Corporate Social Responsibility

Report 2007

Alcatel·Lucent

Loan Nguyen

—

"Staging her pictures, Loan Nguyen takes on the part of an actress in scenarios where likely reconciliations between nature and culture are played. However, as we move from one scene to the next, we do not uncover any narrative; of her, nothing is said. She shows no intention of drawing up a self-portrait, only that of giving herself the means to accomplish a heartfelt interpretation of the landscapes. As a result, they penetrate the sphere of intimacy, becoming inner landscapes. Far from any form of anthropocentrism, the environment and its inhabitant are given the same attention, no domination of one over the other ever being felt. As a part of a whole, man recovers his rightful place, and discovers his own existence at the same time as the world's. Subtle pictorial suggestions, for as many aesthetic visions."

Raphaëlle Stopin/
Courtesy Galerie
Esther Wœrdehoff

Alcatel-Lucent
Profile

Contents

Alcatel-Lucent provides solutions that enable service providers, enterprises and governments worldwide to deliver voice, data and video communication services to end users.

As a leader in fixed, mobile and converged broadband networking, IP technologies, applications and services, Alcatel-Lucent offers the end-to-end solutions that enable compelling communications services for people at home, at work and on the move.

With operations in more than 130 countries, Alcatel-Lucent is a local partner with global reach. The company has the most experienced global services team in the industry, and one of the largest research, technology and innovation organizations in the telecommunications industry. Alcatel-Lucent achieved revenues of Euro 17.8 billion in 2007 and is incorporated in France, with executive offices located in Paris.

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Corporate social responsibility
has become a business
imperative. For Alcatel-Lucent,
CSR is not merely a set
of policies: it is a key
component of the company's
business strategy.

Patricia Russo – Chief Executive Officer

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CSR: A BUSINESS IMPERATIVE

Corporate social responsibility is part of who we are and how we do business every day. As a responsible corporate citizen and leader in the telecoms industry, Alcatel-Lucent works to enrich people's lives—by transforming the way the world communicates and connects, and by acting in full recognition of its social and environmental responsibilities as a company. Alcatel-Lucent also recognizes the important role the telecommunications sector must play in the global effort to address environmental issues such as climate change.

Corporate social responsibility has in recent years become a business imperative for Alcatel-Lucent. Our stakeholders—including customers, investors, partners and employees—have increasingly high expectations of our company and how we operate. CSR has become a selection criterion in tenders alongside more traditional criteria such as price and quality, and is shaping the expectations we have of our own supply chain.

For these reasons, we strengthened our commitment to CSR in 2007 through a wide range of initiatives. Our efforts, including conforming to the 10 principles of the UN Global Compact, were recognized with a listing in the Dow Jones Sustainability Index and the awarding of 2008 SAM Silver Sustainability Recognition.

Ethics & compliance: As a global telecommunications leader, Alcatel-Lucent is committed to ethical business conduct. We understand that only by upholding the highest levels of business ethics and personal integrity can we achieve and sustain long-term business excellence. This commitment is the foundation of our Statement of Business Principles and is overseen by our Chief Compliance Officer.

Human resources: Throughout our global organization, we have made 'social innovation' an integral part of our CSR approach. We pursue this internally by using best-in-class human resources practices, processes and tools—creating for employees a global workplace that fosters continuous learning. We cultivate opportunities for international and functional mobility and work continuously to ensure our diversity. At the same time, to remain competitive we must be flexible and adaptive. We are in the midst of a global workforce reduction plan, which we are committed to carrying out in a fair and balanced way.

Environment: Environmental considerations are central to our CSR strategy. We are dedicated to eco-sustainability—particularly climate change—and to meeting our customers' demands for eco-efficient products and solutions. In line with these commitments, we became a signatory in 2007 to the UN Global Compact's "Caring for Climate" initiative and are resolved to reduce our carbon footprint.

We have developed corporate strategies and practices to reduce the environmental impact of our products and operations, leveraging our research teams to produce environmentally friendly and energy-efficient technologies. The company actively engages with its key stakeholders, including customers and suppliers, to address eco-sustainability and climate change issues throughout the entire supply chain.

Responsible purchasing: Our partners and customers have high expectations of us when it comes to CSR, and we have that same level of expectations for the companies in our worldwide supply chain. We view CSR as an active partnership and have adopted a purchasing approach that engages suppliers in our efforts. This includes in-depth CSR assessments of their practices—in cooperation with our Audit department. Success requires the active involvement of our purchasing community and diligence in reporting on our progress to stakeholders.

Digital inclusion: As a world leader in telecommunications, we draw on our expertise in innovation to bridge the digital divide—creating opportunities for economic and social development in emerging economies through the use of communications technologies. Our Digital Bridge Initiative involves close partnerships with local players to ensure the solutions we bring forward are appropriate, lasting and reliable.

Philanthropy: As a corporate citizen, we engage in philanthropic and charitable activities through our Alcatel-Lucent Foundation. The Foundation focuses on education and youth development in the communities where our company's employees live and work, supporting corporate programs and encouraging volunteering.

CSR reporting: In 2007, we compiled social and environmental data to report on some 60 CSR indicators from across our merged global organization. This data created a solid baseline of the new company's current CSR status, which will enhance our ability to make accurate decisions for the future. Our objective is to manage our reporting process effectively, optimize opportunities, minimize our risks, and comply fully with rules and regulations in the CSR domain.

In this report we have summarized our CSR commitments and outlined the actions we took in 2007 to fulfill them. Going forward we will continue to evolve and strengthen CSR within our company to meet our customers' and other key stakeholders' expectations. This will require the full support of management and employees throughout our company. I am confident of our ability to deliver on this commitment.

2007 KEY CSR EVENTS

Alcatel-Lucent made numerous strides in CSR in 2007. The new company pursued a wide range of CSR initiatives, establishing key organizational structures, advancing in areas that include the environment, employee programs and reporting, and receiving broad recognition for its achievements.

Alcatel-Lucent CSR Steering Committee

FEBRUARY 2007
The CSR Steering Committee held its inaugural meeting in February 2007. **This monthly gathering brings together** representatives from different departments involved in **all CSR domains:** CSR and Foundation, Environment, Health and Safety, CTO, Digital Inclusion, Public Affairs, Human Resources, Office of Business Conduct, Investor Relations, Marketing, Purchasing, Audit, Risk Management, and Legal. It sets the company's CSR goals, implements action plans and measures progress (see page 63).

The CSR Champions Awards Program

MAY 2007
Open to all employees, this awards program recognizes individuals and teams that have made a significant contribution in the area of CSR. **The eight projects rewarded** last year were selected by a committee of CSR Europe, an independent non-governmental organization. Each CSR Champion received a grant for donation to a non-profit organization of the team's choice (see pages 39, 45, 51 and 58).

The First Alcatel-Lucent CSR Report

MAY 2007
The freshly merged Alcatel-Lucent issued its first Corporate Social Responsibility report in May 2007, articulating the company's commitment to being socially responsible and building upon each of the two former companies' achievements in the key areas of CSR (download the report at www.alcatel-lucent.com).

UN Global Compact

JULY 2007
In July 2007, the United Nations convened the world's largest and most significant event ever on the topic of leadership and corporate citizenship. Alcatel-Lucent attended the meeting at the Palais des Nations in Geneva, Switzerland, demonstrating its **commitment to the 10 principles of the Global Compact,** which are enshrined in the company's Statement of Business Principles (see flap cover).

WE SUPPORT

Alcatel-Lucent on the DJSI

SEPTEMBER 2007
In 2007, Alcatel-Lucent remained on the **Dow Jones Sustainability World Index** (DJSI), a listing of the companies that rank in the top 10 percent for CSR performance based on thorough analysis of their CSR practices and policies in specific industry sectors (see page 62).

CSR Achievements Honored

SEPTEMBER 2007
Alcatel-Lucent was designated "SAM Silver Class" in the Communication Technology Sector of the Sustainability Yearbook 2008 for the company's achievements in CSR. This yearbook is the world's most comprehensive publication on corporate sustainability. Only the top-scoring 15% of best-performing companies in CSR, out of the world's 2,500 largest companies listed in the Dow Jones Index, are chosen for this honor (see page 62).

Reporting on CSR

NOVEMBER 2007
In 2007, the CSR Department undertook the massive task of compiling data to **report on some 60 CSR indicators** coming from 36 different locations and legal units throughout the entire merged global organization. That effort demanded the creation of a specific protocol and a four-month reporting process that relied on a dedicated reporting tool (see page 63).

Enhancing Compliance

NOVEMBER 2007
Consistent with its Statement of Business Principles, Alcatel-Lucent published three additional global policies in 2007: a **"Human Rights Policy",** an **"Environment, Health and Safety Policy"** and a **"CSR in Purchasing Policy",** enhancing its dedication to promoting CSR within its supplier base.

Joining the UN Global Compact "Caring for Climate" Initiative

DECEMBER 2007
On behalf of Alcatel-Lucent, CEO Patricia Russo signed the "Caring for Climate" initiative, a voluntary action platform for UN Global Compact participants seeking to demonstrate leadership on climate issues. Signatories such as Alcatel-Lucent pledge to set goals, implement relevant strategies and practices to reduce carbon emissions, and publicly disclose emissions (see page 30).

Launch of the Volunteering Program

DECEMBER 2007
Alcatel-Lucent employees have a solid history of being engaged in community service. The company recognizes the benefits this kind of program can provide to teambuilding and improving the communities where it operates, and to that end launched a volunteering program last December (see page 55).

First Board Meeting of the Alcatel-Lucent Foundation

JANUARY 2008
The Alcatel-Lucent Foundation is the philanthropic organization that leads the company's charitable activities. With a focus on education and volunteerism, the Foundation supports the commitment of Alcatel-Lucent to social responsibility by supporting the communities where its employees and customers live and work (see page 54).

