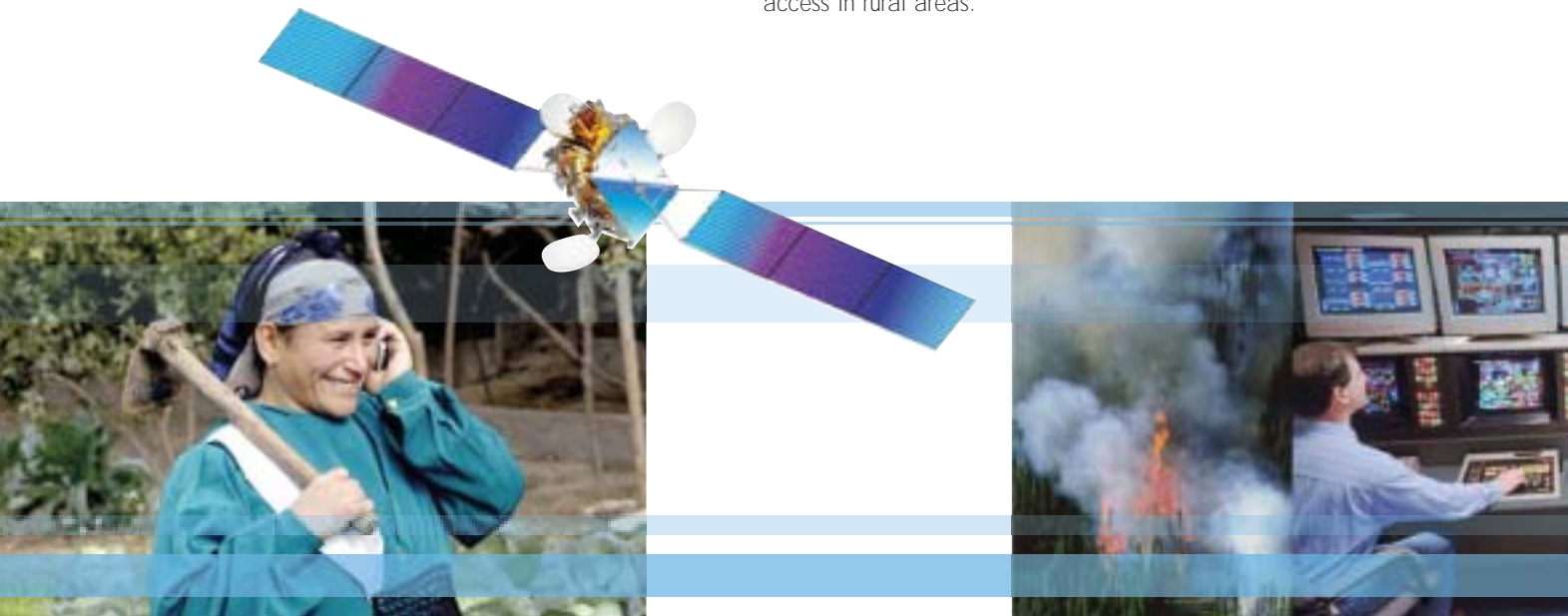
A satellite for Africa
In 2003, a consortium of African operators selected Alcatel to supply the first pan-African telecommunications satellite, Rascom. Set to become operational in 2006, Rascom will open access to telecom services from anywhere on the continent.

In the scope of the growing damages linked to natural risks (floods, forest fires…), a renewed importance is given to risk prevention, but also to crisis management and to the evaluation of damages through the use of satellites. (GMES "Global Monitoring for Environment and Security" program)

Solutions that reduce isolation and exclusion

The digital divide does not only concern the least developed countries. Although urban areas in developed countries are often well equipped, there are numerous geographic regions where broadband access is not available, due to sparse population or remotely located towns. However, these broadband networks are essential for regional development. Local ICT services should be accessible to everyone, regardless of the age, address or socioeconomic status.

Alcatel's equipment allows regional authorities to provide their citizens, enterprises, schools, and public institutions with broadband connectivity. These solutions are based on fiber optics "Fiber-To-The-Home" (FTTH), wireless technologies, satellite communications ("DSL in-the-sky"), and more.

For example, in isolated mountainous areas north of **Madrid** (Spain), Alcatel has deployed a Wi-Fi solution with SatWan, an operator specialized in serving rural areas, in order to open up wireless access to broadband services. This innovative solution, which combines Wi-Fi technology and satellite-based access, can easily be deployed worldwide.

Solutions for education and health

Alcatel is involved in the deployment of solutions for education and health in developing as well as in developed countries. Thanks to networks it is easier to make individualized instruction available to the widest number of people.

In **Ghana,** Alcatel is modernizing and extending the nationwide fixed and mobile telecom networks, and so is enabling the national operator, Ghana Telecom, to bring telecommunication services to all of the country's secondary schools.

Another application for new ICT is to contribute to progress in universal health care, by enabling improved treatment and optimized resources.

In **Copenhagen** (Denmark), emergency pediatric care at the Frederiksberg hospital benefits from a multimedia network, based on technologies from Alcatel. This way, a direct video link with neighboring hospitals makes it possible to work remotely with specialized teams, which avoids the need to transfer young patients.

In **the USA,** at Brigham Hospital (Boston), Alcatel has deployed an optical network that handles real-time transmission of medical imagery in order to assist surgeons during complex procedures, or for research purposes.

Alcatel solutions help provide interactive telemedicine links between hospitals and remote communities.

The SuperNet network in Alberta (Canada)

Alcatel provides fiber optics and wireless solutions for the development of the SuperNet network in the Canadian province of Alberta. SuperNet is an initiative of the Alberta government. In 2004, it is set to interconnect 4,700 buildings (libraries, schools, hospitals, and local administrations) in 422 local communities in the Canadian province.

Public/Private Partnerships (PPP)

Regional governments play an essential role in the effort to overcome the digital divide. That is why Alcatel was a partner at "Cities e World-Lyon 2003", part of a process of international consultation that gathered together local mayors and elected officials from five continents, in December 2003. This congress helped prepare the first World Summit on the Information Society, held in Geneva.

Such consultations highlight the necessity to develop communication network structuring and financing solutions, based on Public/Private Partnerships in regions of the world where such investment cannot be covered by private investment alone. The PPP approach enables the structuring of communication networks according to economic and social requirements, thus allowing an equitable sharing of risks between the public and private sectors, while optimizing costs.

Alcatel is increasingly involved in this "project" approach to participating in PPPs in the ICT sector, through partnerships and technology agreements with local organizations, as well as with NGOs, government authorities, development funds, operators, and service providers.

THE DIGITAL BRIDGE INITIATIVE: INNOVATIVE SOLUTIONS

In 2001, Alcatel launched an original development approach called the Digital Bridge Initiative. Based on clearly identified local needs, this approach consists of partnering with local players, associations and other stakeholders, to propose solutions that combine technologies, services and financing.

