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Company report review

Alcatel

Sustainable Development Report 2004

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Note

This review is based on information contained in the hard copy version of Alcatel's Sustainable Development Report 2004. An electronic version of this document is available online at: <http://www.alcatel.com>. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

1 Introduction

1.1 Company background

Alcatel provides communications solutions to telecommunication carriers, Internet service providers and enterprises for delivery of voice, data and video applications to their customers or employees. Alcatel describes 2004 as a 'pivotal year', marking a return to growth and profitability following three years of 'severe industry crisis'. Technological leadership is at the heart of Alcatel's strategic vision, reflected in a substantial R&D investment in 2004 (13% of sales revenues). Cultural diversity allows the company to adapt to customer needs and markets, with over 56,000 employees in 130 countries in every continent. The company identifies its four core values as customer focus, innovation, teamwork and accountability.

1.2 Highlights

Alcatel's Chairman and CEO, Serge Tchuruk, highlights key developments in his opening statement. In the social area, Alcatel has elaborated a Social Charter to complement its Statement on Business Principles, developed a Global Performance Management Programme, and set up a 5-year action plan to increase the number of women in management. In the environmental area, the company is focused on preparing for two important pieces of European legislation, namely the WEEE directive (Waste Electrical and Electronic Equipment) and the RoHS directive (Restriction of the use of certain Hazardous Substances) which particularly limits the use of lead. The third key aspect of Alcatel's sustainability activities in 2004 relates to compliance with business practices amongst suppliers and sub-contractors, with the completion of a large supplier survey.

1.3 Structure of the report

Alcatel's third sustainable development report opens with an introduction to Alcatel, including a company profile, message from the Chairman and CEO, Serge Tchuruk, and overview of performance in 2004. The report is then divided into three main sections. The first section introduces policies, procedures and initiatives in the area of corporate responsibility, including an overview of key milestones in the company's sustainable development strategy. The second considers progress on these commitments in 2004, particularly in the areas of human resources, access to information and the environment. The third section presents a selection of internal and GRI indicators, glossary and a brief statement by independent verifiers. A succinct list of social, environmental and economic objectives are presented on a back page flap.

2 Commitments to sustainable development

2.1 Overview

In the first section of the report, Alcatel introduces policies, procedures and initiatives in the area of corporate responsibility. A time-line charts key milestones in the company's sustainable development strategy from 1992, including the publication of key policy documents, the creation of committees for ethics, sustainable development and the environment, membership of the Global Compact, creation of the Global Performance Management Programme and the Women in Leadership Programme, and compliance with key European environmental directives.

Alcatel also presents in this section an overview of the 10 principles of the Global Compact, with examples of relevant corporate policy documents and actions taken in each case.

2.2 Governance structures

Alcatel has established a Sustainable Development Department, situated within the Corporate Communications Department. This team works in collaboration with a Sustainable Development Steering Committee created in 2003 and supported by a network of correspondents in 15 countries. The network is tasked with publicizing and implementing the sustainable development policy, and gathering information from

the field. Every quarter, an internal activity report is published to highlight the network activities and best practices.

The Environmental Technical Committee was also established in 2003 as a multidisciplinary working group striving to improve environmental quality of products.

Alcatel's Ethics Committee was created in 2002. It is a permanent body responsible for the enforcement of the Statement of Business Practices. A confidential e-mail and telephone helpline are available to employees needing to contact the Ethics Committee. The main issues on the Committee's agenda in 2004 are detailed in the report, including investigations into alleged corrupt payments made by a consultant on behalf of Alcatel in Costa Rica in 2004.

2.3 Corporate charters

Alcatel has defined rules of good conduct in a series of corporate Charters, namely Environmental (1992); Statement on Business Practices (1997); Customer Commitment (1997); and Mobility (1999). In 2004, Alcatel developed three further charters:

- Social Charter complements Alcatel's Statement on Business Principles, stating the company's position on human rights, health and safety, freedom of association, anti-discrimination, supplier and sub-contractor relations, working conditions and professional and local development.
- Sustainable Development Purchasing Charter stipulates that clauses concerning ethics and, where pertinent, the environment must be included in all purchasing contracts. Alcatel's approach is to work with suppliers to help them meet requirements.
- Quality Charter emphasizes preventative practices, risk management, employee development, continual improvement and innovation.

2.4 Social and environmental audits

In 2004, Alcatel launched a series of internal social and environmental audits to assess compliance with established rules and design action plans to reinforce them. Specifically, the environmental audits aimed to evaluate compliance with European directives RoHS and WEEE, while social audits focused on internal controls to assess respect for Business Practices by suppliers and contractors. A questionnaire was sent to Alcatel's suppliers in 2004 to evaluate their commitment to social and environmental matters. In late 2004, a new series of audits was launched to monitor awareness and ensure implementation of the newly created Social Charter.

2.5 Stakeholder engagement

Alcatel identifies a wide range of stakeholders, namely employees, suppliers/contractors, shareholders/investors, analysts, media, civil society, NGOs, local authority, states, customers and unions.

In 2004, Alcatel established three priority objectives vis-à-vis its stakeholders. Progress towards these objectives are detailed in the report.