Foundations of our CSR Approach

"Cercle," 2002, from the "Mobile" series
Photo: Loan Nguyen
Courtesy Galerie Esther Wœrdehoff

**Management
Committee ***

Patricia F. Russo
Chief Executive Officer

Cindy Christy
President Americas Region

Étienne Fouques
Senior Executive Vice-President
Research, Technology, Strategy
and Corporate Marketing

Claire Pedini
Senior Vice-President
Corporate Human Resources
and Communications

Hubert de Pesquidoux
Chief Financial Officer
and President Enterprise
Business Segment

Michel Rahier
President Carrier Business
Segment

Frédéric Rose
President Europe,
Africa and Asia Region

Andy Williams
President Services Business
Segment
—
Janet Davidson
Management Committee Secretary
Chief Compliance Officer,
IT and Integration Program

Board of Directors

Serge Tchuruk
Chairman of the Board
of Directors

Patricia Russo
Chief Executive Officer
and Director

Daniel Bernard
Independent Director
Chairman of Provestis

W. Frank Blount
Independent Director
Chairman and Chief
Executive Officer
of JI Ventures Inc.

Jozef Cornu
Independent Director
Chief Executive Officer
of Agfa-Gevaert

Linnet F. Deily
Independent Director

Robert E. Denham
Independent Director
Partner of the law firm
Munger, Tolles & Olson, LLP

Edward E. Hagenlocker
Independent Director

Jean-Pierre Halbron
Independent Director

Sylvia Jay
Independent Director
Vice-Chairman of l'Oréal
UK Ltd

Karl J. Krapek
Independent Director

Daniel Lebègue
Independent Director
Chairman of the Institut Français
des Administrateurs (IFA)

Henry B. Schacht
Independent Director

Jean-Cyril Spinetta
Independent Director
President and Chief Executive
Officer of Air France-KLM

—

Jean-Pierre Desbois
Board Observer
Engineer with
Alcatel-Lucent France

Thierry de Loppinot
Board Observer
Legal Counsel at Alcatel-
Lucent's Head Office

—

Pascal Durand-Barthez
Secretary to the Board of Directors

Nathalie Trolez
Deputy Secretary to the Board
of Directors

—

Audit and Finance Committee

Robert E. Denham, President
Jean-Pierre Halbron
Daniel Lebègue
Karl J. Krapek

Corporate Governance and Nominating Committee

Daniel Bernard, President
W. Franck Blount
Linnet F. Deily

Henry B. Schacht
Jean-Cyril Spinetta

Compensation Committee

Edward E. Hagenlocker, President
Linnet F. Deily
Sylvia Jay
Jean-Pierre Halbron

Strategy and Investments Committee

Serge Tchuruk, President
Jozef Cornu
Edward E. Hagenlocker
Henry B. Schacht

—

Statutory Auditors

Deloitte & Associés
Represented by
Antoine de Riedmatten

Ernst & Young et Autres
Represented by
Jean-Yves Jégourel

Responsibilities of Committees of the Board

Audit and Finance Committee
The Audit and Finance Committee's role and operation meet the requirements of the American Sarbanes-Oxley Act and follow the key recommendations of the various reports on corporate governance. Its main areas of activity concern the company's accounts, internal controls, financial position and relations with our Statutory Auditors.

Corporate Governance and Nominating Committee
The first responsibility of our Corporate Governance and Nominating Committee, as defined by the Board of Directors' Operating Rules, is to review questions related to the composition, organization and operation of the Board of Directors and its committees, to identify and propose to

the Board individuals who are qualified to hold the position of Director and serve on committees, to develop and recommend to the Board a set of corporate governance principles applicable to the company, and to oversee the evaluations of the Board and its committees.

The second responsibility of our Corporate Governance and Nominating Committee is to examine the succession plans for the Chairman of the Board, the CEO and our Group's other senior executives.

Compensation Committee
The role of our Compensation Committee, as defined by the Board of Directors' Operating Rules, is to study and make proposals to the Board regarding compensation of the Directors, the Chairman, the CEO and the key senior executives, to review policies related to the grant of stock options and bonus shares to senior managers and employees, and to examine proposals to increase the company's capital in the form of an issuance of shares reserved for employees.

Strategy and Investments Committee
The role of our Strategy and Investments Committee, as defined by the Board of Directors' Operating Rules, is to review our Group's proposed strategic direction and investments, all related internal restructuring activities, all proposed investments and sales of assets, and in particular, to monitor, on the Board's behalf, the integration of historical Alcatel and Lucent and the creation of synergies.

This committee's role is to ensure that our financial and human resources are allocated as efficiently as possible in order to achieve the growth and profitability objectives established by the Board.

Our Strategy and Investments Committee reviews the annual strategic plans presented to it by management. These plans include an analysis of the markets that are relevant for the company, their expected evolution and the company's positioning in these markets (market share, financial results).

These plans include proposed commercial and R&D initiatives

and any legal or other constraints that may apply, and take into consideration other avenues available to us in the form of internal development, cooperation agreements and business acquisitions or sales of businesses.

Our Strategy and Investments Committee reviews the proposed decisions that the CEO must submit to the Board of Directors for prior approval.

It also examines the Group's annual budget and annual investment plan.

__ Outgoing members of the Management Committee in 2007 and 2008__
F. D'Amélio and M. Quigley were members until August 2007. J.-P. Beaufret was a member until November 2007. J. Meyer was a member until January 2008.*

Appointment of members to the Management Committee in 2007 and 2008
C. Christy, H. de Pesquidoux, M. Rahier and F. Rose became members in November 2007. A. Williams became a member in January 2008.

Left to right: Hubert de Pesquidoux, Janet Davidson, Andy Williams, Étienne Fouques, Patricia Russo, Claire Pedini, Michel Rahier, Cindy Christy, Frédéric Rose.

ETHICS AND COMPLIANCE

Ethics are key to establishing trust and integrity and to achieving sustainability and long-term success. Ethical business conduct is a fundamental commitment for Alcatel-Lucent and a cornerstone of the company's business practices. In 2007, Alcatel-Lucent established a robust global ethics and compliance system consisting of a comprehensive compliance governance structure, as well as a framework of internal controls, processes and principles that work together to provide reasonable assurance of compliance by Alcatel-Lucent with applicable legal and regulatory requirements. Last year's efforts were supported by extensive, continuous internal communication with all employees worldwide.

Guided by principle

One of the key organizations involved in oversight and management of the company's ethics and compliance program is the Office of Business Conduct. The Office of Business Conduct (OBC) provides strategic direction, expertise and leadership for ethics and compliance throughout the company. The OBC is overseen by the Chief Compliance Officer, who reports to the Chief Executive Officer of the company. The Chief Compliance Officer supervises the implementation of the company's compliance program in keeping with applicable international laws, standards and appropriate business practices worldwide.

By the end of the first quarter of 2007, Alcatel-Lucent had established and documented a robust compliance governance structure for embedding ethics and compliance accountability into its business. The Office of Business Conduct, the Alcatel-Lucent Ethics and Compliance Council and the company's Operating Unit Compliance Council are all key elements in that structure.

Clarity through communication

Success in compliance and ethical conduct demands clear, two-way communication between the company and its employees. In the first quarter of 2007, Alcatel-Lucent developed and deployed a range of communication vehicles for this purpose, including an Office of Business Conduct web site, a Compliance Alert system and all-employee messaging. The web site is especially important, gathering essential resources in one location and facilitating continuous reinforcement of the company's commitments. Compliance Alerts are issued periodically to ensure that all employees are informed of important compliance requirements, release of compliance policies and related learning opportunities.

Assessing the risks: Knowledge as a strategic foundation

In addition to the annual risk assessment conducted by Corporate Audit Services, the Office of Business Conduct carried out a comprehensive global compliance risk assessment in 2007. Paralleling the ongoing deployment of policies for the company's 18 key compliance program areas, this risk assessment benefited from the input and guidance of Corporate Audit Services' findings, past and pending litigation information, regulatory guidelines and knowledge of compliance risks specific to each Operating Unit. The assessment process identifies the nature and scope of potential compliance risks facing Alcatel-Lucent, allowing the company to implement avoidance and mitigation strategies.

Promoting compliance, enabling resolutions

Throughout 2007, the Office of Business Conduct of Alcatel-Lucent was engaged in developing a comprehensive Code of Conduct that is based upon the "Statement of Business Principles"—deployed on Day 1 of the new company—explaining each principle set forth in the document. The company has also developed a related online review and certification tool to support deployment of the global review and certification process. In addition, Alcatel-Lucent established procedures for developing, approving, promulgating and updating compliance-related policies. This work fell under the rubric of the Office of Business Conduct, which meets monthly with Compliance Program Owners.

Alcatel-Lucent developed a Compliance Resolution Process in 2007 and deployed it to each region to address conduct that is inconsistent with company policy or other applicable requirements. This process is managed by Human Resources (with support from the Alcatel-Lucent Ethics and Compliance Council). Regional and country Compliance Resolution Work Groups were established to handle local issues, with a clear escalation path to the Ethics and Compliance Council as necessary.

