

2003 Q4 & full year results

February 5, 2004



1. Alcatel's turn around

All the figures presented herein are restated to take into account the disposal of SAFT

The SAFT divestment impact

- *Effective 01/01/2004*
- *Accounted for as **discontinued activity** in 2003*
- *Decreased '03 sales by € 538 M & **OP** by € 64 M*
- *Will increase '04 net income by € 250 M
and cash by €390 M*

The currency impact

- Euro / US \$ rate:

0.94 in 2002

1.13 in 2003

1.24 now

- Impact on revenues (i.e. YoY sales variations of Alcatel)

**Full year 03
vs full year 02**

(22)% at actual rate

(16)% at constant rate

(6)% in US \$ denomination

- Impact on income

- Translation

- Transaction

Impacts more limited

Q4 '03 highlights

- **Sales at € 3,765 M**
Up 29.4% vs Q3 (up 32% at constant rate)
- **Gross margin at 33.1%**
vs 35.6% in Q3 (Q4 mix & Q3 exceptional)
- **Operating income at € 331M**
8.8% RoS vs 5.0% in Q3
- **Net income at €(524)M (EPS at (0.39)€)**
*...out of which €(524)M restructuring costs
€(210)M goodwill amortization*
- **Net cash at € 976 M (end of year)**
Up € 435 M vs Q3

Good profitability across all segments in Q4

Euros M

	Sales Increase vs Q3 '03	Income from operations	Operating RoS
Fixed communications	1,647 + 23%	142	8.6% 4.9%*
Mobile communications	1,092 + 34%	122	11.2% 9.7%*
Private communications	1,103 + 32%	95	8.6% 4.9%*
Other & Eliminations	(77)	(28)	n.m
Total	3,765 + 29%	331	8.8% 5.0%*

* Q3 RoS

2003 highlights

Sales at € 12,513 M

- *Down 22% (16% excl. €/\$ impact)*
- *Growth in Broadband access, mobile infra and rail control systems*

Operating income at € 332 M

- *Driven by double digit profitability in
BB access
Mobile infrastructure
Applications in mobile and private*

Net income at € (1,944) M (EPS at (1.46)€)

- *...out of which restructuring costs: € (1,314)M
goodwill amortization: € (578) M*

Restored profitability across all segments in '03

Euros M

	Sales Decrease vs FY'02	Income from operations	Operating RoS
Fixed communications	5,708 -27%	127	2.2% -10.0%*
Mobile communications	3,539 -22%	226	6.4% 4.5%*
Private communications	3,627 -12%	123	3.4% 2.8%*
Other & Eliminations	(361)	(144)	n.m.
Total	12,513 -22%	332	2.7% -3.8%

* '02 RoS

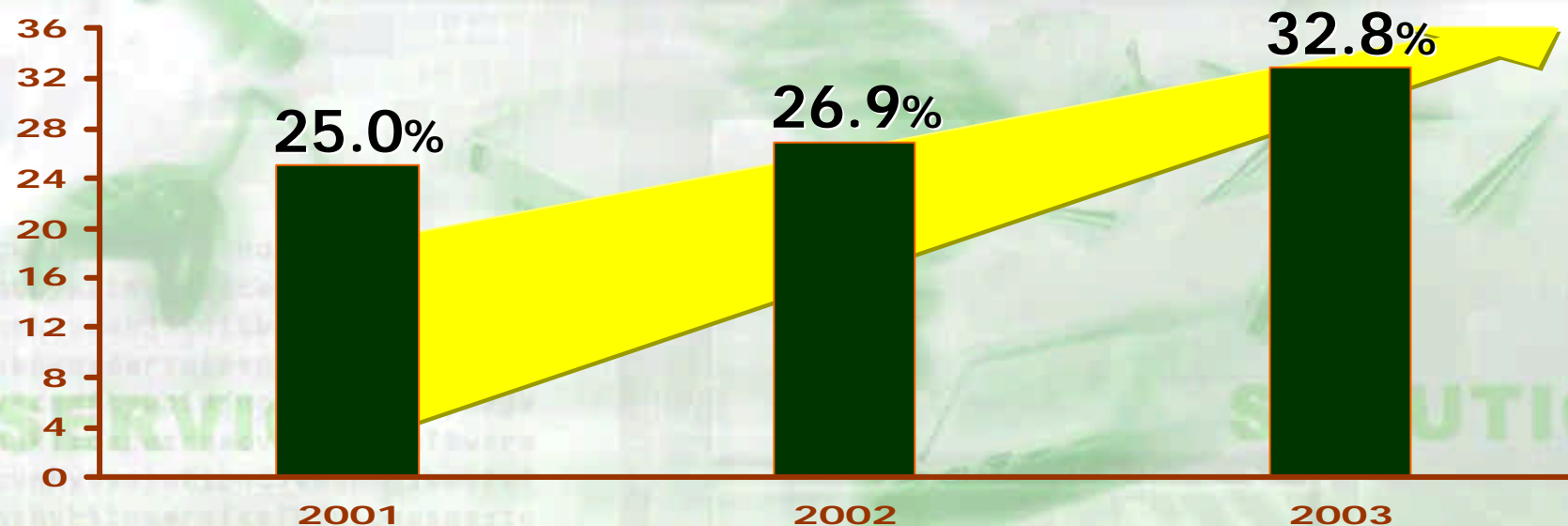
Year 2003: considerable improvement in operations