- Reinforce the quality policy towards customers, for example by identifying key quality performance indicators. Plans have been put in place to upgrade ISO9001 registrations to the TL9000 standard.
- Formalize a permanent dialogue with financial partners. Meetings with socially responsible investment (SRI) funds were held in Paris in 2004 and regular meetings are scheduled across Europe for 2005.
- Evaluate the respect of ethical, social and environmental requirements by suppliers. In 2004, Alcatel published a Sustainable Development Purchasing Charter and launched a supplier survey designed to better evaluate supplier's commitment to sustainable development. The analysis of responses allowed Alcatel to set up a risk map of its supply chain, on the basis of which an action plan was developed for 2005. Alcatel's purchasing community also received training on how to identify and manage the main sustainable development issues with suppliers and subcontractors.

3 Commitments in action

In this section, Alcatel highlights four broad areas of sustainable development in which it is engaged, namely the practice of responsible human resources management; the reduction of environmental impact, promotion of access to information and investment in local communities.

3.1 Human resources

Alcatel reports a fall in the number of employees from 60,000 in 2003 to 56,000 in 2004, attributed largely to structural changes detailed in the report.

In 2004, Alcatel continued with the roll out of its HR strategy 'HR visions for one company' and also expanded its Global Performance Management programme, which provides common tools and processes for all managers to set objectives, review performance and create an individual development plan each year.

Alcatel's Social Charter includes a commitment to protect against discrimination. Cultural diversity is particularly evident among management, with the top 350 managers representing over 20 nationalities. However, gender diversity is currently lacking, particularly amongst top management which is comprised only 7% by women (compared to 24% women in the workforce as a whole). A study in 2004 found that although women are hired by the company in equal proportion at entry level, they are not experiencing the same career evolution as their male colleagues. Initiatives such as the 'Women in Leadership' programme launched in 2004 aim to improve gender diversity at different levels of management.

3.2 Access to information

Alcatel is aiming to play an active role in bridging the digital divide not only in developing countries, but also in isolated areas of developed ones. The report details numerous case-studies of Alcatel's work in supporting ICT initiatives around the world. For example:

- In 2004, Alcatel signed a partnership with the United Nations Institute for Training and Research (UNITAR) to sponsor three training centres for local authorities in China, Poland and South Africa. The partnership's objective is to foster best practices and share technical expertise in information technologies. Results of the sessions will be presented at the World Summit of local authorities on the Information Society in November 2005.
- Alcatel is providing training, student grants and supporting local technical institutes in Cambodia and Brazil in order to provide the next generation with the skills and technical knowledge to make an impact in their countries in the future.
- In Tunisia and Egypt, Alcatel has developed so-called 'Partnership Spaces'. Local companies can come into these ICT labs and create multimedia service projects adapted to local needs. Alcatel certifies the companies after they developed software applications, and then works with them to create offerings that local enterprises and administrations can implement.

3.3 Environment

In the area of environmental management, Alcatel focused on three priorities in 2004:

- Preparing for the implementation of the European Waste Electric and Electronic Equipment (WEEE) Directive in August 2005 – a project team was established to coordinate efforts across the company and develop tools and procedures for correct management of end-of-life equipment.
- Preparing for the implementation of the RoHS directive limiting the use of certain hazardous substances in July 2006, particularly lead which is of significance because lead substitutes may raise long term reliability issues. Alcatel has established a project team aiming to ensure full substitution of hazardous substances, with the exception of lead solders which have been exempted from the ban.
- Reducing product power consumption – an assessment of the environmental impacts of the company's products shows that power consumption occurs mainly during product use. Reducing

product energy consumption is therefore a major environmental objective and in 2004, a 20% reduction was achieved, in-keeping with the company's target.

3.4 Local communities

Alcatel is participating in projects to promote culture, education and training, health and human services. The report includes case-studies from around the world. For example, in Afghanistan, Alcatel has partnered with an NGO in a project to train Afghan women in journalism. The company has also developed numerous small-scale partnerships with educational institutions and universities in Brazil.

4 References and indicators

The report includes tables of selected internal and GRI indicators.

Internal social indicators for 2001-04 are presented in the areas of R&D (budget as a percentage of sales); headcount; diversity; training; mobility; health and safety and performance management. Environmental indicators cover purchased energy and CO₂ emissions; water and wastes, and other emissions.

An independent verification statement is provided, based on interviews with key representatives, random tests on data and review of supporting evidence (reports of meetings, internal audit reports etc.). According to the verifier, these procedures were 'less detailed', however, than would be required for a high or moderate level of assurance.

5 Our comment

Rating: ★★☆☆☆

Alcatel's third sustainable development report reflects significant progress made by the company particularly in the last five years. A time-line charting key milestones in Alcatel's sustainable development strategy since 1992, together with a table of policies and actions relating to each of the ten principles of the Global Compact provide an excellent overview. There is much evidence that the necessary structures, policies and procedures are in place for an effective approach, notably with the creation of a Sustainable Development Committee which is supported by a global network of correspondents. This review highlights a number of major developments in 2004, including the publication of a Social Charter, monitoring of supplier commitments to sustainability, launch of two new programs relating to performance and gender diversity and the use of a sustainable development reporting tool.

The report falls short of a higher star rating due to a lack of information relating to process and implementation – in this sense, it probably does not do justice to ongoing work. The report leaves a number of questions unanswered. For example, what sustainability issues are most material to the company and what are the key challenges of embedding responsible behaviour? What were the main findings of recent social and environmental audits and what kinds of corrective actions have been necessary? Following the recent survey, how is Alcatel working with suppliers that fall short of sustainability requirements?

The report is well presented, of a manageable length (52 pages) with a good balance of text, diagrams and photographs.



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