All in it together: The Alcatel-Lucent compliance hotline

In 2007, the company began deploying an all-employee Compliance Hotline. By the end of the year, 58 countries in Europe,

North and South America had 'gone live'. Consistent with regulatory requirements and local law, employees can use the Hotline to report compliance issues, concerns, violations or suspected violations of law or company policy. The initiative supports the efforts of all employees who can report, in good faith, suspected unethical business conduct or any dishonest, destructive or illegal actions. The Hotline is operated by a third-party vendor, available 24 hours a day, seven days a week, and supports virtually any language. Deployment of the hotline to the remaining countries will continue in 2008, in line with local laws and regulations.
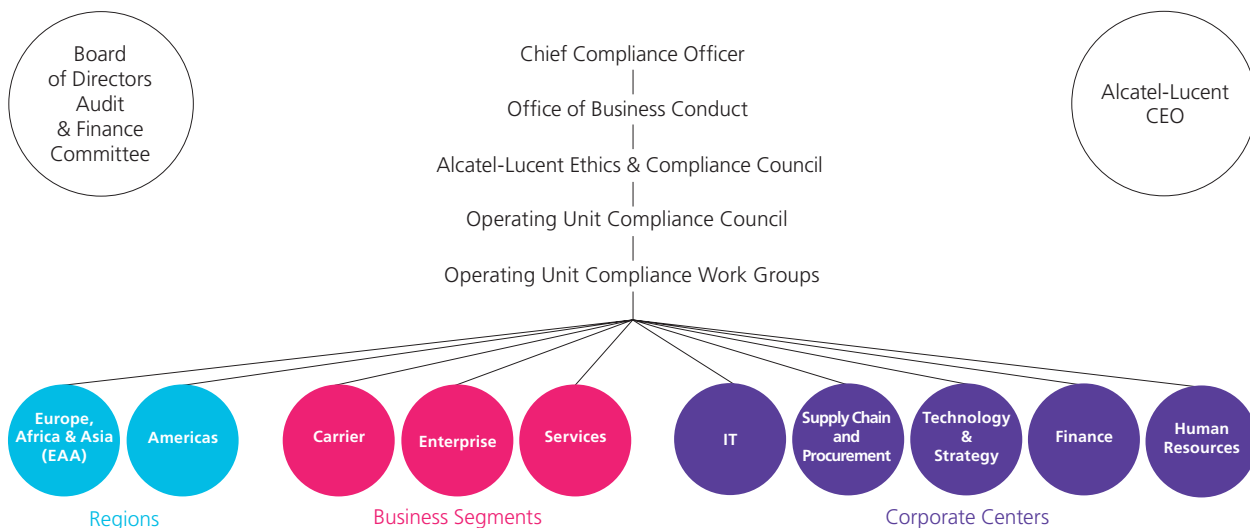
Sharing responsibility: The Ethics and Compliance Council

The Alcatel-Lucent Ethics and Compliance Council ensures cooperation among the various corporate functions involved in the company's compliance system. The Council includes the Chief Compliance Officer, as well as senior-management representatives from Law, Human Resources and Communications, Information Technology, Corporate Audit Services, Finance, Procurement, Transformation Office and the Office of Business Conduct. Meeting monthly, the Council directs and oversees the design and implementation of the company's ethics and compliance system. Operational responsibility for compliance rests with individual operating units. The Operating Unit Compliance Council—consisting of business segments, regions, and corporate functions—was convened in March 2007.

Committed to training

Throughout 2007, Alcatel-Lucent initiated ethics and compliance training activities. The company created a Compliance Training Roadmap to prioritize training needs across 18 compliance program areas, and launched both the National Security Agreement (NSA) and Anti-Corruption Training Programs together with subject matter experts in these areas.
The Office of Business Conduct is also responsible for overseeing the coordination of overall compliance training and education for all employees, as well as specialized training for defined target audiences based on job function.
These audiences include corporate executives (some 400 senior leaders) and employees determined by operating unit compliance leaders based on guidance from Compliance Program owners.

Alcatel-Lucent Compliance Governance Structure

Board of Directors Audit & Finance Committee

Chief Compliance Officer
|
Office of Business Conduct
|
Alcatel-Lucent Ethics & Compliance Council
|
Operating Unit Compliance Council
|
Operating Unit Compliance Work Groups

Alcatel-Lucent CEO

Europe, Africa & Asia (EAA) — Americas — **Regions**

Carrier — Enterprise — Services — **Business Segments**

IT — Supply Chain and Procurement — Technology & Strategy — Finance — Human Resources — **Corporate Centers**

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While the long term prospects of our industry remain good, the macroeconomic environment has created uncertainty in our markets in the last few months. Our latest projections for 2008 indicate that the global telecommunications equipment and related services market should be flat at constant EUR/USD rate. With this in mind, we will continue to execute against our three-year plan. The ongoing implementation of a more selective pricing approach as well as a product cost reduction program should enable us to improve our gross margin.

Patricia Russo – Chief Executive Officer

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In 2007

€17,792 million
Revenues

€110 million
Operating Profit

€(443) million
Net Income
€(0.20) per share
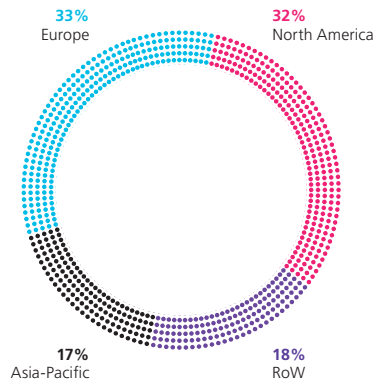
€271 million
Net Cash on December 31, 2007

77,000 employees
More than 100 nationalities in 130 countries

Key figures

33% Europe | **32%** North America | **17%** Asia-Pacific | **18%** RoW

Breakdown of revenues by geographical area
Following the business combination with Lucent, the Group is evenly distributed geographically between North America, Europe, Asia-Pacific and the rest of the world, including an array of emerging countries. This balanced geographical presence considerably limits the Group's exposure to the investment cycles of its carrier clients in a particular area.

73% Carrier | **9%** Enterprise | **18%** Services
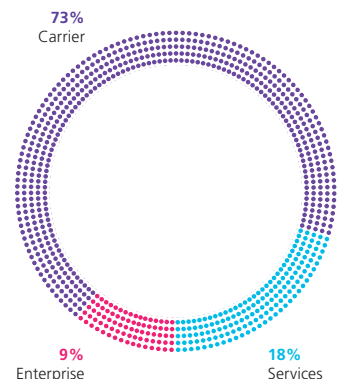
Breakdown of revenues by operating segment
Alcatel-Lucent had revenues (both reported and adjusted) of €17.8 billion in 2007.

Market share highlights*

#1 in Broadband Access with 44% of DSL market share [1]

#1 in Optics (Terrestrial and Submarine) with 23.5% of market share [2]

#2 in IP/MPLS Service EDGE Routers with 18% of market share [2]

#3 in GSM/GPRS/EDGE Radio Access Networks with 10.1% of market share [1]

#3 in W-CDMA with 10.5% of market share [1]

#1 in CDMA with 47.4% of market share [1] Included in 1st tier WiMAX vendors [3]

#1 in Western Europe Enterprise Telephony with 21.2% of market share [4]

#2 in Global Telecom Infrastructure Services with 9% of market share [5]

#2 in Network Consulting and Integration Services with 14% of market share [6]

* In revenues
(1) Dell'Oro. (2) Ovum RHK. (3) Current Analysis Inc. (4) Synergy Research Group. (5) Technology Business Research. (6) IDC

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2007 was a transition year for the company as we executed our integration plans in a difficult market environment. Notwithstanding these challenges, the performance of our wireline, enterprise and services business has been solid. On the other hand, the slower-than-expected ramp up of revenues in WCDMA and NGN/IMS, two areas in which we have been investing, has severely impacted profitability.

Patricia Russo – Chief Executive Officer

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> To achieve profitable growth, we must help our customers transform their networks to IP and focus our growth efforts on areas of the greatest potential.
>
> **Patricia Russo** – Chief Executive Officer

THE ALCATEL-LUCENT STRATEGY

In 2007, Alcatel-Lucent began enacting a three-part strategy to build its carrier business, expand its service and application offerings, and strengthen its position in key markets—all with a strong focus on helping customers derive the greatest advantage from the IP transformation of their networks.

Strategically, Alcatel-Lucent is evolving its business mix to pursue higher growth, higher margin opportunities associated with the world's shift to all-IP networks; the advent of mobile broadband; and the delivery of converged, blended services across wired and wireless networks alike.

To achieve its aims, Alcatel-Lucent will leverage its global presence, technological breadth and the world-leading innovation capabilities of Alcatel-Lucent Bell Labs, and will seek to strengthen its bottom line through efficient operations and cost reductions.

The company's strength in the carrier space affords opportunities for growth both in developed and emerging markets among carriers as well as enterprise, industry and public-sector customers whose networks are becoming increasingly complex. The need for integration in multi-vendor environments—and for the support of rapidly proliferating IP-based applications—creates demand for new value-added services that Alcatel-Lucent is well positioned to deliver.

> The increase in subscribers alone will propel the sale of telecoms equipment over the next 10 to 15 years. Carriers will have to expand their networks to keep pace and remain competitive. That alone is good news for the long term—and it is far from the only growth driver at work.
>
> **Rémi Thomas** – Vice-President, Investor Relations

Growing the carrier business

A key pillar of Alcatel-Lucent's strategy is to grow its carrier business, leveraging its leading position with service providers worldwide—both wireline and wireless—and capitalizing on the enormous potential in this sector, in which carriers are undertaking a broad-based transformation to IP technology. While expanding to a new customer base in this sector, Alcatel-Lucent is simultaneously putting an increased focus on profitability and execution.

Targeting carrier markets

Active in all carrier markets, Alcatel-Lucent offers solutions that address the very different needs of service providers, according to their sector. In developed markets, for example, where incumbents are undertaking a migration towards full-IP, Alcatel-Lucent is assisting them with end-to-end solutions for access, routing, transport, switching and applications.

In emerging markets, where carriers need to ensure high capacity and broad coverage in a cost-effective way, optimizing the total cost of ownership, Alcatel-Lucent responds with highly innovative solutions. An example is the compact and efficient Twin TRX base station, which doubles the transceiver capacity or the range of coverage, depending on the mobile operator's needs.

Targeting new markets

Large enterprises, and industry and public sector organizations have many of the same communications needs as carriers. Alcatel-Lucent is increasingly targeting this sector to deliver state-of-the-art, IP-based telecommunications solutions that support their business or government activities.

Partnering for growth

To enhance its technological edge and market penetration, Alcatel-Lucent builds partnerships with industry leaders. Last year, in a major milestone, Alcatel-Lucent and NEC worked to form a joint venture, announced in early 2008, to accelerate the development and commercialization of LTE wireless broadband access solutions. These will support the network evolution of leading international customers such as NTT DoCoMo and Verizon.

