



Minutes of ECID meeting on 13 June 2006 taken by the secretariat

Situation in 2006

Mr. Tchuruk commented the results for the first quarter, which he considers to be very good. Revenue growth was 17.6% over 2005 and operating profit was 6.5% of revenue. The resulting cash position was €1 billion. There was growth in all parts of the fixed communications business with the exception of switching. Access and IP grew particularly strongly. The mobile communications business saw 15% growth but increased competition impacted profitability. The private communications segment also grew. Growth in the American market was strong, but was weaker in Asia despite the good performance of China.

Lucent merger

The secretary reminded Mr Tchuruk of delegates' four main concerns relating to the planned merger with Lucent: **safeguarding jobs** because delegates consider that the planned 10% headcount cut is a drastic step following on as it does from the successive restructuring operations in both Alcatel and Lucent; **opposition to an extension of the policy of outsourcing and relocation; maintaining and expanding R&D potential; and improving the quality of the dialogue between workforce and management** with, in particular, an end to anti-union policies in the USA. He expressed his surprise that the merger is considered so urgent, given Alcatel's good results for 2006 which contrast with the more difficult situation and greater financial risk at Lucent. Mr Tchuruk replied that one had to keep ahead of the rapid changes in the telecoms industry where there is increasing competition particularly in Europe. Furthermore consolidation of carriers makes a corresponding consolidation of equipment suppliers necessary. Of all possible mergers that with Lucent makes the most sense. He also commented that the US market was more protected than the Europe, where competition was becoming ever fiercer. Alcatel and Lucent are complementary in the areas of IP, IMS architecture and mobile, given Lucent's leading position in CDMA. Without this merger, Alcatel would have sub-critical mass in mobile. Mr Tchuruk stated that customers have welcomed the announced merger. On the question of the financial risks associated with Lucent's pension funds, he replied that the risks are manageable, because the pension funds have averaged 10.7% annual growth over 10 years; the health insurance plan is undercapitalised, but the government is currently considering legislation to allow companies to transfer capital between pension and health insurance schemes.

Merger process: The process will take the form of an actual merger of the legal entities concerned, except in a few countries such as China where it will be more complicated. The details are currently being worked out. The organisation of the group will not change significantly. As to the extent of restructuring, Mr. Tchuruk stated that the changes to be made will not be draconian for a merger of this scale. Synergies are expected in procurement, where there are potential cost savings of 3%, the merger of national headquarters and optimised use of premises; global logistics will also be rationalised, with the use of a single system as in Lucent, rather than the current state of affairs in Alcatel where there is one system for fixed and another for mobile. As for IT, Mr Tchuruk favours a compromise between the fully in-house approach of Alcatel and the fully-outsourced arrangements at Lucent.

On the question of R&D, he believes that the new group will have a level of R&D spending similar to that of Alcatel (13%-14%), bearing in mind that Lucent's R&D investment is around 15%-16%. There will be a reduction of R&D headcount but the integration of technology platforms will take place gradually. The following areas will require further study: NGN convergence, UMTS technologies, overlaps in optics only in WDM. Questioned about reports that R&D headquarters will be located at Murray Hill, Mr Tchuruk declared this to be

wrong. Murray Hill is the site of the famous Bell Labs and employs around 1000 staff working mainly on R&I. As for structuring, that will be decided at country level. On the question of the location of centres of excellence, Mr Tchuruk does not see major problems.

Accounts: Mr Beretti reported on a plan already mentioned involving the creation of a single centre for financial services for small units in Timisoara in Romania. Lucent currently has a small accounting centre employing around 40 people in Ireland. The possibility of merging accounting functions is currently being investigated..

Information and consultation: the secretary called for a genuine information and consultation process with ECID, and requested a meeting of the liaison committee before the end of June and July with Mr Reinaudo, and a plenary ECID meeting in early September before the official announcement of the plans for the reorganisation of the company. Mr Beretti agreed to organise a first meeting before the end of June.

Mr Tchuruk indicated that a number of bodies have to approve the merger, although the American anti-trust authority has already given its go-ahead. Completion is planned for 1 October, but employees will continue to be kept informed as an integration process progresses.

Alcatel-Thalès:

Asked whether it made sense to transfer ISD and highly profitable TSD activities to Thales, Mr Tchuruk replied that there would be greater potential for the development of these businesses within Thales. He felt that Thales would become a close relation, with which Alcatel would work closely. Alcatel would take decisions jointly with the French government and provisions have been made enabling Alcatel to dispose of its stake in the unlikely event of prolonged stalemate. A steering committee made up of senior Thales and Alcatel managers will promote joint projects. Some Alcatel managers will also be transferred to Thales. A system will be put in place enabling personnel to move easily between the two companies whilst maintaining their seniority, their salary, the right to training, their stock options. The strategic objective remains the development of dual civil/military-use telecommunications. As far as space is concerned, the public sector is more profitable than commercial markets. Thales management will announce the form the merger of Alcatel and Thales space activities will take. To date there is no plan to merge this business with that of Astrium (EADS) but there could be some joint projects.

The only part of **ISD** to be transferred to Thales will be the vertical markets business essentially in the area of security. This has a turnover of €200 million out of a total turnover for ISD of €900 million.

Thales will also offer a better environment for the development of **TSD activities** whilst maintaining a close partnership with Alcatel. The German delegates believe that would substantially weaken SEL Alcatel, given that TSD is particularly profitable. They therefore call for new investment to support Alcatel's operations in Germany. Mr Tchuruk took note of this request.

China

3G licences have still not been awarded. Mr Tchuruk believes that Alcatel and Datang are well positioned with a good range of products. Lucent can expect to benefit once CDMA 2000 and WCDMA licences are awarded.

Europe

Mr Tchuruk indicated that the current issues are the deployment of optical fibre to the home (FTTH) and the return on investment of the major operators, given that Europe's leaders are pushing for more competition. Another challenge will be the DVDH+ standard.

Sale of the Rieti plant

The Italian delegates expressed their dissatisfaction with the proposed sale of the plant to a group of local businessmen (Ritel) with no reputation and no firm orders. They would like to see Finmeccanica brought in on the production side and a commitment by Alcatel going beyond the current guarantee of a decreasing amount of work over three years. Mr Beretti replied that the situation has been treated very seriously for almost three years, that there have been a number of meetings with the ministry, that further meetings will follow shortly, and that we must await the outcome of these meetings. The secretary again stressed ECID's view that a solution must be negotiated with the Rieti delegates.

Teleworking

After discussion with the liaison committee a new draft will be produced which will be circulated to ECID for a final assessment. The question of how European-level agreements are to be adopted is still being negotiated, so this document will be a charter on teleworking rather than a formal agreement. The secretary asked delegates to study the final version seriously because it will affect a large proportion of Alcatel employees.