
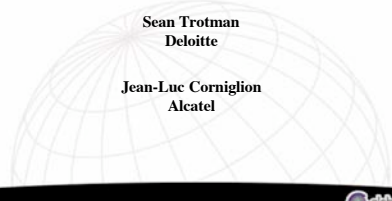


**Cross-Border and Mobile Employees:
What to Do?**

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Objective

To provide a framework for managing equity awards
issued to a mobile employee population




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Agenda


- Overview
- **Part One – Tax and Regulatory Considerations**
 - Taxation issues
 - Regulatory issues
 - Practical guidelines
- **Part Two – The Alcatel Experience**
 - Worldwide option program
 - Administrative challenges / solutions




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Overview




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The New Environment


- Unprecedented change
- Complex interactions
- The world of compensation is changing
- Equity programs are changing
- Accounting will no longer be a major factor in equity plan design
- Mobile employees add a further significant layer of complexity




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A Complex Conundrum




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Part 1:
Tax and Regulatory Considerations

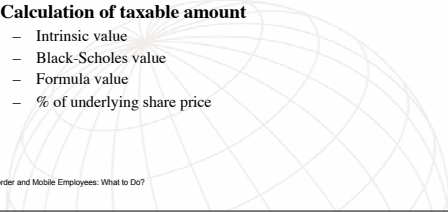


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Potential for Double Taxation

- **Incidence of taxation**
 - Grant
 - Vesting
 - Exercise
 - Sale
- **Calculation of taxable amount**
 - Intrinsic value
 - Black-Scholes value
 - Formula value
 - % of underlying share price



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Hypothetical Employee: "Ronald"

- **Belgian national**
- **Receives stock options every year**
- **Vesting schedule of 25% each year**
- **Transfers to the Netherlands for one year**
- **Moves on to Germany for three years**



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Other Tax Considerations

- **Qualified plans, favorable grant terms, elections**
- **Sourcing/allocation of income**
- **Company policy for chargebacks**
- **Tax reimbursement policy**
- **Totalization agreements**
- **Tax treaties**
- **OECD**

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Heightened Global Scrutiny

- **Increasing legislation to capture mobile employee gains**
 - “Trailing” tax obligations: income may be subject to tax irrespective of residency status
 - “Exit taxes”: more and more countries are imposing charges upon departure and special reporting requirements
- **Increased audit activity (e.g., Netherlands, Sweden)**
- **Tracking and allocation of income over life of award of utmost importance**

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Did You Know . . . ?

- **In Australia**
 - Australian Tax Office will follow OECD guidelines on option sourcing for grants made in Australia, but exercised post departure
 - Sourced based on resident period in Australia between grant and vesting
- **In China**
 - Tax amnesty through June 30, 2004
 - Aimed at foreign residents in China
 - Special relevance for Hong Kong and Macau residents working in the Pearl River Delta

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Did You Know . . . ?

- **In Singapore**
 - Non-permanent residents that cease employment in Singapore are now taxed on the deemed value of equity holdings at time of departure
 - Employer is required to report deemed value and withhold all monies due pending final tax clearance
- **In the United Kingdom**
 - Radical developments recently impacting mobile employees
 - Significant change in technical treatment of equity compensation
 - Options granted to temporary residents now require tracking through time of sale in order to apply PAYE

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The New Imperative

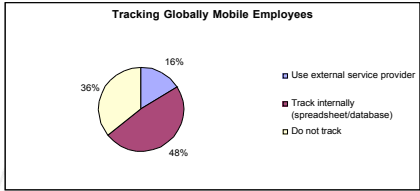
- **“Ignorantia legis neminem excusat”**
- **Companies can no longer bury head in sand**
- **Reputation is irreparable**
- **Essential to focus on country-specific compliance**
 - Tax withholdings and reporting
 - Cost mitigation
 - Financial and management reporting
- **Compliance necessitates tracking**

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Deloitte 2003 Global Equity Survey

- **64% of all-employee plans and 54% of select-employee plans administered externally: complexity**
- **Many companies do not adequately track mobile employees**



Cross-Border and Mobile Employees: What to Do?

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Deloitte 2003 Global Equity Survey

- **Review of plans to ensure compliance with tax and regulatory requirements (66% external review)**
 - As become aware of country updates/changes: 47%
 - On an annual basis: 41%
 - Initial grant only: 5%
 - Only when audit arises: 2%
 - Other: 5%

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Practical Guidelines (1)

What are companies doing?

- **Everything from nothing to a full commitment to compliance and settlement**
- **Depends largely on demographics, plans and culture**
- **No quick and simple fix – need to plan and coordinate across many internal functions**

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Practical Guidelines (2)

Roadmap

- **Determine the plans, population and countries involved**
- **Involve all relevant functions (HR, Tax, Payroll, Treasury)**
- **Consider administrative capabilities**
- **Work with tax advisor who can provide technical expertise as well as practical experience**
- **Balance practicality with risk management**
- **Communicate frequently**

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Practical Guidelines (3)

Administrative requirements

- **Identify participant movements between:**
 - Countries, states, business units
- **Identify retirees, terminated employees**
- **Identify participant movements as they relate to transactions over life cycle:**
 - Award, vesting, exercise, sale
- **Identify number of days between**
 - Grant, vesting, exercise, sale
- **Reconcile history of grant mobility to tax rules and apply appropriate tax withholding and reporting**

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Part 2: The Alcatel Experience

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One Worldwide Option Plan...