Expanding in services and applications

In pursuing its strategy for growth, Alcatel-Lucent is expanding into logically adjacent sectors. A case in point is the company's drive to expand in value-added services and applications that are essential to the telecoms business. This approach enables the company to grow in areas where it can compete and win—again, leveraging its expertise in IP transformation—while broadening its market horizons and expanding its customer footprint and opportunity base.

Meeting the need for services
The increasing complexity of multi-vendor, multi-technology networks is driving service providers to seek the assistance of specialists to integrate and manage these heterogeneous systems. As one of the world's leading network integrators, Alcatel-Lucent is actively pursuing business in this field, offering the broad array of the value-added services required for end-to-end network solutions.

In this context, the company offers professional services that include consulting; network design, integration and deployment; and the full set of operations and maintenance functions, including managed services for field operations, network operations, multi-vendor maintenance, and security. Thus, Alcatel-Lucent's Network Operations Centers (NOCs) are in increasing demand for operating third-party networks, as well as its own.

Leveraging communications applications
Applications are playing a growing role in the telecommunications field, as service providers seek new avenues to generate revenue streams. Key among them are multimedia applications, a varied range of services that includes IPTV and other video applications, music downloads, photo sharing, user-generated content and much more.

Alcatel-Lucent has a robust portfolio in multimedia applications, as it does in messaging and payment solutions. In the field of operations support systems/business support systems (OSS/BSS), Alcatel-Lucent is recognized as the world leader, and fully intends to leverage this success, further expanding in the sector.

Engaging enterprises, industry and the public sector

Already a vigorous player in the enterprise market, Alcatel-Lucent is expanding its activity in this domain. In parallel, the company is targeting growth in industry and the public sector, in vertical market segments where IP transformation and its implications are creating demand for products, solutions, applications and services from both the company's enterprise and carrier spaces. This is a logical place for Alcatel-Lucent to expand and develop.

Growing the enterprise business
The enterprise business is a profitable activity for Alcatel-Lucent, where it delivers a range of security, collaboration, mobility, contact center and unified communications solutions to enterprises of all sizes. The company plans to grow this business through market expansion, product innovation, improving its go-to-market activity, and through non-standard investments such as acquisitions, where appropriate.

Alcatel-Lucent's activities in 2007 already point to the range of initiatives involved, such as the launch of ground-breaking security solutions; the achievement of a major partnership with NCR for support services for Alcatel-Lucent customers; and the acquisition of NetDevices to round out the company's networking portfolio.

Building the industry and public sector
Alcatel-Lucent intends to leverage the strength and success of its carrier and enterprise businesses to serve related markets that require similar products, solutions and integration services. The industry and public sector thus represents the point of intersection for Alcatel-Lucent's full range of offerings.

Within that domain, Alcatel-Lucent is particularly addressing the markets for transport, energy and government/e-Communities, including defense and health, which have extensive needs for high-performance telecommunications solutions that must be seamlessly integrated with their highly specialized networks.

ADVANCING THROUGH INNOVATION

Innovation plays many roles at Alcatel-Lucent, creating value for the company through the development of market-ready products and intellectual property. It is the lifeblood of our company, key both to our competitiveness and to our ability to deliver a solid return on investment. Innovation guides R&D investments, and enables the company to ensure quality and deliver ever-greater levels of security and reliability. Innovation is also about efficiency—through the sharing of tools and knowledge.

The best minds, working together

The successful integration of researchers—both scientists and engineers—from the former Alcatel, former Lucent and former Nortel UMTS radio access group equips Alcatel-Lucent with a technical breadth and depth unrivaled in the industry. United under the esteemed Bell Labs banner, the company's researchers work collaboratively and exchange insights, driving the development of previously unimagined technologies.

Always facing forward

Alcatel-Lucent directs its innovation efforts where they will yield the greatest returns for customers and their users, and for the company and its shareholders. It continuously evaluates where its technology budget should be spent and makes targeted, proactive investments in innovation. Based on recommendations from the Alcatel-Lucent technical community, the company rationalized its portfolio of products and solutions in 2007 to strengthen its position within chosen markets.

Shaping the landscape

Through participation in standardization bodies, Alcatel-Lucent actively helps establish the requirements for developing technologies. In 2007, the company played a leading role in the standardization of WiMAX; the 4G wireless technology, LTE; and wired broadband access systems (xDSL, FTTH, etc.).

Alcatel-Lucent recognizes the need to continue investing in innovation—not only in new technologies but also in new approaches to delivering existing technology solutions, such as using renewable energy sources to power network systems such as mobile antennas. Notable environmental engineering accomplishments include the development and implementation of a corporate energy/eco-sustainability strategy, a commitment on restricted substances, as well as an integrated product take-back approach.

Enhancing quality and reliability

Alcatel-Lucent constantly innovates to enhance the quality, reliability and security of its offerings, helping ensure customer satisfaction and loyalty. This is a key focus for 2008 particularly—and relies in part on increased use of the company's customer loyalty index, which makes possible the establishment of benchmarks and targets for quality and problem resolution.

2.7
In 2007, Alcatel-Lucent invested 2.7 billion Euros in R&D—15% of its revenues.

3,000
The company was awarded 3,000 new patents worldwide, resulting in a portfolio of over 25,000 active patents.

600
More than 600 experts actively participated in approximately 100 standards organizations.

Local presence, global reach

Alcatel-Lucent has research facilities and product development centers in Belgium, Canada, China, France, Germany, India, Ireland, Israel, Italy, the Netherlands, Poland, Romania, Russia, Spain, the UK and the US.

Alcatel-Lucent Ventures

This internal initiative supports the company's efforts to address emerging markets. It identifies revolutionary ideas within the company and propels their conversion into products, 'incubating' them while developing the right mechanisms to bring them to market in a start-up-like process. At the end of 2007, nine potentially disruptive technologies were under the wing of Alcatel-Lucent Ventures.

Clusters: A competitive force

Alcatel-Lucent is a major player in France's technology "clusters", which bring together enterprises, research centers and educational organizations to drive innovation and generate a competitive advantage. The company is mainly active in two clusters—System@tic, in the Paris area, which specializes in the design and development of complex systems; and Images et Réseaux, in Brittany, which focuses on new uses for digital technologies.

INNOVATION AT WORK: ALCATEL-LUCENT BELL LABS
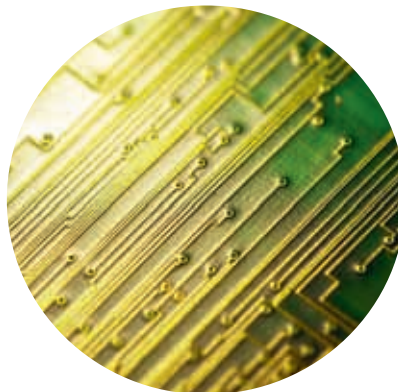
A renowned research institution with a storied history extending back almost 100 years, Alcatel-Lucent Bell Labs' mission is to create substantial growth opportunities and a competitive market advantage for Alcatel-Lucent through disruptive innovation enabled by pre-eminent research.

Bell Labs' work is guided by three principles: technical excellence, creativity and innovation. Technical excellence is achieved by maintaining the highest possible standards and attracting and retaining the best minds in the industry—today numbering around 1,000. Creativity is fostered through collaboration and encouragement to take risks, thinking outside convention. Close partnerships with the company's business divisions support ongoing innovation.

Domains of R&D activities

Research and development touches every aspect of business at Alcatel-Lucent, including:
> Wireless and wireline broadband access
> Packet and optical networking
> New service delivery architectures and platforms
> Multimedia and mobile/fixed services and applications
> Network security and network optimization.
Research disciplines include mathematics, the physical sciences, nanotechnology, and computer and software science.

Key achievements in 2007

Bell Labs played a driving role in every major advance made by Alcatel-Lucent in 2007, some of which are highlighted here.
• **Breaking the speed record**
Alcatel-Lucent nearly doubled the previous transmission-speed record for optical data over a single fiber strand, achieving 25.6 Terabits per second (Tb/s)—sufficient to transport data equivalent to more than 600 DVDs every second.
• **Mobility protected: Laptop Guardian**
Identified as a technology of promise, this Bell Labs invention was incubated by Alcatel-Lucent Ventures and unveiled in 2007 as the OmniAccess 3500 Nonstop Laptop Guardian—an enterprise product that protects laptops and their data even when they are off the network or shut down. Laptop Guardian has created a whole new category of security product in which Alcatel-Lucent is the leader.
• **Wireless at home: Femto**
Alcatel-Lucent unveiled its Femto base station router, which combines third-generation (3G) wireless CDMA/HSPA radio access and core network elements in a single unit. The product incorporates elements developed by the former Lucent, the former Alcatel and the former Nortel UMTS radio access group.

Garnering recognition

Alcatel-Lucent Bell Labs researchers were again recognized with many prestigious international awards in 2007—including the 21st John Tyndall Award and two U.S. National Medals of Technology, presented by the President of the United States.

Our Commitments in Action

"Cyprès," 2006, from the "Mobile" series
Photo: Loan Nguyen
Courtesy Galerie Esther Wœrdehoff

Valuing People

Key achievements in 2007

- Workforce integration
- Harmonization of compensation
- Enhancement of talent-development and career-planning resources
- Establishment of a single human resources system globally

In times of transformation, the human resources (HR) function in an organization takes on even greater importance than usual. At Alcatel-Lucent, HR activities were essential to integration and harmonization during the company's first post-merger year. From assimilating workforces to aligning compensation programs, HR served as a strategic business partner to the enterprise as a whole. Much was achieved in 2007—always with the aim of balancing short-term priorities with long-term sustainability, and always striving for accountability and clarity.