The Franco-Senegalese company Manobi, was cited at the World Summit on the Information Society in Geneva, for deploying an innovative solution in partnership with Alcatel, which benefits fishermen and farmers from **Senegal.** Simply with a GSM mobile phone, some 400 regular users have access to information on the markets for their products (prices and volumes). This allows them to negotiate their production under more equitable conditions.

In **Tunis** (Tunisia), Alcatel has created the Partnership Space Center, where the company makes available to local entrepreneurs advanced telecommunication technologies, resources and development support for new multimedia services. Projects are pre-selected according to their relevance to local needs.

These few examples illustrate the key elements of the initiative: respond to essential development needs, demonstrate innovative, tailored solutions, and work in close partnership with local players, to ensure solutions are reliable and future-proof.

For two years, Alcatel and Manobi have displayed a mobile service project in the area of Kayar, one of the largest fishing harbors in Senegal. This project enables fishermen and individual farmers to know the prices of their production via mobile networks.

HUMAN RESOURCES:
STAKES AND
RESPONSIBILITIES

[
Despite the difficult context, Alcatel intends
to maintain a dynamic human resources
policy based on dialogue and continuous
internal communication.
]

▶ Over the last three years, severe recession in the telecommunications market has forced
Alcatel to adapt its organization to new economic conditions. In 2003, downsizing
continued in an environment of constant dialog with the Group's social partners.
At the same time, Alcatel gave further impetus to its human resources policies
by formalizing its ambitions in a program called "HR Vision for One Company".
Additionally, a new Social Charter was introduced to enrich Alcatel's Statement
on Business Practices.

Redeploying activities: a responsible attitude

Alcatel has had to adapt to yet another downturn in the telecommunications market. This downturn started in 2001, continued in 2002, and resulted in a 20% decrease in Alcatel's sales in 2003. To align costs with sales, Alcatel reduced its personnel from 76,000 people at the end of 2002 to 60,000 people at the end of 2003.

Alcatel undertook this painful adjustment all the while favoring solutions that maintained activities on the sites concerned, and preserving individual employment perspectives as much as possible (outsourcing, transfers, and local partnerships easing transitions).

Outsourcing and securing jobs

Alcatel decided to divest certain sites, permitting these sites to find new opportunities beyond telecommunications. This way, the impact of industrial restructuring on the concerned local communities was minimized. In 2003, these transfers impacted about 2,800 people.

In **Belgium** for instance, the Hoboken site (250 employees) was sold to Scanfil Oyi, a Finnish company specialized in the manufacturing of communication systems and industrial electronics.

In **France,** two sites employing over 500 people were also sold: the factory in Saintes was taken over by GMD, an industrial subcontractor, the site in Coutances by Leveraged Management Buyout (LMBO). Other transfers occurred in **Germany, Italy, Brazil** and **North America.** In such cases, Alcatel generally commits to providing activity to the concerned sites for a given time frame.

Alcatel Optronics: building for the future

The field of optoelectronic components was affected by the downturn in the optics market. Alcatel Optronics (820 employees, based in **France** and the **UK**) was sold in May 2003 to Avanex. At the same time, Avanex acquired assets from Corning, another major player in this arena, which faced similar difficulties. The resulting company has become the second largest provider on the global optics market and is better prepared to overcome the crisis than either of the companies would have on their own, especially in terms of employment. Alcatel keeps a 28% share in the new entity, showing its confidence in the future of Avanex.

At the beginning of 2004, Alcatel launched a similar operation in fiber optics with the Dutch company, Draka.

Headcount changes worldwide

	2001	2002	2003
Asia-Pacific	5,500	9,000	8,716
America	20,400	13,000	9,075
Europe, Middle-East, Africa, India	73,400	54,000	42,695
Total	**99,300**	**76,000**	**60,486**
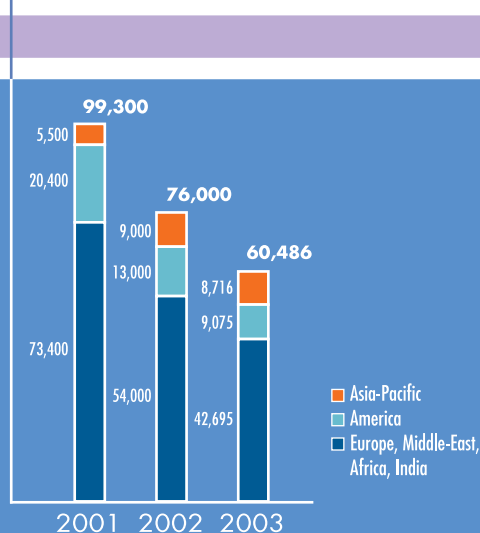
Headcount changes in Europe, Middle East, Africa and India

	2001	2002	2003
Spain	4,400	2,500	1,810
Italy	5,300	4,100	3,129
Belgium	6,500	4,400	2,921
Germany	12,900	8,600	7,381
France	31,300	25,400	18,989
Other countries	13,000	9,000	8,465
Total	**73,400**	**54,000**	**42,695**
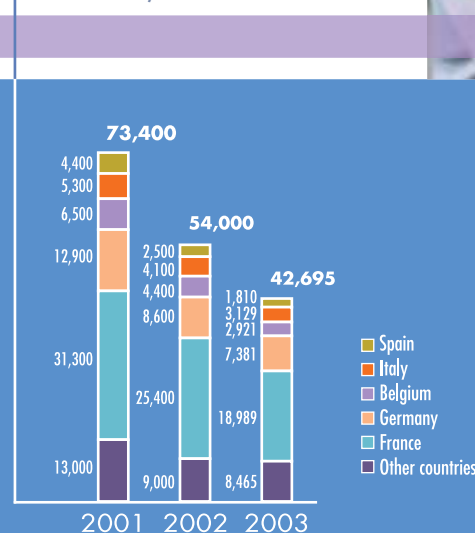
Site closures, reduced operations and relevant social action plans

In the absence of other solutions, Alcatel has been obliged to close sites and reduce staff. Nonetheless, the company took measures to limit overall job loss impact.

In **France:**

- in Lannion, the "Solutions Plastiques" company offered 115 jobs to Alcatel employees;
- in Calais, over the next two years, 214 jobs will be created by a partnership framework with Calais Economic Development Agency.

In **Germany,** Alcatel has set up "Employment and Qualification Companies". These structures, together with the Government's support, offer employees training and assistance in finding new employment, while maintaining 80% of their former salaries.

Building new skills: an alternative to workforce reduction

Depending on the spectrum of their activities, some Alcatel units have to face a twofold dilemma. On the one hand, sectors such as optics and traditional fixed telephony are declining, whereas on the other hand, sectors are experiencing strong growth (services and applications). Th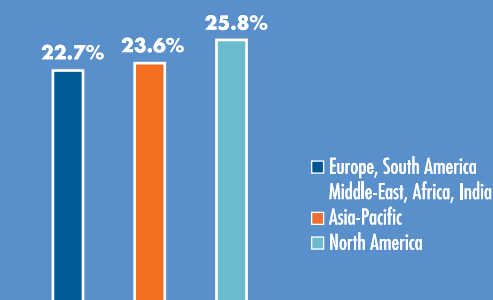is is the case for instance for Alcatel CIT, with the additional problem of managing the balance of activity between its various geographic locations. Through collective bargaining between management, human resources and employee representatives, a program was initiated in 2003 to analyze skills, helping to identify shortages or over-staffing for each defined skill set. Differences in terms of staffing levels and skills are being analyzed in order to define appropriate responses (mobility, training, transferring workloads, etc). In 2003, 400 internal transfers took place compared to 1,060 job losses during the same period. This action will continue in 2004.

