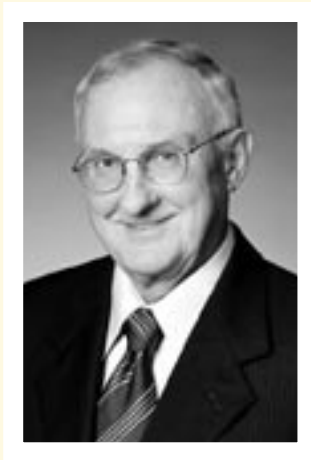


Building Trust

LEADING CEOs SPEAK OUT:
HOW THEY CREATE IT,
STRENGTHEN IT, AND SUSTAIN IT.



Michael J. Birck

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
TELLABS, INC.

“Communication may be the most important element in our business.”

– Michael J. Birck

PRINCIPLED BEHAVIOR

The telecommunications industry continues to endure the darkest period in its history.

Some call it “telecom winter.”

A challenging regulatory environment, a glut in network capacity and a lack of needed consolidation beleaguer us. We’re in the midst of an unprecedented period of debt, bankruptcies and reduced spending by telecom service providers, our customers. As our customers stagger under the weight of this burden, so does Tellabs.

But let's keep things in perspective. Tellabs started in 1975 and ended that first year with only 20 employees and \$312,000 in sales. There was a recession going on then, too. No one knew that we would grow to employ 4,000 people and generate more than \$1 billion in 2002 sales. We've come a very long way, and I'm confident that we will emerge from this frigid telecom winter more competitive than ever.

As we were in the early days of Tellabs, we're very much focused on the future. A lot of the strategic pieces are in place. We have one of the strongest balance sheets in the industry. We ended 2002 with more than \$1 billion in cash and equivalents and zero debt. Even in the face of painful restructurings, our employees rise to meet challenges every day. The result: innovative solutions and products that help our customers efficiently move communications traffic worldwide.

In more than 40 years in the technology business, I've seen a lot of companies come and go. Successful companies are the ones who stick to the basics. While there might be several different schools of thought on how to capture those basic principles, the Page Principles, with which I have recently become familiar, seem to have them well defined.

TELL THE TRUTH.

It doesn't get any more basic than this. Unfortunately, there have been several recent examples of companies who strayed from the truth. Names like Enron, Global Crossing, WorldCom and Arthur Andersen are now and forever associated with lies, deceit and greed.

As the cult of highly paid CEOs began to evolve in the 1990s, they became celebrity-like household names. During this time, the seeds that destroy credibility were sown. And as greed replaced candor,

exorbitant compensation for celebrity CEOs became commonplace. Our industry was part of that, and it now sports a black eye due partially to unethical, greedy leadership.

As a result, our task of recovery is more difficult than it might otherwise have been. A return to health will not occur until the industry's companies and executives earn back the respect that we as an industry have lost of late. That will not be easy. Respect is gained over a long period, but it is lost in just an instant. In my opinion, CEOs of corporations must lead by example, or that respect will be very elusive. At Tellabs, one of our core commitments is to open, honest and constructive communications.

A healthy telecom industry must have visible, vocal, ethical leaders willing to tell it like it is, and be sufficiently visionary to see beyond the next earnings report. Fortunately, I think they are out there, and we need to hear more from them.

PROVE IT WITH ACTION.

Doing the right things, and doing them the right way, is more important than anything we preach from a podium or say in a public statement. The public expects more than words, and rightfully so. Actions define a corporation's character.

In fact, the health of a business depends upon a bias for action, another one of our core commitments at Tellabs. As a young manager, I started my career at Bell Laboratories, which at that time was part of AT&T, and I lasted six years there. I was entranced by the technology and the access to the world's authority on almost anything technical. But I had problems with the bureaucracy. You had to wait your turn, and that took an eternity. And virtually all communication was vertical rather than horizontal, and that was wasteful.

Starting Tellabs was a breath of fresh air. We rolled up our sleeves and got things done, and we vowed never to add unnecessary layers to our work. Tellabs employees are expected to speak with their actions and results. We aren't punching time clocks; we don't have time clocks anywhere for that reason. I'm more interested in what people do while they are here. Our entrepreneurial roots continue to shape our culture and will hopefully do so far into the future.

LISTEN TO THE CUSTOMER.

If you listen closely enough, your customers will tell you absolutely everything you need to know. Tellabs spends considerable time developing close relationships with customers. As a result, we are better able to focus our product development on what they really need—products that help them increase revenues, reduce waste and inefficiency, and restrain operating expenses.

Listening is a continuous process, and one that requires constant attention. Our customers are highly satisfied, as evidenced by customer survey data, business ethics rankings and awards from customers such as Verizon, Sprint and TELUS. These are all good barometers, but we rely most on face-to-face communication to keep those important relationships alive and well.

Since we sell our products to other businesses and not directly to consumers, we need to listen to not only our direct customers, but also to our customers' customers. As an example, when cell phone users and wireless carriers demanded better sound quality, Tellabs listened and developed products to enhance the voice quality of our customers' networks.

MANAGE FOR TOMORROW.

My vocation is technology, and my avocation is higher education. Both fields require vision and a passion for the future.

Let me begin with technology. Living in the age of technology, we are used to some pretty remarkable advances in every aspect of our lives. For example, we have virtually limitless ability to communicate anywhere on earth by satellite, optical fiber and wireless services. We have become accustomed to hand-held devices that hold more computing capacity than a room full of mainframes did just a few short years ago. Each extraordinary advance is the end result of a complex journey—each one with its own set of painstaking steps.

What keeps each step heading in the right direction? Focusing on the future. Eliminating problems before they interfere with progress. Recognizing that all things are possible.