ACHIEVING INTEGRATION

It is a massive undertaking to integrate two global organizations with different cultures, histories and operating methods. HR worked constantly throughout 2007 to ensure as rapid and seamless a coming together as possible—completing a comprehensive organization mapping and staffing process, for example, and identifying and implementing best practices to support several new global programs.

Harmonizing compensation

To remain competitive with the compensation packages of other major companies in the technology sector, Alcatel-Lucent carried out a global compensation review in 2007. Engaging in a single, unified review process throughout the entire global company is essential, as managers within the organization have ever-increasing numbers of employees report to them from all over the world. All business groups and countries carried out the review at the same time, using the same framework and the same tool while taking into account local market conditions.

Launching *myHR*

The aim of the *myHR* project is to implement, within two to three years, a single global HR Information System that will enable operational excellence and support HR in its role as strategic business partner to the

A true business partner: The role of HR in Alcatel-Lucent

Issues of human resources touch upon every aspect of a company's operations. By acting as a business partner to the whole of the company, the HR function within Alcatel-Lucent supports the organization in professional development, competitive compensation, fair and equitable staffing, decision-making, attention to diversity and many other considerations.

Preparing for the future: looking to youth

University graduates represent the next wave of the workforce—and a globally multicultural talent pool. For these reasons, in 2007 Alcatel-Lucent collaborated for a fourth consecutive year with AIESEC, a non-profit organization of international students active in a network of more than 900 universities in 100 different countries. By interacting with AIESEC, Alcatel-Lucent establishes contact with grads whose talents may be of future value to the company.

whole of Alcatel-Lucent. It is proof of HR's commitment to maintaining best-in-class human resources systems, processes and service delivery to ensure Alcatel-Lucent operates effectively and in an integrated way as one company. Through *myHR*, managers and employees will enjoy access to responsive, transactional, shared HR services thanks to enhanced self-service functionality that upholds new standards for responsiveness and accountability.

People and teams: our driving force

The keys to a successful company are its people and teamwork. To mark the anniversary of Day 1, stories about some of the people and teams who are building Alcatel-Lucent were published on all pages of the company's intranet sites. The stories highlighted the ways in which employees work together, merging different cultural and business backgrounds.

Identifying and fostering talent

HR ensures that employees are placed in positions appropriate to their profiled skills and experience. Through Organization and People Reviews (OPRs), HR identifies high-potential employees for strategic roles and defines personalized career plans for these individuals. OPRs are also important development and succession planning tools for all key jobs in the organization. In 2007, OPRs have covered all regions and all activities.

Managing performance on a global level

Alcatel-Lucent's Global Performance Management Process (GPMP) helps managers and employees define clear, coherent goals in conformance with the company's strategy, values and culture. Through the GPMP, employees receive concrete, constructive feedback on their individual performance and have the opportunity to review their professional development plans. In 2007, 90 percent of engineers and managers had set goals based on the GPMP, and 74 percent benefited from resulting development programs.

Enabling advancement and mobility

To retain skilled and valuable employees, a company must provide opportunities for exploring new career options and pursuing professional advancement. Alcatel-Lucent focused on supporting both functional and geographic mobility throughout its organization in 2007, identifying global opportunities for internal migration.

The company developed and rolled out a global, web-based e-staffing tool that allows employees and external candidates to search, view and apply for Alcatel-Lucent jobs online. Using the tool's built-in applicant tracking capabilities, recruiters and managers can quickly identify and hire talent anywhere in the world.

In France, the Mobility TV initiative used interviews with engineers to advertise open positions—part of an ongoing effort by Alcatel-Lucent to encourage employees to gain experience in a range of jobs and environments, and to pursue opportunities for internal and international mobility.

DELIVERING ROBUST TRAINING

The primary objectives of Alcatel-Lucent University are to help employees succeed in their current jobs and ensure their ability to adapt to future requirements. The organization developed a two-pronged strategy in pursuit of these goals, designed to maximize the value of the university's offerings and intensify the on-the-job impact of training and professional development.

A matter of alignment: learning and organizational needs

Global qualification and development programs were initiated—and in many cases completed—last year for business-critical functions such as project management, sales, leadership development, IP transformation, product line management, and purchasing. These programs involve collaboration between Alcatel-Lucent University and regional, functional and business group leaders.

Employees will also benefit from less structured learning solutions aligned with required competencies. Together, these offerings will allow employees to continually enhance their professional development, hone essential skill sets and improve performance to meet company objectives.

Employees and customers: a global learning venture

Alcatel-Lucent University comprises 21 accredited training centers located strategically around the world in close proximity to major customer and employee concentrations. It affords customers the opportunity to become more familiar with the company's products, solutions and services by taking advantage of consultative, innovative and cost-effective learning. The University collaborates with the business groups and divisions, and sales, services and tendering teams to ensure that customer training offerings match the Alcatel-Lucent portfolio and customer deployment requirements. Leaders within Alcatel-Lucent can develop solutions that address business issues specific to their strategic objectives and to the skills-and competency-development needs of their teams.

Choice, availability and the way ahead

A wide range of learning solutions is available from Alcatel-Lucent University in a variety of convenient formats: traditional classroom, e-learning or virtual learning (e.g., web conferencing). In 2007, Alcatel-Lucent employees averaged 20 hours of training, 32 percent of which was taken online (up from 22 percent in 2006). More than 54,000 employees received formal training in 2007.

In 2008, Alcatel-Lucent University will be focused on improving access to learning solutions by providing a consolidated Learning Management System and advancing the concept of "Always On" learning—providing employees with enhanced, self-service access to a wealth of professional development opportunities.

> Alcatel-Lucent University is a very rich and powerful resource for the organization. We have a state-of-the-art infrastructure fully equipped to support our leaders, our employees and our customers.
>
> **Claire Pedini** – Senior Vice-President, Corporate Human Resources and Communications

Mission Handicap

In May 2006, Alcatel-Lucent signed an agreement with its French trade unions to foster the professional integration of disabled employees. Through this agreement, Alcatel-Lucent has committed to recruiting some 60 disabled employees by end 2008. Furthermore, the company's expertise in new information technologies enables it to help disabled individuals gain access to digital technology.

The 'Culture Wizard': an online cultural guide

The human factor is essential to the success of any corporate merger: bringing together company cultures is key. The Alcatel-Lucent 'Culture Wizard'—available through the company's intranet—is an online guide that helps employees better understand other cultures (in terms of business protocol, communication, non-verbal language, social etiquette, interpersonal relations and more) and helps them work more effectively in a global corporate context.

Encouraging teleworking

In order to offer its employees a better balance between their personal and professional lives, via the broadband technologies the company develops, Alcatel-Lucent established an Internal Charter on Teleworking in 2006, in collaboration with ECID. At Alcatel-Lucent France, this initiative was formalized through the signature of an agreement—with all the labor unions—that offers employees the possibility of working from home one to two days per week. Other entities in the company are considering putting in place teleworking measures.

SUPPORTING DIVERSITY AND EQUAL OPPORTUNITIES

Social innovation—developing novel strategies, ideas, organizations and programs to address social needs—has become a business imperative. Today's global companies are microcosms of the diversity of the world as a whole; within the corporate environment it is crucial to understand the cultures, customs and needs of employees, customers and regional markets. As a global enterprise, Alcatel-Lucent actively seeks to ensure that its employee body reflects the diversity of its business environment.

The Company is committed to recognizing and respecting the diversity of people and ideas, and to ensuring equal opportunities for all. With a presence in 130 countries, Alcatel-Lucent offers employees the opportunity to gain exposure to very different cultures and ways of working. More than 100 nationalities are represented among the employees, at all levels of the organization.

Empowering women

Alcatel-Lucent is committed to fostering male-female diversity in the workplace. In 2007, 40 percent of the leadership team (8 out of 20 top executives), and 24 percent of the total staff were women. Three of the eight members of the Management Committee, led by Patricia Russo, are women (37.5 percent). Part of encouraging this diversity is creating conditions conducive to work-life balance for women. In India, for example, together with the organization Mother's Pride, Alcatel-Lucent introduced measures last year to provide for this balance so that women will be able to develop their careers more easily.

Social innovation

Social innovation broadens the base of talent available to an organization. Alcatel-Lucent works, for example in France, to integrate persons with disabilities into its workforce through a program called "Mission Handicap". The company is also a founder and France's largest supporter of the "Cercle Passeport Télécoms" program, which helps students from underprivileged areas succeed in their studies and build a professional network. This forges ties that raise awareness of Alcatel-Lucent as a socially innovative employer among future professionals.

PROVIDING SUPPORT THROUGH TRANSITION

Effecting change in a multinational corporation demands focused effort, clear communication and respect for the human dimension. Persuading others of the need for—and value in—change is essential for success. For Alcatel-Lucent in 2007, activities in this regard focused on establishing understanding among employees, customers and partners of the company's merger-related plans and activities.

Managing workforce reductions

In the framework of a global cost reduction initiative, Alcatel Lucent announced an initial restructuring plan in February 2007, which will achieve Euro 1.7 billion savings in annual pre-tax costs over three years, with a workforce impact of 12,500 positions by 2009. This is necessary to eliminate duplications of effort resulting from the merger of Alcatel and Lucent and the acquisition of Nortel's UMTS activities. The restructuring is also an adaptive strategy to align the company's investments with market conditions and to create a more competitive enterprise over the long term.

Due to intensified competition and some slowdown in spending in North America, a new plan to improve profitability was announced in October 2007, which will result in incremental savings of Euro 400 million, with an additional reduction of 4,000 positions by 2009.

Alcatel-Lucent pays particular attention to the manner in which workforce reductions are carried out, both with regard to methods and measures, making support available to affected employees, in accordance with local rules and regulations. To date, more than half of the original workforce reduction target has been achieved.

COMMUNICATING WITH EMPLOYEES

Knowledge and understanding are key ingredients in a successful merger. Communicating actions and their rationales in a clear and open way strengthens morale and promotes a common sense of purpose that ultimately aids the organization in carrying out its plans. At Alcatel-Lucent, ensuring such communication with employees was a top priority throughout 2007.