Refocusing on core business

For the last two years, Alcatel has been focusing on its core business. At the end of 2003, SAFT was divested to investment company Doughty Hanson, specialized in the development of industrial companies. The future growth of SAFT, which employs 4,000 people in eight countries should thus be secured.

Percentage of Women/Headcount by Region (2003)

22.7% — Europe, South America Middle-East, Africa, India
23.6% — Asia-Pacific
25.8% — North America

Expatriates by Host Region

	2001	2002	2003
Europe	798	602	531
North America	330	171	109
South America	173	124	98
Africa, Middle-East, India	315	426	524
Asia-Pacific	491	619	456
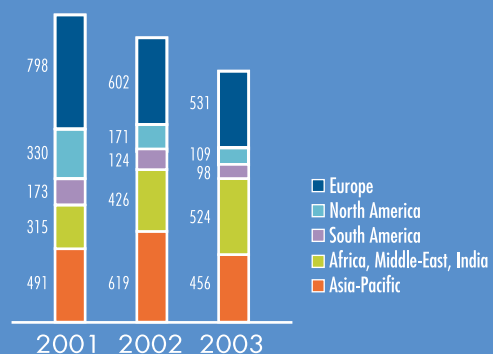
New business activities and acquisitions

During the same period, Alcatel entered into new business activities. In response to some of its customers' needs, telecom operators who have begun to outsource the management of their networks in order to focus on their own customers relations, Alcatel developed a new expertise.

In 2003, Alcatel signed network management contracts with several operators, for example: One **(Austria)** and New Zealand Telecom **(New Zealand)**. This resulted in the transfer of dedicated teams to Alcatel, increasing total workforce by 1,280 employees.

In order to reinforce its technology portfolio and strengthen its position in promising markets (TV over DSL, IP service routing, and mobile services), Alcatel also made acquisitions (Imagic TV, Timetra and Packet Video NS), integrating 250 new employees.

Tailor-made training

The mission of the 15 Alcatel Universities is to make the best use of worldwide company resources and ensure quality training programs for employees, customers and partners. Recognized for the quality of teaching, these universities design customized programs, playing a critical role in the promotion of a lifelong learning culture.

In 2003, the training budget amounted to 1.5% of payroll, compared to 1.6% in 2002. To maintain the efficiency of training, the system of governance for Alcatel Universities was intensified, and six priorities to support Alcatel's corporate strategy were defined. These priorities are (1) sales and marketing, (2) solutions and applications, (3) services, (4) technologies, (5) quality, and (6) continuous leadership development.

Alcatel has improved the selection and orientation processes for employees who will receive training. Alcatel University has also continued to extend its reach to new geographic areas, most notably in **China** and **Eastern Europe.** Accreditations for Alcatel Universities in Shanghai (**China**) and Timisoara (**Romania**) are decisive steps in this direction.

In 2003, Alcatel joined the European Foundation of Management Development (EFMD) in order to improve the quality of its training programs. Alcatel became one of three pilot companies for the Corporate Learning Improvement Process (CLIP). CLIP was launched because corporate learning and knowledge management are key issues for sustainable development. The purpose of CLIP is to design a quality assessment and development tool for company training centers and corporate universities. Alcatel is one of the five companies whose corporate universities successfully completed the CLIP process.
As a result, the EFMD will officially present its CLIP Certificate to Alcatel University in 2004.

The Social Charter: a key document for social policy

The Social Charter was conceived in order to formalize Alcatel's commitment to social responsibility and to further improve consistency among the company's various social policies. The Charter is the result of a joint initiative from the HR and Legal departments.

Its content conforms to International Labor Organization initiatives, the Universal Declaration of Human Rights, and the UN Global Compact. The Ethics Committee approved the Social Charter in December 2003.

Beyond respect for local laws and regulations, Alcatel is committed to respecting and protecting human rights, ensuring safe, healthy working conditions, safeguarding freedom of thought, opinion, and expression. In addition, it upholds the freedom of association. Alcatel will not discriminate against any employee or engage in abusive disciplinary practices. The Social Charter invites suppliers and subcontractors to adhere to the same principles. The Charter also confirms Alcatel's policies with regard to training and career development for employees.

HR Vision for One Company

Launched in 2003, the *"HR Vision for One Company"* defines human resources development processes and tools common to all Alcatel professional employees. Before the end of 2005, a unified system of annual performance reviews will be deployed, and a development plan will be available for each individual.

A pilot project was put in place in 2003 for 8,500 employees from 15 different countries in the three major regions (Europe and South, Asia Pacific and North America).

As the training catalog is available on Alcatel intranet in a common Learning Management System (LMS), each employee will be able to participate in the management of his or her own career development plan.

The *"Organization and People Review"* (OPR) is a process which enables Alcatel to detect, develop and retain talent. Management can use resulting succession plans to renew teams through internal promotion.

A culturally diverse group

Present in 130 countries, Alcatel fosters cross-cultural and cross-national exchanges. Geographical and job mobility are actively encouraged. Cultural diversity is felt most strongly among management. In 2003, Alcatel's managers were of 22 different nationalities.

Management Convention
Every year in early February, 350 of the company's top managers meet to review the activities of the previous year and set the objectives for the year to come.

Adapted internal communications

Directors Meetings and All Staff Meetings in the USA and Canada

In North America, Alcatel regularly facilitates dialog between top management, middle management and all employees.

A quarterly Directors Meeting brings managers together, providing an opportunity to communicate company strategy and to field questions. These meetings are webcast and followed up by quarterly All Staff Meetings in Plano (USA) and Ottawa (Canada) sites.

Alcatel CIT open door events

The main French subsidiary, Alcatel CIT, launched the "Rencontres" program in 2001 as a vehicle to communicate change in the company's activities through ongoing dialog between top management, line management and all employees from various sites. Between January 2003 and January 2004, 21 such "Rencontres" were held in 11 different locations.

The "One Company" initiative

Over the last few years, Alcatel has had to face a downturn in its sales volume and consequent reductions in personnel. In response, the company has strived for greater cost control and increased efficiency. This has led Alcatel to rethink its entire organization and management processes, moving in the direction of greater simplicity, more cohesion, and improved sharing of resources. This program particularly impacts information systems, administration and finance, purchasing, the supply chain, and quality assurance. In 2003, the *"One Company"* initiative was at the heart of a broad internal communication campaign.