Productivity up:

- *Headcount target met: ~60,000*
- *Expenses down: 25% YoY*
- *Quarterly breakeven better than target: € 2.9 Bn at Y.E.*

Gross margin up:

Gross margin* as a % of sales



* as published

Alcatel's adaptation: completed with Q4 '03 booking

€(524)M restructuring

- **Up to 10% further headcount decrease by end 2004 based on already announced plans vs 60,000 at end '03**

**Review of all goodwill with
conservative assumptions**

Completed restructuring should translate into
several extra points of RoS
above end '03 productivity level

2. Financials

Q4 2003 consolidated income statement (1/2)

Euros M

Net sales

Q4 2003

Q3 2003

3,765

2,909

Income from operations

331

146

Financial income

(90)

(82)

Restructuring costs

(524)

(212)

Other revenues & expenses

11

(11)

Income before tax

(272)

(159)

Q4 2003 consolidated income statement (2/2)

Euros M

	Q4 2003	Q3 2003
Income before tax	(272)	(159)
<i>Income tax</i>	(21)	(20)
<i>Equity affiliates & discontinued operations</i>	7	2
Net income before GW	(286)	(177)
<i>Amortization of GW</i>	(210)	(102)
<i>Minority interests</i>	(28)	(5)
Net income	(524)	(284)
EPS (€)	(0.39)	(0.21)
E/ADS (\$)	(0.49)	(0.27)

2003 consolidated income statement (1/2)

Euros M

Net sales

FY 2003

FY 2002

12,513

16,014

Income from operations

332

(606)

Financial income

(289)

(1,009)

Restructuring costs

(1,314)

(1,379)

Other revenues & expenses

120

(737)

Income before tax

(1,151)

(3,731)

2003 consolidated income statement (2/2)