Reaching out

Alcatel-Lucent established a series of internal communication initiatives in 2007. The company's senior executives frequently traveled to meet employees around the world. In the same spirit, Patricia Russo and her team regularly communicated via the corporate intranet to explain the Group's strategy and activities.

Fostering a dialogue with employees

Alcatel-Lucent is committed to fostering an open dialogue with employees on important decisions directly affecting them. The European Committee for Information and Dialogue (ECID) is a consultative body that facilitates an exchange of views in Europe between senior management and employee representatives, through regular meetings. In 2007, ECID was renewed, integrating former Lucent and Nortel employees.

The committee is composed of five members representing the five main European countries where the largest numbers of employees are located—Germany, Belgium, Spain, France and Italy. It meets a minimum of twice a year. In 2007 alone, six plenary sessions and several coordination committee meetings were held.

Meeting with employees worldwide

Patricia Russo, Alcatel-Lucent's CEO, traveled worldwide in 2007, meeting with employees throughout the organization. In addition to addressing staff at several company sites in France, Patricia Russo spoke with employees in New Delhi, India; Stuttgart, Germany; Antwerp, Belgium; Murray Hill, Plano and Whippany, USA; Japan and other locations.

Ensuring employees' voices are heard

A series of internal surveys was also carried out during the year to consult with employees. The results were communicated internally and action plans put in place to respond to all main questions and concerns.

Caring for the Environment

Key achievements in 2007

Product-related achievements:

- Established energy-usage reporting metrics to drive eco-sustainable product innovation
- Developed leading-edge innovations to reduce product power consumption
- Designed innovative cooling solutions in wireless base stations to increase energy efficiency and reduce operating expenses
- Doubled the capacity of GSM transceivers while reducing energy needs by one-third
- Expanded the deployment of renewable energy sources for powering base stations
- Ensured compliance with the global evolution of legislation on hazardous substances
- Designed a more comprehensive Eco-Declaration template for the product portfolio

Operations-related achievements:

- Defined an EHS Management System Manual and Common Processes
- Performed risk assessment
- Developed EHS policy
- Established an EHS leadership team and governance model
- Expanded the scope of third-party-certified EHS multi-site management systems

The latest statement from the Intergovernmental Panel on Climate Change (IPCC 2007) indicates the next ten years are critical in meeting the challenges posed by climate change. In the face of this clear and immediate imperative, Alcatel-Lucent as a global company and industry leader continues to embrace this challenge by minimizing the eco-environmental impact of its operations, products and services. The company signed the UN Global Compact 'Caring for Climate' initiative, strengthening its commitment to combat the effects of climate change.
In meeting this commitment, Alcatel-Lucent has a distinctive opportunity to contribute towards a sustainable environment or what is termed eco-sustainability. The differentiating factor is its innovation engine and the ability to eco-innovate–leveraging the company's research and development teams to invent and implement groundbreaking technologies and solutions that also provide social and ecological benefits.

MAKING ALCATEL-LUCENT'S PRODUCTS MORE ENERGY EFFICIENT

Improving the energy efficiency of its products is a key goal for Alcatel-Lucent—continuously advancing the capabilities of technologies while reducing their impact on the environment. Through innovative design and fresh thinking, in 2007 the company achieved a number of meaningful successes in this area.

Driving innovation in power usage metrics.
Within the telecom industry, Alcatel-Lucent is advocating the development of base-line metrics for product/network power usage. These metrics define a product's power consumption as a measure of its function (e.g., gigabits of data transported per watt of power consumed). Alcatel-Lucent is working with key standards bodies to support these metrics.

Reducing power consumption and increasing performance.
State-of-the-art advancements yielded significant power consumption reductions (23 percent) in Very High Speed Digital Subscriber Line (VDSL) products in 2007. In GSM (Global System for Mobile communications) technology, the introduction of the Twin Transceiver—which accommodates two GSM transceivers in a single-sized housing—doubles transceiver capacity within a standard footprint while reducing the power consumption per transceiver by

32 percent. In the Alcatel-Lucent WiMAX (Worldwide Interoperability for Microwave Access) solution, beamforming technology has been deployed that enables an up to 40% decrease in the number of base station sites required to cover a given area, therefore strongly reducing the overall network power consumption.

Cooling wireless base stations efficiently.
To conserve energy in GSM, WiMAX and CDMA (Code Division Multiple Access) wireless telecommunication systems, Alcatel-Lucent introduced both passive cooling capabilities at low ambient temperatures and fresh-air fan cooling without refrigeration at higher ambient temperatures. In GSM, Alcatel-Lucent introduced in 2007 its Direct Air Cooling System (DACS), which enables outdoor base stations to operate at full capacity in ambient temperatures of up to 55°C, without the need for power-hungry air conditioning. The new Light-WiMAX Base Station has been introduced, based on a zero-footprint design that enhances natural cooling efficiency compared to traditional macro base station cabinet designs. Alcatel-Lucent's patented fresh-air filtering design for cooling CDMA base stations reduces power consumption by up to 10% while increasing the reliability of the digital components by up to 30%.

Priorities in energy efficiency: A strategic approach

To address short- and long-term needs for improving energy efficiency in network telecommunications products, Alcatel-Lucent has developed a comprehensive strategy. Priorities for 2008 include:

> Defining energy efficiency metrics by technology and product type, supported by key standards organizations;
> Continuing to improve product/network power consumption and energy efficiency;
> Developing additional partnerships with external entities to further integrate renewable energy options in Alcatel-Lucent products.

Alcatel-Lucent is also partnering with other enterprises—including customers and supply chain partners—to develop energy-efficient solutions for telecommunications networks.

Endorsing the UN 'Caring for Climate' initiative: A strong commitment

Alcatel-Lucent has endorsed the UN Global Compact 'Caring for Climate' initiative, seeking to demonstrate leadership in climate change by finding ways to reduce greenhouse gas emissions and their impact. The telecommunications sector is well positioned to provide essential services that can yield globally significant reductions in greenhouse gas emissions. While telecom networks consume energy to operate, their use also helps reduce energy consumption by, for example, providing an alternative to commuting and travel through teleconferencing. Such options cut greenhouse gas emissions and also costs for businesses and consumers.

Alcatel-Lucent recognized for eco-sustainable switches

Noting that the monthly utility costs for large data centers can easily exceed $1 million, the editors at Network World in their March 2008 issue recognized Alcatel-Lucent's OmniSwitch 6850 as the most energy-efficient device on the market when operating in idle mode. In lab tests run by the magazine publisher, the editors reported that there was as much as a 300 percent difference between the most and least efficient enterprise switches on the market.

Expanding the reach of telecommunications through solar energy

Alcatel-Lucent is fulfilling its mission to make telecommunications services available to the widest possible range of people around the globe. Last year, the company celebrated the deployment of its 200th solar-powered GSM base station. The station is part of a network expansion in Senegal, which will deploy 40 solar-powered base transceiver station sites before the end of 2008. When coupled with telecom equipment with good power efficiency, self-contained energy solutions such as solar panels allow new radio sites to be established affordably in regions that are not connected to the public electricity grid. Offering a good alternative to traditional diesel generators, such innovative energy solutions enable mobile service providers to reduce their operation costs, limit their exposure to tensions in the oil market and contain the carbon footprint of their activities.

New energy options

Alcatel-Lucent is working with key stake-holders in the global community, such as GeSI (the Global e-Sustainability Initiative), to define climate change-related parameters for telecommunications networks. These include carbon footprint and eco-sustainability metrics related to product offerings and business operations. The company continues to: strengthen its partnerships with renewable energy providers (e.g., solar power, wind power); investigate others (e.g., fuel cells, compressed air); and develop further partnerships to integrate renewable energy options in products and offerings.
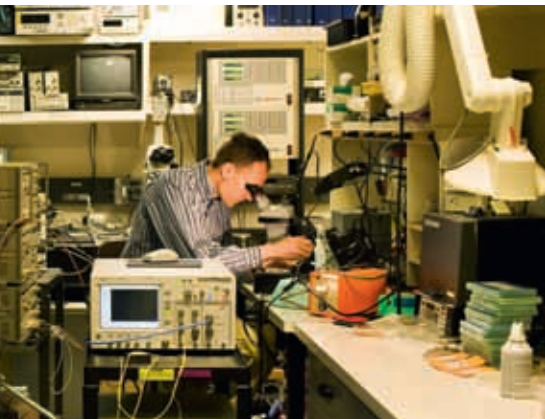
# ELIMINATING HAZARDOUS SUBSTANCES: GLOBAL ADVANCES

Alcatel-Lucent achieved consistent compliance with the hazardous substance legislation of a growing number of countries in 2007. In particular, the merged entities within the company seamlessly integrated their product development and supply chain processes to continue ensuring that products placed on the European Union market comply with Directive 2002/95/EC on the Restriction of the Use of Certain Hazardous Substances (RoHS). The company also achieved compliance with China's new RoHS legislation ('China RoHS'), meeting requirements for product/packaging marking and providing information on the presence of certain substances. The first set of China RoHS measures came into effect in March 2007. Alcatel-Lucent's commitment to substance restrictions is not limited to European Union and Chinese requirements. The company is addressing proposed hazardous substances regulations and requirements as they develop in the global marketplace.