A COMPETITIVE STOCK OPTIONS POLICY

Alcatel has used stock options for several years in order to attract and retain employees whose skills are critical to the company's development. This plan is comparable to those of its North American competitors, and is among the best in Europe. It is characterized by:

• the number of beneficiaries (36,000 at the end of 2003);

• granting of stock options in 75 countries;

• a willingness to associate all managers and professionals in the plan, from the start of their careers in the company;

• annual granting of options.

ENVIRONMENT: A TWOFOLD COMMITMENT

Environment-related projects are developed by multidisciplinary teams. Dedicated intranet sites and training modules support day-to-day communication and information exchange.

▶ As a responsible company, Alcatel takes measures to protect the environment, implementing a twofold approach, starting with the product design and maintaining environmental quality assurance on all its production sites.
This commitment is shared with its suppliers and subcontractors.

A dedicated organization

For several years, Alcatel has been striving to reduce the environmental impact of its products. In 2003, the company set up an organization that enables it to respond even more effectively to recent regulatory changes, to define priority actions and to improve coordination among different programs for ensuring product conformity. It thus established two structures.

> **Environmental Task Force,**
> is composed of representatives from the company's three Business sectors and main corporate departments, and is empowered to set strategy and oversee implementation.
>
> **Environmental Technical Committee,**
> is composed of representatives from the company's operating units, and is in charge of coordinating action and monitoring progress.

Preparing for new European regulations

In 2003, work intensified on the application of two new European directives; one concerning waste management, the other, a ban on hazardous substances.

The waste management directive will take effect in August 2005. It transfers responsibility for managing product end-of-life to the producer (of consumer goods or professional equipment), even if the company no longer manufactures them directly. Therefore, Alcatel will be responsible for the end-of-life of products that it brings to market. Alcatel is preparing to assume this responsibility by studying new services, based on existing internal practices and from benchmarking in the industry.

In 2003, Alcatel prepared for its products to comply with the directive on hazardous substances to take effect in July 2006 which will prohibit, in particular, the use of lead. By planning ahead, Alcatel will be able to put on the market, from the moment regulations enter into force, products that combine reliability, high performance and respect for the law. With a view to conformity, Alcatel has a special *"Restriction on the Use of certain Hazardous Substances"* (RoHS) compliance program set up to study alternative technologies, to identify the challenges, and to evaluate the technical and economic impact of compliance.

This program involves the full participation of the purchasing department, so as to ensure the close cooperation of suppliers and subcontractors. Internal database management is being modified to integrate the expected new characteristics (compliance with the directive, compatibility with new assembly processes, etc.). This work encompasses the entire list of tens of thousands of components used by the company.
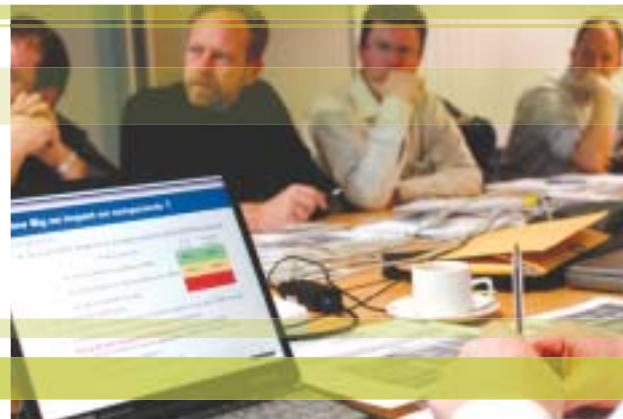
In order to comply with the European RoHS directive (Restriction on the use of certain Hazardous Substances), a corporate-wide project has been launched in 2003 with a working group composed of representatives of all Business Divisions, representing seven countries.

Product life cycle at the heart of the matter

Alcatel takes into account the environmental impacts of its products, starting at the design stage. This is part of a global approach which considers the choice of materials and components, manufacturing processes, raw material and energy consumption, and residual value at the end-of-life.

With this in mind, Alcatel joined other companies in the electrical and electronics industry, to develop a common methodology to assist in the design of environmentally-friendly products called the *"Environmental Information and Management Explorer" (EIME).* In 2003, responsibility for the EIME software was given to Codde, a company set up by an industry association in order to favor the widest possible use, notably by small and medium-sized enterprises. This action will enhance environmental information exchange between Alcatel and its suppliers and subcontractors.

One environmental challenge in the telecommunications industry and therefore a major objective for Alcatel, is the reduction of energy consumption of equipment. The company continues to advance in this field. In 2003, Alcatel achieved reductions of between 4 and 40% for newly developed products which is in line with its objective of a

20% reduction on average. Nonetheless, the wide variety of Alcatel products and the constant adaptation of equipment already installed, renders any precise evaluation complex in terms of real progress achieved. Therefore, as in 2002, sampling was used to quantify results.

Moreover, Alcatel continued a policy of requiring "ecodeclarations" all along the supply chain in order to improve the information provided to customers concerning the environmental performance of its products.

In 2003, the company's purchasing departments extended the sending of environmental questionnaires to all suppliers and subcontractors. At the end of the year, nearly 65% of procurements were covered by an environmental declaration. Alcatel's objective is that all procurements be covered by an ecodeclaration in 2005.

Downstream along the supply chain, Alcatel delivers its standardized ecodeclarations for new products. In 2003, 83% of new equipment was covered, in line with its objective of 95%, to be reached in 2005.

Much of the environmental impacts of products throughout their life cycle depends on design choices. Taking these issues into account early on, by environmentally conscious design can substantially reduce the total impact of products.

Alcatel participates in the rehabilitation of some of its industrial sites in order to allow the construction of residential districts. Site of Conflans-Ste-Honorine.

Percentage of new products with an ecodeclaration

* Objective

20% 2002
83% 2003
95% 2005*
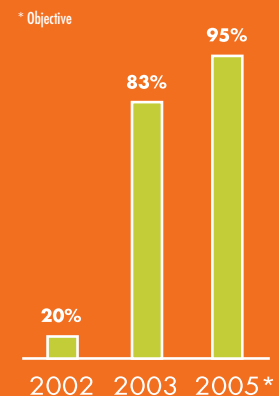
Limiting the environmental impacts of sites

In 1992, Alcatel launched an Environmental Plan, designed to improve the environmental performance of its industrial sites. An internal environmental management system was set up, covering waste management, anti-pollution measures (air and water), reduced water and energy consumption, and consequently, reduced emissions of greenhouse gases. This plan, covering all of the Group's sites, was an essential first step. Following this move, a large number of sites chose ISO 14001 certification. The industrial sites divested in 2003 were all certified ISO 14001. Today, 18 of Alcatel's 36 major production sites are certified.

Furthermore, when transferring sites, and in the case where Alcatel is the last industrial operator, the company participates in cleaning up the site, even if pollution is left over from the previous operators.

In 2003, this was what happened for the cleanup of a site in Conflans-Sainte-Honorine (France), which is now a residential area that includes several recreation areas. This industrial site, which had been unoccupied for nearly 10 years after its sale, was recovered in cooperation with local authorities and the current owners.