Euros M

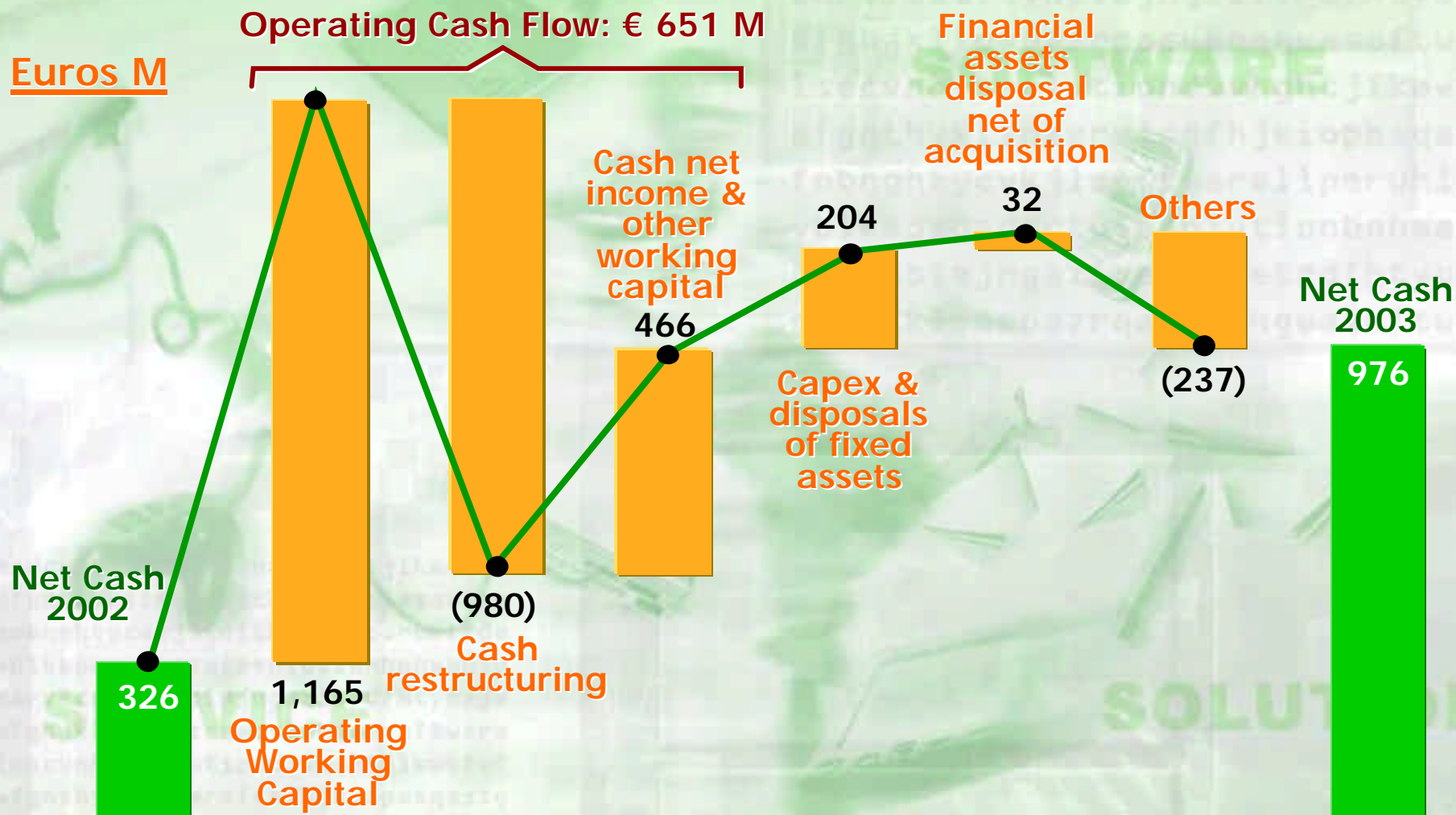
	FY 2003	FY 2002
Income before tax	(1,151)	(3,731)
<i>Income tax</i>	<i>(82)</i>	<i>49</i>
<i>Equity affiliates & discontinued operations</i>	<i>(113)</i>	<i>(513)</i>
	<hr/>	<hr/>
Net income before GW	(1,346)	(4,195)
<i>Amortization of GW</i>	<i>(578)</i>	<i>(532)</i>
<i>Minority interests</i>	<i>(20)</i>	<i>(18)</i>
	<hr/>	<hr/>
Net income	(1,944)	(4,745)
EPS (€)	(1.46)	(3.99)
E/ADS (\$)	(1.84)	(5.03)

Balance sheet & off balance sheet summary

Euros M

	Dec. 31 2003	Dec. 31 2002 As published	Dec. 31 2001 As published
Non-current assets	6,836	8,689	11,899
Working capital	104	1,548	6,236
Net cash	976	326	-
Shareholders' equity	3,030	5,007	9,630
Minority interests	363	343	219
Other equity	645	645	-
Reserves	4,059	4,317	5,274
Net financial debt	-	-	2,662
Other liabilities / (assets), net	(181)	251	350
Gearing	(29%)	(6%)	27%
Off Balance Sheet	3,642	4,073	5,760

Changes in net debt / cash in 2003



Working capital: improvement across the board

Euros M

	Dec. 31 2003	Dec. 31 2002	Dec. 31 2001
		As published	As published
Net inventories	1,432	2,329	4,681
Receivables	3,364	4,716	8,105
Payables and progress payments	(4,692)	(5,497)	(6,550)
O.W.C.	104	1,548	6,236
Trailing 4 quarter sales	12,513	16,547	25,353
As % of sales (12 months)	0.8%	9.4%	24.6%