Corporate substance ban

In December 2007 Alcatel-Lucent formalized a list of banned substances for the company's products, packaging, premises and services. The list—consolidated from previous lists developed by former Alcatel and former Lucent—confirms the elimination of these substances by the new company, and provides assurance against re-introduction.
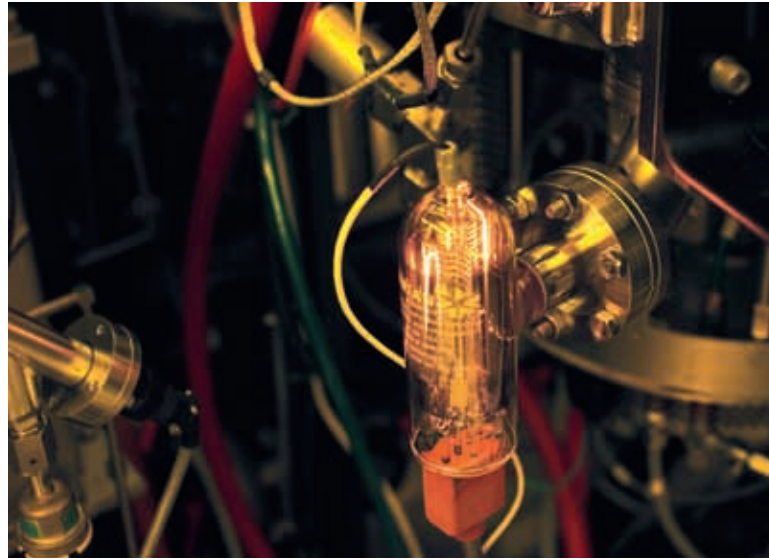
Managing the use of chemicals: REACH

Over the next few years, in stages, the European Union Regulation 2006/1907/EC on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) will obligate manufacturers and importers of chemicals as well as downstream users such as Alcatel-Lucent to inform customers if products contain any 'candidate substance of very high concern' (cSVHC) above a defined threshold. The initial cSVHC list has not yet been published, but in anticipation of it, Alcatel-Lucent is cooperating with upstream supply chain partners to ensure compliance with all expected obligations.

Preserving performance and reliability

Alcatel-Lucent took steps toward phasing out the use of lead in solders for network infrastructure equipment in 2007 even as the company continued to use an exemption granted by the European Commission allowing for such use. Products out-of-scope for the exemption were assessed and tested for robustness and long-term reliability. A phase-out of hexavalent chromium also occurred last year, beginning with all products placed on the European market as of July 1, 2007. This complied with the expiration of a previous RoHS exemption for certain applications of hexavalent chromium. While phasing out hazardous materials, Alcatel-Lucent is equally dedicated to ensuring the performance and reliability of equipment and solutions.

COMMUNICATING ECO-ENVIRONMENTAL INFORMATION

The eco-environmental aspects of products have become the focus of worldwide attention in recent years and have impacted customers' product requirements. To address these requirements, Alcatel-Lucent has set a goal of developing EcoDeclarations for at least 95 percent of its product portfolio by the end of 2008.

EcoDeclarations summarize the eco-environmental characteristics of products, such as energy consumption, emissions, batteries and packaging. They also indicate a product's compliance with substance restrictions, and provide information about managing end-of-life aspects. By doing so, they:

> Increase the opportunity for purchasers and users of Alcatel-Lucent products to make informed choices during the equipment selection process;
> Facilitate international trade and increase understanding of Alcatel-Lucent products in the marketplace; and
> Prevent or mitigate unwarranted legal claims and protect Alcatel-Lucent's reputation.

Alcatel-Lucent EcoDeclarations are based upon the ECMA-370 standard of ECMA International and customized to include both the most widely affected areas of eco-environmental compliance for the company's products and the most common eco-environmental concerns of its customers. EcoDeclarations are available to customers on request.

Environment-Conscious Design: A product life cycle approach

A key CSR goal for Alcatel-Lucent in 2007 was to develop an Environment-Conscious Design (ECD) program by year's end. Working from the IEC TC-108: IEC 62075 draft standard and ECMA 341 standards and incorporating the best of legacy programs from the former Alcatel and Lucent, the company produced its ECD guidelines and checklist. These have been incorporated into the company's product life cycle management process to help product developers make informed decisions. ECD aims to minimize the amounts of materials and energy used in or by products, maximizing instead reuse and recycling and restricting the use of substances of concern. Using long-term life cycle thinking and capitalizing on opportunities to minimize the eco-environmental impact of products from as early in the development process as possible, the ECD guidelines provide information on how to make products environmentally responsible and to address regulatory, customer and company requirements for environment-conscious design.

Applying and integrating Environment-Conscious Design

Alcatel-Lucent's ECD checklist helps designers ensure that eco-environmental information has been considered during product design. The completed checklist also provides a record for quality and environmental management systems (e.g., ISO 9001, TL9000, ISO 14001). It has the additional benefit of providing a basis for evaluating the eco-environmental performance of products, and for establishing objectives and targets for eco-environmental performance improvement.

The ECD checklist is an essential tool when developing new Alcatel-Lucent hardware products, and also for products that have been reissued or revised following a change in hardware.

The EcoDeclaration Process

Alcatel-Lucent has taken steps to incorporate EcoDeclarations into its product life cycle (PLC) management process. This ensures an EcoDeclaration is established for each hardware offering or family listed in the Alcatel-Lucent product catalog in 2008. Alcatel-Lucent Product EcoDeclaration Guidelines, Template and an associated Process Manual were created to help individual business divisions throughout the company meet this requirement.

Product take-back and recycling

In 2007, Alcatel-Lucent enhanced its product take-back and recycling programs to improve efficiency and user friendliness for customers and partners. This included creating a web interface for recyclers who need information on product end-of-life treatment and recycling, in accordance with article 11 of the European Union Directive 2002/96/EC on Waste Electrical and Electronic Equipment (WEEE).

Last year as well, Alcatel-Lucent continued its membership in the National Partnership for Environmental Priorities (NPEP), a program of the U.S. Environmental Protection Agency (EPA). NPEP aims to minimize waste and conserve natural resources by fostering voluntary partnerships between the EPA, state and local governments, commercial companies and federal facilities. Alcatel-Lucent focused on the lead-acid batteries that typically provide emergency power to network switching centers and wireless cellular sites, reporting to the

> **Alcatel-Lucent has set a goal of developing EcoDeclarations for 95 percent of its product portfolio by the end of 2008.**

NPEP the weight of lead-acid batteries uninstalled and delivered to recycling facilities. Alcatel-Lucent's voluntary recycling goal for the 2005-2007 period was 907.2 metric tons of recovered lead from lead-acid batteries. As of December 2007, Alcatel-Lucent had recovered 934.4 metric tons of lead, meeting its three-year goal.

Product remanufacturing

Significant environmental benefits are generated by product remanufacturing and recycling, which reduce the quantity of waste directed to landfills and add to the life expectancy of raw materials and products. The company has a long history of product remanufacturing and recycling. In 1991, product remanufacturing was initiated to provide customer support for options such as the repair of old products or growth in the vintage product base. Today, remanufacturing is more than just vintage products. Alcatel-Lucent's Special Customer Operations (SCO) group offers a remanufactured product portfolio that covers a significant portion of Alcatel-Lucent product lines. In 2007, Alcatel-Lucent remanufactured and sold more than 2,500 pieces of equipment (bays and panels) and 75,000 circuit packs, recovering more than 590 metric tons from landfills. Moreover, SCO recycled 2,495 metric tons of additional materials through its salvage and recycling partners, generating further eco-environmental benefits.

BORNE DE COLLECTE
CARTOUCHES LASER, JET D'ENCRE, FAX
ET PHOTOCOPIEURS VIDES*

ENVIRONMENT, HEALTH AND SAFETY

Alcatel-Lucent is committed to protecting the environment and the health and safety (EHS) of employees, contractors, customers and the communities in which the company does business. A particular focus is eco-sustainability. The company engages actively with customers, suppliers and other key stakeholders to address eco-sustainability and climate change issues throughout the entire supply chain. It has developed corporate strategies and practices to reduce the environmental impact of both its products and operations; its research teams are actively engaged in developing and implementing groundbreaking, environmentally friendly and energy-efficient technologies.

A global strategy for climate change

As a signatory to the UN Global Compact's "Caring for Climate" initiative, Alcatel-Lucent has established its own strategy, aiming to reduce its carbon footprint. Specific pilot projects are under way to gather information on greenhouse gas emissions and related data from the company's buildings, sites and vehicle fleets. The company's development of product-related eco-sustainability projects and strategies is also being assessed. These programs also provide opportunities for employees to participate at all levels.

A company-wide approach for managing EHS

Last year, Alcatel-Lucent defined the strategy for a unified, company-wide EHS management system that conforms to recognized standards and is built on local EHS management systems. The strategy involves deploying common processes, leveraging best practices and achieving consolidated multi-site registration to EHS standards, including ISO 14001 and OHSAS 18001.

This management system ensures that local efforts are in accordance with strategic goals, and that technical and operational resources are used appropriately to improve efficiency and ensure compliance with legal and customer requirements worldwide.

Locally deployed EHS management systems conform to standards such as Safety, Health and Environment Checklist Contractors (SCC), Australian/New Zealand Standard AS/NZS4801, the United States Occupational Safety and Health Administration (OSHA) Voluntary Protection Program (VPP), ISO 14001 and OHSAS 18001.

In 2007, Alcatel-Lucent selected TÜV SÜD as registrar for its global, consolidated EHS multi-site registration. The first audits by TÜV will be conducted in the second quarter of 2008.

EHS at the local level

Within Alcatel-Lucent, a bottom-up system is used to implement EHS policies, based on the EHS Network of employees who perform EHS functions for their respective organizations. These employees address local compliance issues, provide feedback to the overall EHS management system, work in teams on key initiatives and collaborate with local staff to implement them.

This approach has had notable success in Venezuela, where Alcatel-Lucent presented 24 proposals for improvements to the country's new Occupational Safety and Health Law: many of these proposals were then adopted by the Venezuelan labor authorities.

EHS programs in action

Assessing risk. Having established a baseline from which to measure continuous improvement, Alcatel-Lucent annually assesses its EHS compliance, identifies risks, and implements mitigation plans. In 2007, the Corporate EHS office coordinated the development of a global risk assessment methodology and tools with EHS representatives from the regions, business divisions and corporate centers. The three key business segments (Products, Services and Facilities) worked together to identify and prioritize the top EHS risks, based on the severity of potential incidents. Risk assessment tools were developed and distributed to the appropriate business areas, with a 100 percent response rate; results and action plans were reported in the summer.