THE ELECTROMAGNETIC ENVIRONMENT IN EVERYDAY LIFE

Electromagnetic (EM) fields belong to our everyday environment, whether at home, in public places or at work. The rapid development of mobile communications has raised questions about the possible health effects of electromagnetic fields.

Following the advice of expert committees mandated by national and international health authorities, Alcatel has continued in 2003 to provide information to its employees and the general public.

- The Alcatel Committee for Health and Safety at Work (CHSCT) holds meetings at regular intervals to facilitate dialog with occupational doctors and experts. In 2003, an information campaign has been conducted on the Vélizy site (France).

- Users of Alcatel mobile phones are informed about the Specific Absorption Rate (SAR) level of their equipment by consulting either the user manual or the Internet site:

  www.my-onetouch.com/worldwide/com/products/health/.

- In 2003, Alcatel worked together with the Association of French Mobile Operators (AFOM) and the Mobile Manufacturers Forum (MMF) to produce a leaflet for the information of the public on mobile telephony and health. One million copies of this brochure were distributed at sales outlets of the three French operators.

- Along with the other manufacturers of the MMF, Alcatel supports the international research efforts by providing additional funding to projects listed in the World Health Organization (WHO) agenda.

Radio installations are checked
for compliance with international standards
and European directives.

CORPORATE CITIZENSHIP: THE NEED FOR CONTINUITY

[
As a good corporate citizen, Alcatel is involved in the local fabric of every country in which it operates, hence the huge geographical diversity that characterizes the Group's initiatives and its actions in remote regions.
]

▶ Through its presence in 130 countries, Alcatel plays an active role in local communities. For many years now, often at the initiative of local teams, it has participated in projects and actions to support education, health and culture.

Continuity in commitment

In spite of heavy cost cutting, Alcatel chose to maintain its support of corporate citizenship actions in which the company was already involved. These are long-term projects and continuity is therefore necessary.

Alcatel's participation covers three areas:
- education and training,
- health and human services,
- culture.

These are areas where Alcatel's skills and business activities can make significant value-added contributions.

Sharing skills: education and training

In many countries, Alcatel assists schools and universities to gain access to telecom technologies, fostering the emergence of high-level skills.

In **Russia** for example, Alcatel runs a multifaceted project, the *"Together with Alcatel Program",* which concerns four universities specialized in telecommunications. This program is active throughout the school year. Besides the construction of equipped classrooms, the program offers an annual scholarship to a graduate student, a Student of the Year award, the organization of seminars by some of Alcatel's experts, a chance to study at the Alcatel training center in Moscow, and exchange opportunities with German students and teachers. The program also includes other activities, organized by a new office in Samara, in the province of Povolzhie.

In **China,** Alcatel Shanghai Bell subsidizes the education of children in the isolated region of Ninglang, some 2,000 km from Shanghai. In this remote region, 10 towns out of 16 do not have a middle school due to lack of sufficient resources. By contributing 104,000 euros, the company made the construction of a new school possible. It opened in September 2003 and serves 1,000 pupils.

As part of this action, Alcatel Shanghai Bell employees set up the *"Ninglang Middle School Education Fund",* which has collected 145,000 euros. Fund revenues enable the granting of aid to certain students and teachers. What is more, 42 Alcatel Shanghai Bell employees are personally active in developing education in Ninglang. They each assist and finance a child during the nine months of the school year.

Alcatel supports Junior Achievement in the USA, providing volunteers in schools and financial support for the program. With this program, students from kindergarten through high school study economic concepts that enhance their understanding of the world around them, and thereby broaden their future career opportunities.

Several Alcatel Shanghai Bell representatives participated in the inauguration celebrations of the Ninglang Hope School by giving the children english courses. Children from the Yi, Naxi, Pumi, Lisu and Mosuo ethnic groups attend the school.

Contribute to improving quality of life: health and human services

Health and action in favor of better living conditions are among the priorities set by the United Nations for local development.

Alcatel participates in many programs in this field. One example in **France:** for two years, Alcatel has supported an association of actors/clowns *(Le Rire Médecin),* that believes laughter is good medicine. This association was created 10 years ago by Caroline Simonds, and brings together 34 professional actors, who have been specially trained to work in hospital pediatric wards. Each of their performances is carefully rehearsed in cooperation with hospital medical teams. Their shows include magic tricks, jokes and songs. These performances help not only the children, but also their families and hospital staff, to relax and forget their troubles. They also help make the hospital environment friendlier, which is indeed good medicine.

At the community level, Alcatel helps combat poverty and hunger. In **Brazil** for example, employees participate in projects to reduce wasted food, in cooperation with a government program. This action consists of urban food drives and a food bank, with the help of volunteers, who collect the food. It was a part of *World Food Day,* held October 16, 2003.

In **Norway** since 1998, Alcatel has supported the *Dissimilis* association, created to assist mentally disabled children, through the use of music and theater. Its founder, Kai Zahl, has perfected a method for teaching music to children through the use of a color code. The results have been spectacular.

In **the USA,** marathon races are very popular and provide an occasion for assembling a widely diverse public, ready to practice their favorite sport in the name of a good cause. One such event is organized by the **Susan G. Konen** Breast Cancer Foundation, which sponsors research, information campaigns, and early diagnostics. Since its first event in 1983, the foundation has organized 115 races worldwide, involving 1,500,000 participants. In 2003, Alcatel was a sponsor of the race in Plano, Texas, and will again contribute to the event in 2004.

Last May in **China,** Alcatel supported the work of medical teams, fighting severe acute respiratory syndrome (SARS), an act which also benefited sufferers. Together with China Mobile, the leading mobile telephone operator in China, it supplied the government in Beijing with telecommunication equipment to enable teams to communicate more efficiently and, thus, better care for their patients. Donations included 1,000 mobile phones, 1,000 subscriber identity cards (SIM cards) and 2,000 prepaid phone cards, in addition to video telephones, PABXs and cordless phones.

By offering moments of fun and relaxation to the children, the clowns help make hospital life and illness less dramatic.

In line with its citizenship priorities, Alcatel organized a photography exhibition with photos taken by Anshu K. Gupta, showing a kaleidoscopic look at India in all its cultures, colors and challenges.

Promoting cultural diversity

Alcatel considers that culture and the arts are at the heart of community life. For a few years now, the company has supported photography by helping to finance festivals, photographers and exhibits around the world. Portraits, landscapes, news and art – photography speaks to all of us, overcoming barriers of language and culture. Recent advances in digital technology and high-speed transmission have made images a major medium of exchange, as important as voice and text.

In **China** for the second year running, Alcatel has been a sponsor at the Pingyao International Photo Exhibition. In 2003, this event welcomed over 80,000 visitors. The festival is the occasion for meetings between photographers of international renown and young Chinese photographers.