Most of these same strategies apply to the field of education. I've had the good fortune to be involved with many fine educational institutions—Purdue University, Benedictine University, the Illinois Mathematics & Science Academy and others. In their classrooms, I see the future.

Each student is about to embark upon his or her own complex journey, with its own set of painstaking steps. Today's students are tomorrow's employees, and they need to develop skills to approach, comprehend, analyze and use information effectively, regardless of the subject matter. Through internships and applied research relationships, such as the one we have with the Danish Technical University, Tellabs helps students do just that. It is our responsibility to help guide their steps and make an investment that will give unending returns to the community.

Enormous opportunity awaits us. I'm truly excited about the potential that is starting to unfold in fields such as biotechnology, nanotechnology and advanced manufacturing, including additional opportunities still ahead in communications.

CONDUCT PUBLIC RELATIONS AS IF THE
WHOLE COMPANY DEPENDS ON IT.

At Tellabs, we insist that our people, especially our managers, have the ability to communicate. To succinctly make a point, through the written or spoken word, is an important element of business. If someone enters the workforce without the ability to share thoughts and ideas, that's a problem. Communication just may be the most important element in business, because it is such a large part of our global business community today.

The age of technology has effectively shrunk our world into a community that acts much like a small town. Information is readily accessible and travels with great speed. Our constituents around the globe know our latest news almost as soon as it comes to light. We have a saying here to help put some perspective on this trend: "Don't say it or do it unless you want to see it on the front page of *The Wall Street Journal*."

It is imperative that every corporate strategy be developed in concert with the priorities of our multiple publics. We at Tellabs consciously evaluate each strategy and how it will affect our customers, employees, investors, vendors, suppliers and communities where we live and work. In the end, these audiences will be the ones to judge whether or not our company stands or falls.

REMAIN CALM, PATIENT AND GOOD-HUMORED.

Recognizing that our employees are our best ambassadors to the public, we make every effort to keep open and consistent lines of communications with them. Once a month, the whole company gathers for our “Town Hall” meetings. Executives report on different aspects of business, and I end each meeting with an overview of the state of our company and of our industry. We all take questions from the floor to encourage employees to speak their mind and deal with any rumors that might be out there.

Needless to say, in telecom for the last couple of years we haven’t had much good news to share. But that makes our presence all the more important. By getting up there and giving honest, reasoned responses to each question, we hope to convey our confidence in the future. We will eventually emerge from this telecom winter. In the meantime, we will best deal with things as they are, calmly and thoughtfully. It’s also important to have a sense of humor, and to have a little fun along the way.

There’s hope that telecom spring will soon appear. When it does, these practices will continue to guide our efforts. Through good times and bad, the Page Principles speak pretty well to appropriate corporate behavior.

Michael J. Birck

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
TELLABS, INC.

Michael J. Birck, a founder of Tellabs, Inc., is currently its chairman and chief executive officer. Birck began his telecommunications career at AT&T's Bell Telephone Laboratories. He then managed the transmission system design department at Continental Telephone Laboratories. From 1968 to 1975 Birck was director of engineering at Wescom, Inc.

The Electronic Industries Alliance (EIA) presented Birck with the 2003 Medal of Honor for his achievements and leadership in the U.S. telecommunications industry. He was awarded an honorary doctorate of engineering by Purdue University in 1995. Birck has been inducted into the Chicago Business Hall of Fame and received the Chicago Area Entrepreneurship Hall of Fame Lifetime Achievement Award.

He serves as a director of the Purdue Research Foundation and is a member of the Dean's Advisory Council of the Krannert School of Management, and is a trustee of Purdue University. He is a member of the board of trustees of Benedictine University and of the Illinois Mathematics and Science Academy Fund Board. Birck also serves on the University of Illinois President's Advisory Council.

Birck is a member of the board of directors of the Lincoln Foundation for Business Excellence, the board of trustees of Hinsdale Hospital and the Chicago Museum of Science and Industry. He is a member of the Civic Leadership Committee of the Chicago Academy of Sciences and is vice chair and a director of The Economic Club of Chicago. Birck has served for a number of years on the United Way/Crusade of Mercy campaign.

Birck received a bachelor of science degree in electrical engineering from Purdue University and a master of science degree from New York University. He and his wife, Katherine, have three grown children.

TELLABS, INC.

Tellabs provides innovative data switching and bandwidth management solutions to help carriers around the world move communications traffic efficiently, effectively and profitably. The world communicates through Tellabs;™ more than two thirds of telephone calls and Internet sessions in several countries, including the United States, flows through the company's equipment. Tellabs customers include many of the world's largest and strongest carriers. Tellabs experts, including approximately 3,200 employees, design, develop, deploy and support our solutions throughout telecommunications networks in more than 100 countries worldwide.

Tellabs is the market share leader in North American bandwidth management, according to research firm RHK, as well as the No. 1 digital cross-connect provider in the United States, with more than 4,000 systems deployed. The company is also the world's leading provider of voice-quality-enhancement solutions, as well as the leading provider of cable telephony solutions in Europe and one of the top three worldwide.

Tellabs is focused on the future of data switching using IP/MPLS and helping its telecom service provider customers build the networks to meet these growing demands. Tellabs is the first vendor with a complete data solutions portfolio to integrate Layers 1, 2 and 3 of the network.

Giving back to the community is an integral part of Tellabs' commitment to good corporate citizenship. Since its creation in 1997, the Tellabs Foundation, a separate entity, has given more than \$5.4 million. Tellabs is headquartered in Naperville, Illinois.

For more information, visit: www.tellabs.com.

Stock Symbol: TLAB