- **Vesting**
 - 25% after 12 months and then,
 - 1/48th additional options per month (fully vested after 4 years)
- **Plan duration: 8 years**
- **Options are in euros, stock is traded on the Paris Stock Exchange**
- **A global scope**
- **46,000 Alcatel active employees holding options in 70 countries**

Cross-Border and Mobile Employees: What to Do?

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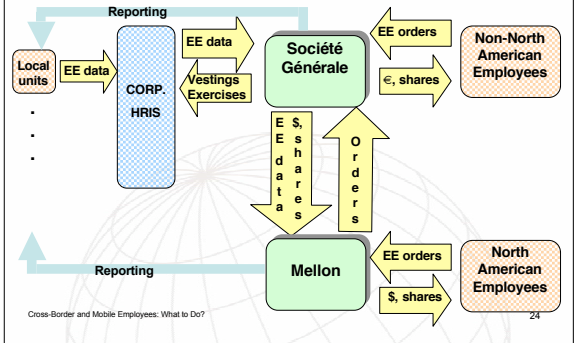
...With Limited Local Customization

- **“Sub-plans” have been implemented in some countries**
 - To avoid social charges at the time of exercise
 - To obtain better tax treatment at exercise
- **Examples**
 - France: no exercise before 4 years
 - Israel: no exercise before 2 full calendar years
 - United Kingdom: no exercise before 3 years (under consideration)

Key Administrative Challenges After Grant

- **Tracking employees: terminations, internal mobility**
- **Informing employees and processing orders**
 - Local language support and time zone differences
 - Process optionee requests within reasonable timeframe in 70 countries
- **Take administrative ownership for plans of acquired companies**
 - 6 plans since year 2000
- **Tax reporting and/or withholding at time of grant or exercise**
 - The right reporting for the right legal unit
 - Comply with employer’s withholding obligations and inform employees about their obligations
- **New accounting rules (IFRS-2)**
 - Charges to earnings by Q1, 2005 with 2004 restatement

Simplified Global Administration Process After Grant



A Global Administration Process

- **Two worldwide partners . . .**
 - Mellon for North America
 - Société Générale for the rest of the world
- **. . . Part of a global integrated process**
 - Vesting calculated by the administrators
 - Employee individual accounts available on internet, call centers with support in 6 different languages
 - Plan documentation and tax information available on Alcatel intranet
 - Société Générale consolidates all data for Alcatel interface and Alcatel HRIS records all data on the company side for Société Générale interface
 - One unique set of fees worldwide for both Alcatel and the employee

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Employer's And Employee's Obligations For Taxes

- **Tax analysis done with support of external consultant to validate company obligations in countries where Alcatel grants options**
 - Tax/social security reporting
 - Tax/social security withholding
- **Processes set up to comply with obligations at grant and exercise**
 - Integrated with administrators (Société Générale & Mellon)
 - Specific attention in case of International transfer and expatriation
 - Process enabling to address both case for stock and cashless exercises
- **Employee information**
 - Alcatel intranet website dedicated to stock options provides summary of employee taxes for each country
 - Expatriate briefings

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Dealing With Countries Having Tax Withholding Obligations At Exercise

Payment to the Legal Unit or a Trustee		China Israel United Kingdom	(*) tax withholding handled by local payroll Note: Process for Argentina, Greece, Tunisia, South-Africa still under discussion
Payment to the employee	without any withholding (*)	Denmark Korea Germany	
	withholding based on a flat rate	Austria Finland Malaysia Netherlands Norway Philippines Spain Sweden	
	withholding based on an individual rate	Switzerland (will be implemented for 2004)	

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Dealing With International Assignments

- **No tax protection on stock options**
- **Expatriates are “tax protected” with the exception of any taxes due on private income and stock options for which they have full responsibility**
- **Expatriate information**
 - A tax briefing is done for each expatriate before the assignment
- **Special process at exercise**
 - Reporting is sent to both the home unit (identified at grant time) and the host unit at exercise time. Employer tax withholding obligations are deemed to be not applicable
 - *Tax consultant handles tax return in the host country and/or home country as appropriate*
 - *The administrator sends the payment directly to the optionee who is responsible to pay his/her taxes*

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Accounting Rules By Q1 2005 (IFRS-2)

- **Effective date**
 - Applicable to stock options granted after November 7, 2002 and unvested as of January 1, 2005
 - 2004 restatement will be needed to present comparable results
- **Valuation methodology**
 - At grant time using Black Scholes or other acceptable valuation methods
- **Cost**
 - Equal to fair value of the options
 - Will be spread across the 4 years vesting period and be allocated by legal unit, business P&L and functions
 - Adjustment needed each year for options cancellations (terminations)
- **Tools**
 - The global HR database will be the source of information for allocation cost

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Thank You

Questions?

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