In **India**, Alcatel organized an exhibit of work by the cele-brated photographer, Anshu K. Gupta, presenting a rich tapestry of perspectives on a country with extremely wide cultural diversity. All of the proceeds from the exhibit went to *GOONJ*, a small non-profit organization that comes to the assistance of people in need after a natural castastro-phe or difficult circumstances.

In **Italy**, Alcatel offered high-speed equipment for use by visitors to the film festival in Saint Vincent, near Aosta. This festival, which awards the coveted *Grolle d'Oro Prize*, enables winners to have exposure to an international audience.

ALCATEL PARTNERS WITH THE EVENT, "THE YEAR OF CHINA IN FRANCE"

Alcatel participated in "The Year of China in France", through three different events:

• At the Carnavalet Museum, Alcatel sponsored the exhibit, **Shanghai Yesterday and Tomorrow,** which presented old photos, on loan from the Shanghai Museum of History, as well as photo-essays by Marc Riboud on contemporary themes. Marc Riboud's photography has already been collected in a visionary work, entitled **Demain Shanghai,** published by Robert Delpire. This exhibit and art book are for Alcatel one more opportunity to show its support for Marc Riboud.

• A groundbreaking partner of the Pingyao International Photo Exhibition, Alcatel organized together with L'Oréal the "Pingyao in Paris" exhibit, which was on show at the MK2 library. The show featured the work of the thirteen winning photographers, selected by international juries, from the 2002 and 2003 festivals.

• With regard to economics, Alcatel sponsored a round table meeting of Chinese and French mayors, organized by the France-China Commission and the Aspen-France Institute, presided over by Mr Raymond Barre. Issues included the challenges of urban sprawl and sustainable development.
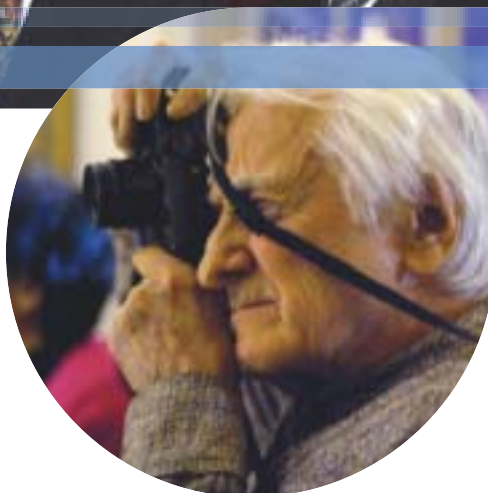
Mr. Zhao Jinjun, Chinese Ambassador in France, and Mr. Serge Tchuruk during the opening of **Marc Riboud**'s Shanghai photo exhibition at the Musée Carnavalet. The work of Xu Yong on the defense of the Hutong of Beijing was awarded the First Alcatel Prize for Best Chinese Photography Book and was exhibited in Pingyao and in Paris.

SUSTAINABLE DEVELOPMENT INDICATORS

SOCIAL INDICATORS	2001	2002	2003	Perimeter
Research and Development				
R&D Budget/Sales	11.3%	13.5%	12.7%	100%
Headcount				
Total Alcatel Headcount as of 31/12	99,314	75,940	60,486	100%
Total Non-Alcatel Workforce	4,316	3,701	2,215	100%
Number of Recruits	13,379	2,645	2,240	100%
Headcount - Due to acquisitions	1,068	5,686	1,692	100%
Headcount - Due to outsourcing or transfers	- 3,072	- 10,473	- 6,959	100%
Headcount - Due to redundancies	- 11,319	- 15,028	- 8,806	100%
Headcount Reduction - Due to natural departures (retirements, end of temporary work contracts, resignation, deaths)	- 11,998	- 5,813	- 3,443	100%
Women				
Percentage of Women/Headcount	26%*	26%*	23.31%	100%
Asia-Pacific			23.6%	
Europe, South America, Middle-East, Africa and India			22.7%	
North America			25.8%	
Percentage of Women Amongst High Potentials	16.2%	16.7%	18.7%	100%
Disabled Persons				NRE [1] only
Number of Disabled Employees	387*	405*	301	(31.5%)
Training		Perimeter: 60%		
Training Budget (as a percentage of payroll)	2.1%	1.6%	1.5%	65%
Total hours of training per employee	27	19	18	65%
Percent of training time via *e-learning* technologies	6%	14%	11 %	65%
Mobility				
Number of Expatriates Worldwide	2,107	1,942	1,718	100%
Expatriates by Host Region				
Europe	798	602	531	
North America	330	171	109	
South America	173	124	98	
Middle-East, Africa and India	315	426	524	
Asia-Pacific	491	619	456	
Health and Safety				Main Units excl.
Number per employee of days of absence due to work related accidents		0.18	0.15	China (76%)

[1] Figures concerning France represent 95% of the workforce in France.
* France represents approximately 30% of the perimeter.
    NB: More detailed indicators concerning France can be found in the 2003 annual report.

Social indicators: Definition and Methodology

The scope of 2003 social reporting is specified for each indicator: the scope is measured in terms of percentage of Alcatel employees covered by the indicator. The scope of an indicator covers either 100% of Alcatel employees, or a majority (from 65% for training indicators to 76% for health & safety indicator). The scope is reduced to 31.5% (French units with more than 300 employees) for only one indicator (disabled employees).
When a unit cannot provide a given indicator, no estimation is made. The scope of reporting is reduced accordingly.

Alcatel figures are consolidated at Corporate HQ level either within the global financial Information System (headcount including gender) or by each corporate HR director directly in charge of the domain (training, mobility, career development, global programs). In the latter case, each director works with a specialized network of correspondents worldwide.

Evolution 2003/2002

The scope of the following indicators has been extended : Percentage of women, average days of absence, training.

ENVIRONMENTAL INDICATORS	Units	2002 Perimeter Europe, USA	2003 Perimeter 100% [1]
Consumption of electrical power (purchasing electricity)	GWh	1,118	747
	MWh/employee	18.1	12.3
Other energy consumption (fossil fuels)	GWh	577	310
	MWh/employee	9.4	5.1
Total energy consumption	GWh	1,695	1,056
	MWh/employee	27.5	17.5
CO_2 emitted (only for Alcatel's and its employees'activities) calculated or estimated using the reporting methodology recommended by the GHG* Protocol:			
• indirect emissions of CO_2, linked to purchasing electricity	MT	329,710	264,000
	MT/employee	5.3	4.36
• direct emissions of CO_2, linked to fossil fuels	MT	123,617	83,000
	MT/employee	2	1.37
Consumption of drinking water	m^3	3,644,000	2,356,000
	m^3/employee	59.1	39
Production of toxic waste	MT	7,264	3,090
	kg/employee	118	51
% of toxic waste reused for material or energy purposes, i.e. not released and not burned without energy recovery	%	51%	85.7%
Production of non-toxic waste	MT	35,894	24,620
	kg/employee	582	407
% of non-toxic waste recycled	%	53%	65%
% of production sites, certified ISO 14001	%	70%	50%
Metric tons of solvents emitted into the air	Solvents are no longer widely used by Alcatel as cleaning agents (as is the case throughout the telecoms industry).		
Other gases released into the air (halogenated hydrocarbon, etc.)	CFCs have been eliminated from production since 1996. The remaining emissions are from cooling equipment, and they are not significant, since they only result from brief leaks.		
Discharge into water (heavy metals)	Discharges of heavy metals into water from Alcatel's operations are not significant for telecoms final assembly and equipment testing.		
% of new products covered by ecodeclarations (95% by end of 2005)	Perimeter 100%	20%	83%
% of purchasing volume – for production – covered by ecodeclarations or questionnaires returned by suppliers	Perimeter Europe	30%	65%