Vendor financing net

Euros Bn

	2003	2002	2001
Effective draw downs*, of which:	0.61	1.27	1.63
Deferred payments & receivables	0.25	0.59	0.41
Off-balance sheet commitments & other financial assets	0.36	0.68	1.22
Undrawn portion	0.20	0.52	1.18
Total	0.81	1.79	2.82

➔ Shift in vendor financing needs

- Significant repayments
- Improving health of carriers reduces VF demand

*Of which € 0.23 Bn sold to SVF trust end Q4'03 (€ 0,41 Bn end Q4'02, € 0,79Bn end Q4'01
SVF has been renewed with extended terms up to April 2007 and with reduced commitments

2003: financial market is re-opening

Already "re-rated" by the market

➔ *CDS 170 B.P.*

➔ *C.P. program available (€95M as of Dec. '03)*

Successful convertible issuance of € 1,022 M

Debt repayment of € 1,580 M

out of which € 700 M by anticipation

3. 2004 strategy and outlook

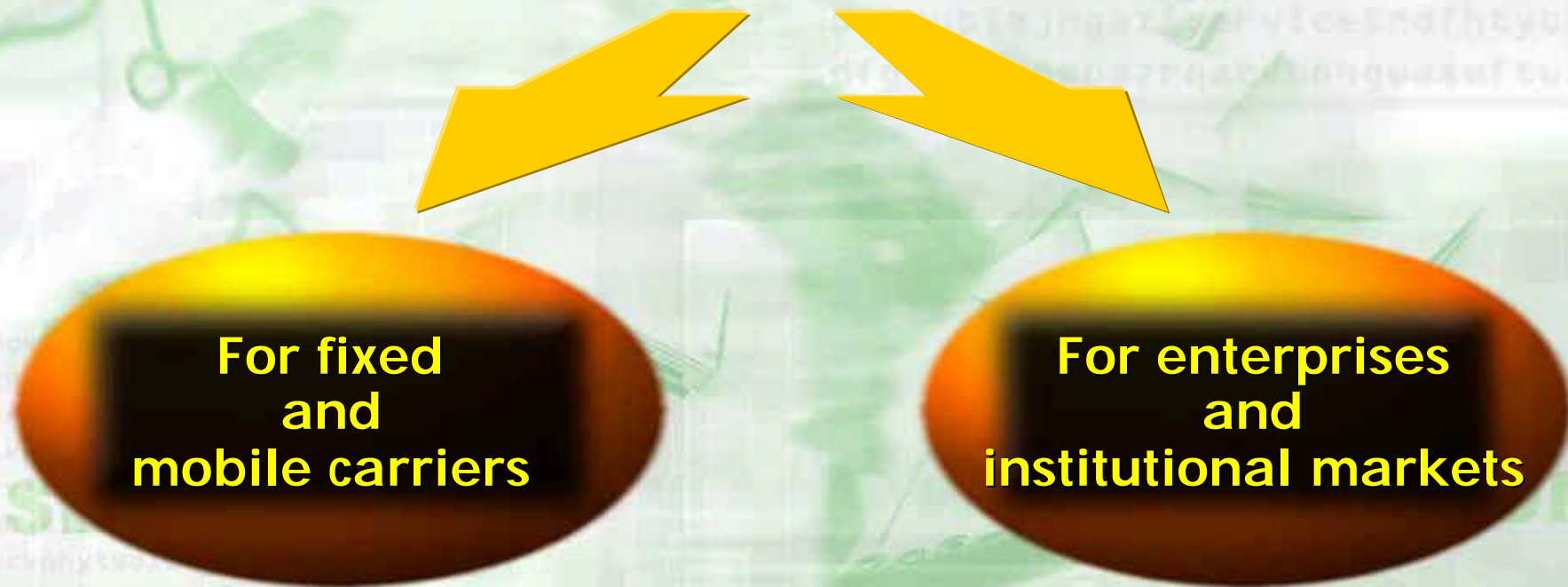
Preserved R&D power



**Reinforced Next Gen developments:
BB access, 3G, applications, IP, VoIP**

The shifting business strategy

From a carrier equipment supplier
to
a **communication solutions** provider



2004 business objectives

Leverage BB access leadership

Maintain momentum in mobile market

Expand application solutions business

Breakthrough in growing IP market

*Leverage integration / services skills
in & beyond Telco market*

Leverage BB access leadership

North America:

- *Expanded DSL leadership to FTTP (SBC)*
- *Renewed and extended DSL/DLC multi year contracts (Verizon, SBC, Bell South, Telus, Bell Canada)*

Europe:

- *Gained market share in most major incumbents: FT, TI, Telefonica, BT, KPN, ...*
- *Launched Video over DSL in several networks*

APAC:

- *Secured market share in China Telecom*
- *Reference supplier in SE Asia (Vietnam, Philippines)*

Maintain momentum in mobile market

2/2.5G:

Continuing advances in greenfield opportunities and swaps

- **APAC:** *China (province extensions), Thailand (TA Orange), Brunei (DST), Vietnam (Vinaphone)*
- **Africa:** *Nigeria (Globacom), Ghana Telecom*
- **Eastern Europe:** *Ukraine (UMC)*

3G: 2,000 Node B per quarter in 2004

- **Key wins:** *Orange (Fr & UK), T. Portugal, tele.ring*
- **Successfully passed Chinese tests**

Continue to gain market share

Expand application solutions business

Video over DSL and Cellular

- **Video@DSL:** first roll out for *LDCom, Softbank, Monaco Telecom, SaskTel, Fastweb ...*
- **Video@Cellular:** *DoCoMo, T-Mobile, Orange, 3...*

Multi media messaging: 30 new contracts

- *Edge Wireless, Orange, DST, Mobifone...*

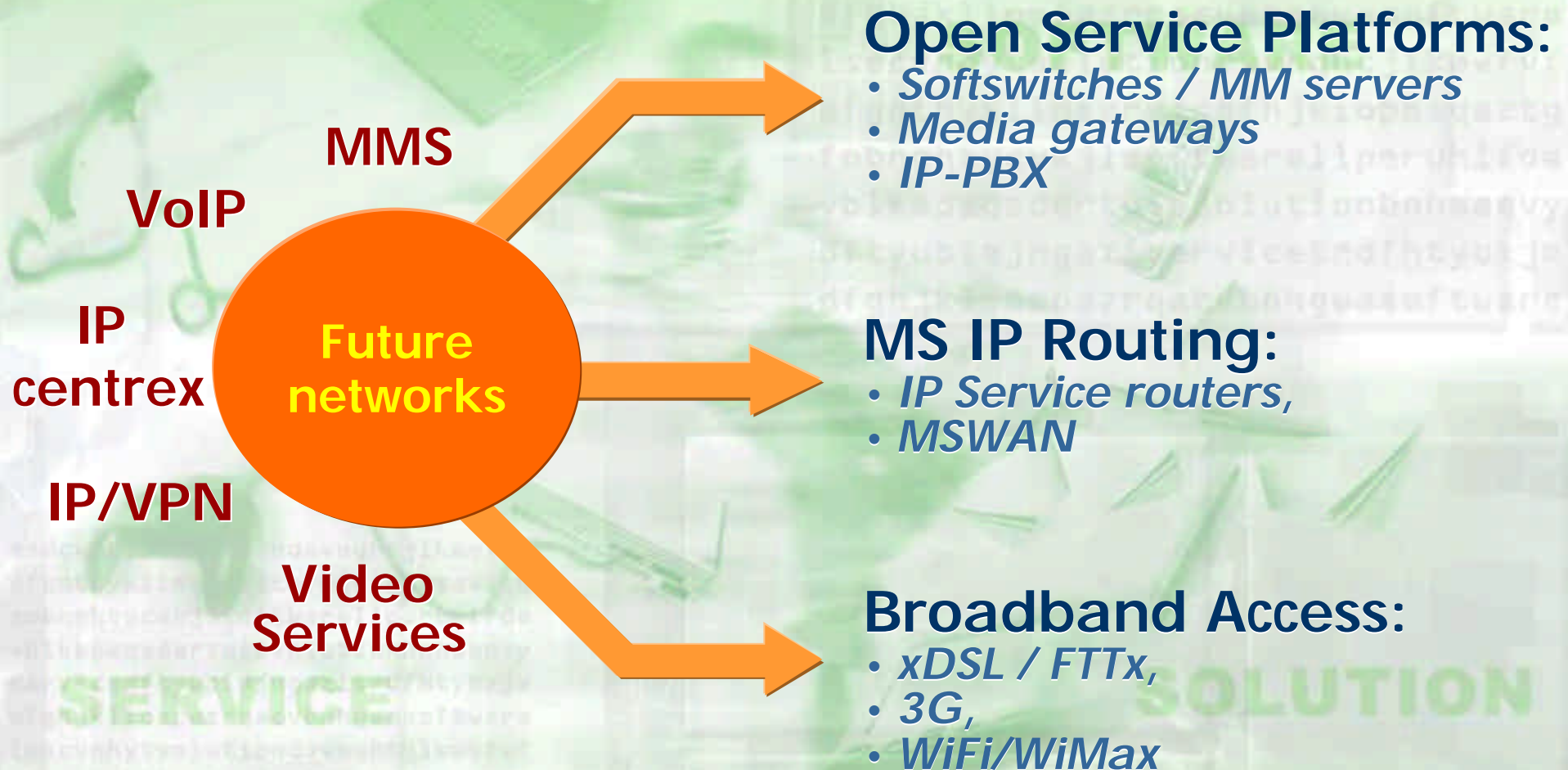
Converged payment: 30 new contracts

- **Fixed:** *Vietnam (Comvik), Costa Rica (ICE), South Africa (Telkom)*
- **Mobile:** *Orange, Bell Mobility, KPN, Etisalat...*

Contact centers for enterprise (Genesys)

- **Recent Wins:** *IKEA, Sears, Ford, Merrill Lynch*

Breakthrough in growing IP market thru new architectures ^(1/2)



Breakthrough in growing IP market thru new architectures ^(2/2)

Open Service Platforms:

Softswitches / Multimedia servers

**A5020: doubled customer base in 2003 with 13 new customers
Telenor, China Telecom, Avantel (Mexico), Combellga (Russia)**

Gateways

A7505/10/15: first shipments of 2 new products, 13 new customers

IP-PBX

**Omniswitch leader in enterprise IP Telephony in Europe,
with significant recent wins (e.g. Nestle...)**

MS IP Routing:

IP Service router

A7750: 11 new customers signed and trials approaching 30 WW

MSWAN

**A7670: 14 new customers signed of which FastWeb (Italy), TNZ,
Telenor and Korea Telecom**

Leverage integration/services skills in and beyond Telco market

Rail control systems

- *London Tube lines, French RATP, San Francisco & Dulles Intl. Airport, Spanish and Dutch High Speed lines, Deutsche Bahn*

Network build and outsourcing

- *Carriers: One, Telecom NZ, tele.ring, VNPT*