(1) Changes in 2002/2003 – new reporting perimeter: worldwide in 2003, previously Europe + USA (that is 100% of employees versus 87% in 2002).
* GHG: Greenhouse Gas

Environmental indicators: Definition and Methodology

The scope of 2003 environmental reporting includes all locations worldwide, owned or leased, housing Alcatel Headcount. Alcatel figures are consolidated at Corporate HQ level. The named locations report data; the named locations correspond to the locations with the highest Total Insured Values (insured value of buildings, contents and stocks) and they represent a minimum of 70% of Alcatel total TIV. The named locations include all locations with significant environmental impacts.
The remaining locations figures are extrapolated conservatively with ratios based on headcount or TIV.
Figures are compared to historical data existing since 1992.

Evolution 2003/2002

Despite the increase of the reporting scope in 2003 to cover worldwide operations, the significant decrease of absolute indicators, including the percentage of ISO 14001 certified sites, is directly linked to the overall Alcatel Perimeter decrease in 2003 (Battery operations discontinued, divestiture of Optronics, Coutances and Saintes).
The decrease of the normalized indicators is linked to the consolidation of several activities more efficiently managed.

ORGANIZATION AND METHODOLOGY

A dedicated organization

In 2003, Alcatel made changes in its organization in order to fulfill its commitment to sustainable development.

At corporate level, the Sustainable Development Department is part of the Communications Department, which defines and coordinates the associated policies and action plans. This corporate team works in close cooperation with a **steering committee,** composed of representatives from all concerned departments: environment, human resources, quality assurance, legal, financial communications, investor relations, purchasing, audit, research and technology, and marketing.

This committee meets monthly to review programs in progress and to set new objectives. Strategy and sustainable development priorities are reviewed once a year by Alcatel's top management.

A network of correspondents has been deployed worldwide. Its mission is, on the one hand, to disseminate and implement sustainable development policy and action plans, and on the other hand, to gather feedback on Alcatel's contributions to local projects. To support this network, **a sustainable development database** has been set up to boost information exchange between the countries by enabling dissemination of news on corporate and local actions, site news, and activity progress reports. Finally, this database is intended to create a link and a source for emulation between the different countries and/or units thanks to the sharing of best practices.

Reporting

Social and environmental data is collected each year for a scope of consolidation that will progressively cover the entire Alcatel corporation.

Given the large number of subsidiaries (Alcatel is present in 130 countries), and the cost of gathering data heretofore not consolidated, the method consists of broadening the scope of each year by integrating the subsidiaries with the most employees or comparable data.

That is why a questionnaire has been circulated on a corporate scale, concerning current practices in health and safety. The goal is to better understand the structures used in managing these kinds of risks, the procedures in place, and the constraints under which the different entities operate. The questionnaire also treats themes relative to measuring social data (indicators).
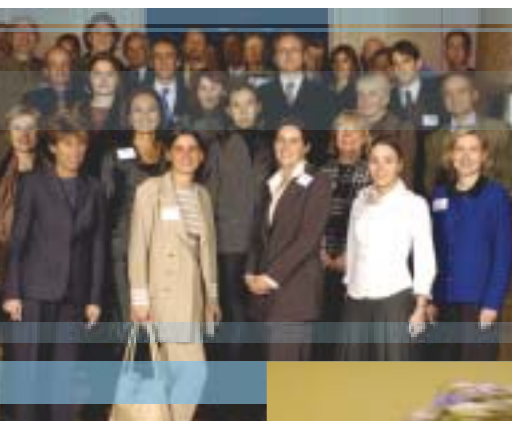
Studies and audits

In 2003, Alcatel launched **two studies,** currently in progress throughout the company, whose findings will be available in 2004. These studies examine the role of women in the company and flex-time work practices.

Moreover, **internal audits** have been carried out in some 30 countries to verify awareness and deployment of Alcatel's Statement on Business Practices. This has helped identify points that need improvement, notably with regards to inserting clauses on ethics in all contracts signed with suppliers.

Environmental audits, concerning awareness and application of the Environmental Charter, compliance with upcoming European environmental directives, and implementation of objectives announced for environmentally-friendly design and ecodeclarations, have also been conducted.

⊒IJ ERNST & YOUNG

INDEPENDENT VERIFICATION STATEMENT

At the request of Alcatel, we have reviewed the Sustainable Development organisation described in this report, as well as the procedures related to the social and environmental reporting.

Alcatel is responsible for the information presented in this sustainable development report. Our responsibility is to report our findings concerning the two above-mentioned subjects in accordance with the terms agreed.

Nature and scope of our work

We have completed the following agreed-upon procedures:

- We conducted interviews with the director of sustainable development, the director of human resources programs and the environment director for sites, who are members of the Sustainable Development Steering Committee, in order to gain a good understanding of the organisation put in place.
- We have reviewed the procedures used at Corporate level and have conducted interviews with the human resources and environment correspondents from Alcatel Bell in Antwerp and Alcatel CIT in Vélizy to test their application. These entities represent 15% of the total staff.

Such procedures do not include all the verifications specific to an audit providing a high or moderate level of assurance in accordance with the International Standards on Assurance Engagements, but still allow us to report our findings and observations.

Findings and observations

- A steering committee made up of representatives from the company's main functions concerned monitors the objectives and actions with respect to Sustainable Development. Action undertaken by this committee is coordinated by a dedicated Sustainable Development team and is supported by an international network of correspondents. Contacts have been designated to collect social and environmental data. In the entities visited, the documents and instructions for reporting on social and environmental data were indeed available for the correspondents' use.

- The implementation of a Sustainability reporting process should be carried out in several steps: this year's main efforts enabled the reinforcement of the Sustainable Development organisation, the data collection on a wider reporting scope and integration of new indicators, as well as the development of social and environmental reporting protocols. These protocols should be improved particularly to better formalize internal controls.

March 18, 2004

Eric Duvaud
Ernst & Young et Associés
Environment and Sustainability

GLOSSARY

ADSL (ASYMMETRIC DIGITAL SUBSCRIBER LINE)
ADSL transforms an operator's existing copper twisted pair investment into a multimedia broadband distribution system. Always online and fast, ADSL provides easy and quick Internet access. Working on an existing copper telephone line, ADSL's transmission speed is up to 150 times faster than today's analog modems. ADSL's speeds range up to 8 megabits per second. ADSL supports high-speed data communications as well as traditional telephone service on a single telephone access line.

ECMA (EUROPEAN COMPUTER MANUFACTURERS ASSOCIATION)
An international association dedicated to information and communication systems standardization

ECODECLARATION
Declaration of product related environmental attributes according to the ECMA TR 70 industry standard.
The ecodeclaration presents the environmental characteristics of a product such as energy consumption, physical emissions (such as noise) or chemical ones (such as volatile organic components). This document shows the conformity of the product to legislation in terms of substances and/or components. It also provides information related to the end-of-life of the product.
As part of its environmental program, Alcatel provides an ecodeclaration for each of its new products.

EIME (ENVIRONMENTAL INFORMATION & MANAGEMENT EXPLORER)
A methodology (software and data base) developed for the electronics industry that assesses a product's environmental impacts throughout its life cycle.

EMS (ENVIRONMENT MANAGEMENT SYSTEM)
The EMS is Alcatel's set of internal tools that tracks the environmental impacts of all activities at a plant, indicates ways to reduce the impact and measures the results.

GPRS (GENERAL PACKET RADIO SERVICE)
A packet-based mobile telephony norm 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 Short Message Service (SMS).

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.

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

ISO
The International Organization for Standardization is a worldwide federation of national standards bodies from some 140 countries to promote the development of standardization and related activities in the world. ISO's work results in international agreements which are published as International Standards. (Source: www.iso.ch)

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

LMDS (LOCAL MULTIPOINT DISTRIBUTION SYSTEM)
LMDS is the broadband wireless technology used to deliver voice, data, Internet, and video services in the 2.5-GHz and higher spectrum (depending on licensing).

SAR (SPECIFIC ABSORPTION RATE)
The SAR indicates the quantity of energy absorbed when using a mobile phone.
It is the rate of energy absorbed by mass unit Watts per kilogram (W/kg).

VDSL (VERY HIGH SPEED DIGITAL SUBSCRIBER LINE)
VDSL transmits data in the 13 Mbit/s - 55 Mbit/s range over short distances, usually between 300 - 1500 meters, of twisted pair copper wire.

WI-FI (WIRELESS FIDELITY)
Wireless Local Area Network (WLAN) technology, can also be used to provide remote Wide Area Network (WAN) connectivity at "hot spot" locations such as airports, hotels and shops.

SUSTAINABLE DEVELOPMENT OBJECTIVES

Social Objectives

▶ Put in place systematic annual performance reviews
for all Alcatel managers and professionals by 2005.

▶ Maximize the use of online training (e-learning) to cover
25% of all training in 2005.

▶ Reinforce international mobility and cultural diversity within
management teams.

Environmental Objectives

▶ Reduce the energy consumption of Alcatel products by an
average of 20% per year by 2005.

▶ Provide ecodeclarations with all Alcatel products by 2005.

▶ Define internal procedures and standards for equipment
end-of-life by 2004 and from 2005, be in a position to provide
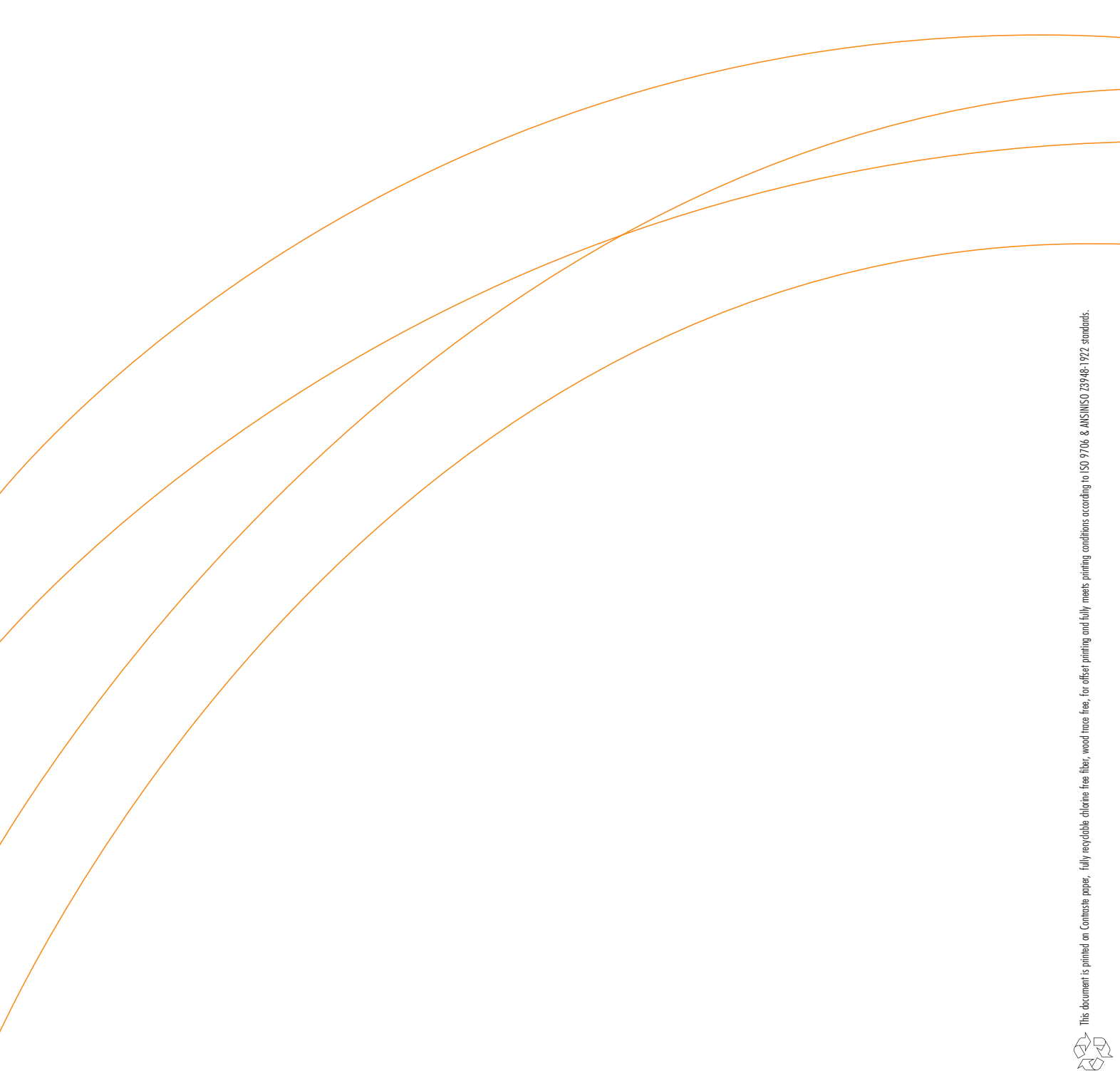for the collection and recycling of equipment in Europe.

Economic Objectives

▶ Grow sales in 2004 (compared to 2003)
at constant exchange rates.

▶ Achieve positive earnings per share, pre-goodwill, in 2004.

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.

A L C A T E L

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