- *Utilities: Wuhan and Guangzhou metro, Spanish railways, hydroQuébec*

Space

- *Leverage 2003 commercial success (4 satellites and 5 payloads for telecom market) and Alcatel's portfolio to develop end-to-end (space & ground) systems*

The growing share of solutions & services activity

A 3-fold market and strategy



Deployment
and
maintenance

Consulting
and
operations
management

Applications
solutions

Today around 30% of Alcatel sales

'04 outlook

At constant €/\$ rate,

based on our book to bill ratio exceeding one for the two last quarters,

sales should show *some growth* in 2004,
YoY growth gaining momentum from a Q1
about flat vs last year's

EPS (pre GW) should be *positive* for 2004,
coming from a Q1 *close to breakeven* despite
the seasonally low volume effect

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995:
This presentation contains forward-looking statements relating to (i) Alcatel's performance in future periods, including without limitation, with respect to first quarter and full year 2004 revenue, income from operations and EPS (ii) the benefits to Alcatel in 2004 from its restructuring efforts and (iii) continued growth of Alcatel's market share. These forward-looking statements are based on current expectations, forecasts and assumptions that involve risks and uncertainties that could cause actual outcomes and results to differ materially from those projected. These risks and uncertainties include: whether Alcatel can continue to implement its cost cutting and restructuring efforts and whether these efforts will achieve their expected benefits, including contributing to improved net income, among other benefits; the economic situation, in general, (including exchange rate fluctuations) and uncertainties in Alcatel's customers' businesses in particular; customer demand for Alcatel's products and services; control of costs and expenses; international growth; conditions and growth rates in the telecommunications industry and general domestic and international economic conditions; and the impact of each of these factors on expected sales increases and realization of positive net income. For a further list and description of such risks and uncertainties, see the reports filed by Alcatel with the Securities and Exchange Commission. Alcatel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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