Reducing emissions. Various projects completed in 2007 helped reduce energy use and greenhouse gas (GHG) emissions from Alcatel-Lucent facilities.
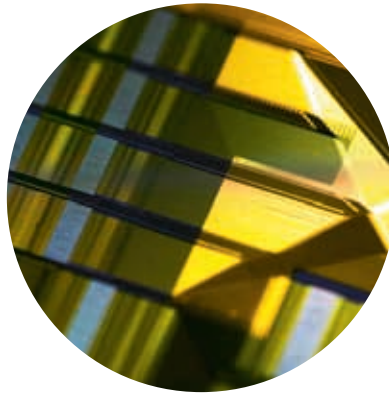
> "We are implementing EHS Management Systems that ensure compliance and focus on eco-sustainability. Ensuring that our products, facilities and services become more energy efficient is a critical business objective."
>
> **Barry Dambach** – EHS Director

In New Jersey, U.S.A., projects including boiler renovations, optimization of recirculation fans and upgrades to heating, ventilation and air conditioning systems eliminated more than 1,000 metric tons of GHG emissions a year.

Restoring our environment. The Remediation Group in Alcatel-Lucent oversees the investigation, design, construction and operation of environmental remediation and restoration projects throughout the globe. Through remediation projects, Alcatel-Lucent restored more than 1.34 billion liters of groundwater to productive use in 2007 and removed or destroyed more than 1.87 metric tons of volatile organic compounds from soil and groundwater. Where wetlands may be disrupted or have already felt the impact of development, remedial designs ensure such areas are protected, restored or replaced. When selling manufacturing operations, the company seeks to identify purchasers that will reuse or redevelop the properties in ways beneficial to the community and the environment.

Keeping safety in sight. Alcatel-Lucent is committed to protecting the health and safety of its employees. Within the Services Business Segment in North America, for example, site safety reviews, risk-reduction meetings and formal EHS recognition programs have raised safety awareness and helped improve the safety culture of employees. Last year, the number of EHS recognitions climbed by more than 57 percent.

Responsible around the world

Alcatel-Lucent operations in Austria, Belgium, Brazil, China, France, Germany, India, Italy, Romania, Spain, Japan and the United Kingdom individually retained or obtained third-party certification to the ISO 14001 standard last year. On June 12, 2007, Alcatel-Lucent was awarded a multi-site ISO 14001 certification for seven sites in France: Vélizy-Nieuport, Ormes, Lannion, Eu, Villarceaux, Marcoussis and Orvault—in total employing around 7,500 people.

Establishing a corporate EHS policy

Last year, Alcatel-Lucent established its corporate Environment, Health & Safety (EHS) policy following a "best of both" approach that integrated the strongest elements from the EHS policies of the former Alcatel and Lucent. Required elements were confirmed to ensure the policy would meet the expectations of customers, employees, communities and the law.

Alcatel-Lucent Italia: Making EHS real

In 2007, Alcatel-Lucent Italia replaced its water provisioning system at a small lake in the Vimercate region with a closed-circuit system, reducing both water consumption and resource costs. The company also installed a dedicated chiller for its facility there, subsequently eliminating an over-dimensioned gas absorber to reduce methane emissions. To prevent environmental damage and protect human health, Alcatel-Lucent Italia installed a monitored smoke detection system throughout its Vimercate site to provide early warning in case of emergency.

ELECTROMAGNETIC ENVIRONMENT AND HEALTH

In 2007, Alcatel-Lucent consolidated its activities related to health and radiofrequencies—aiming to meet customer needs supportively and ensure employee safety, and to continue advocating programs that raise awareness among governments, industry, the media and the general public.

Growing the scientific knowledge base

The number of scientific research publications on electromagnetic fields and their health effects continued to grow significantly in 2007. Some reviews by independent expert advisory bodies were published in the Netherlands, Ireland, Sweden and the UK. The European Commission's Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR) published its opinion on possible effects of electromagnetic fields (EMF) on human health and the U.S. National Academy of Science released its report on research needs.

Expert committees reaffirmed that to date no health effects have been attributed to exposure levels below the guidelines developed by the International Commission on Non-Ionizing Radiation Protection (ICNIRP) and the Institute of Electrical and Electronics Engineers (IEEE). As outlined in the World Health Organization (WHO) Fact Sheet 304:

"Considering the very low exposure levels and research results collected to date, there is no convincing scientific evidence that the weak RF signals from base stations and wireless networks cause adverse health effects."

This statement applies to all mobile and wireless network technologies implemented by Alcatel-Lucent, including CDMA, GSM, UMTS, LTE, WiMAX, WiFi, DVB-SH and Femtocell.

Electromagnetic fields at work

Training is paramount to ensuring the health and safety of employees and their work environments where electromagnetic fields are concerned. Last year, Alcatel-Lucent provided dedicated customer service and training to support the safe deployment of wireless products in the field, and initiated a program in all relevant EU countries to address key principles of EU Directive 2004/40/EC on electromagnetic fields (EMF) at work. The company continued the program even though the deadline for transposition of the directive was extended to 2012.

Participating in international standardization initiatives

Alcatel-Lucent supports the international harmonization of human exposure guidelines and the adoption of consistent regulatory legislations in countries. Much of this is accomplished through international standards bodies and industry associations in which Alcatel-Lucent takes a prominent role. The International Electrotechnical Commission (IEC) initiative aims to harmonize the exposure-assessment methods of regional and international bodies such as the IEEE and the European Committee for Electrotechnical Standardization (CENELEC). It also supports global international organizations such as the International Telecommunication Union (ITU). Alcatel-Lucent is contributing to a final global standards framework based on the exposure-assessment methods developed by the IEC.

★ ★ ★ ★ ★

CSR CHAMPIONS AWARDS*

Alcatel-Lucent actively promotes innovation throughout its organization to improve the environmental performance of its operations, services and products. In 2007, these two Alcatel-Lucent initiatives were among those that received CSR Champions Awards.

Fresh-air filtering

THE NEED
The majority of the world's telecommunications equipment runs constantly, generating significant amounts of heat and contributing to global warming. The energy demands of such equipment increase with the use of cooling mechanisms to keep temperatures within operationally acceptable parameters. Many organizations have dedicated time and effort to devising alternative cooling means. The Alcatel-Lucent thermal design team for wireless products created a fresh-air-cooled cabinet with unique features.

THE SOLUTION
Fresh-air filtering helps reduce the energy used by servers, switches and other electronic devices. Depending on the operating mode, it can cut back the electricity required for cooling by 10 percent—and can also extend product lifetimes by one or two years. The technology puts Alcatel-Lucent at the forefront of fresh-air filtering for high-reliability infrastructure equipment. Rooted in the company's core expertise, the fresh-air filtering solution both saves energy and also holds out the prospect of environmental and financial benefits for Alcatel-Lucent.
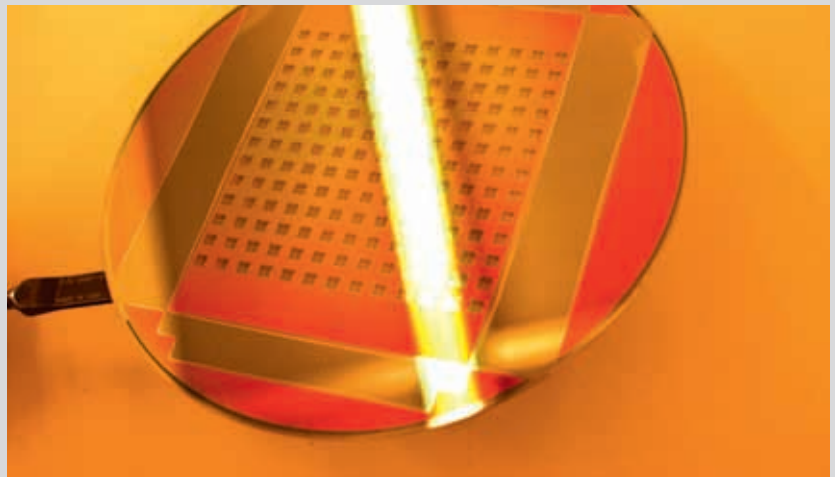
Renewable energy for distributed telecom facilities

THE NEED
Electric power provisioning generates significant customer interest in renewable energy sources for rural wireless base station installations. In such cases renewable energy sources—solar/photovoltaics, wind, biofuel-powered fuel cells, etc.—offer both an environmental and business advantage. Environmental benefits from renewable energy have been well documented in many publications. The business merits are often justified by the savings in capital cost of having reliable power supplied in remote locations from the public utility grid. With rising electricity prices,

renewable power sources are becoming more economically attractive.
In 2007, the telecom industry began to drive the evolution of fuel cell, solar and wind power sources to meet the rigorous requirements of telecom facility operations. With the rapidly evolving technologies in alternate energy sources, there is a strong need for telecom products to be evaluated regarding their ability to function reliably with renewable energy sources.

THE SOLUTION
This project evaluated how wireless base station installations could be effectively powered from alternate energy sources—solar/photovoltaics, wind, and fuel cells. Field surveys collected site information and actual power usage data from 15 base station sites to determine the practicality

of the three energy sources. The comparison ranked the alternate energy source attributes in terms of Best, Good, and Poor. The project was able to show that current alternate energy technologies are potentially affordable and practical for powering wireless base station sites. This project also addressed many strategic issues for the company such as closing the alternate energy information gap for customers, shaping a large-scale alternate energy deployment strategy, and developing tools to improve the business case for eco-sustainably optimized telecom products and services.

*These awards recognize individuals and teams within Alcatel-Lucent who have made an extraordinary contribution in the area of CSR. To know more, see page 58.

Responsible Purchasing
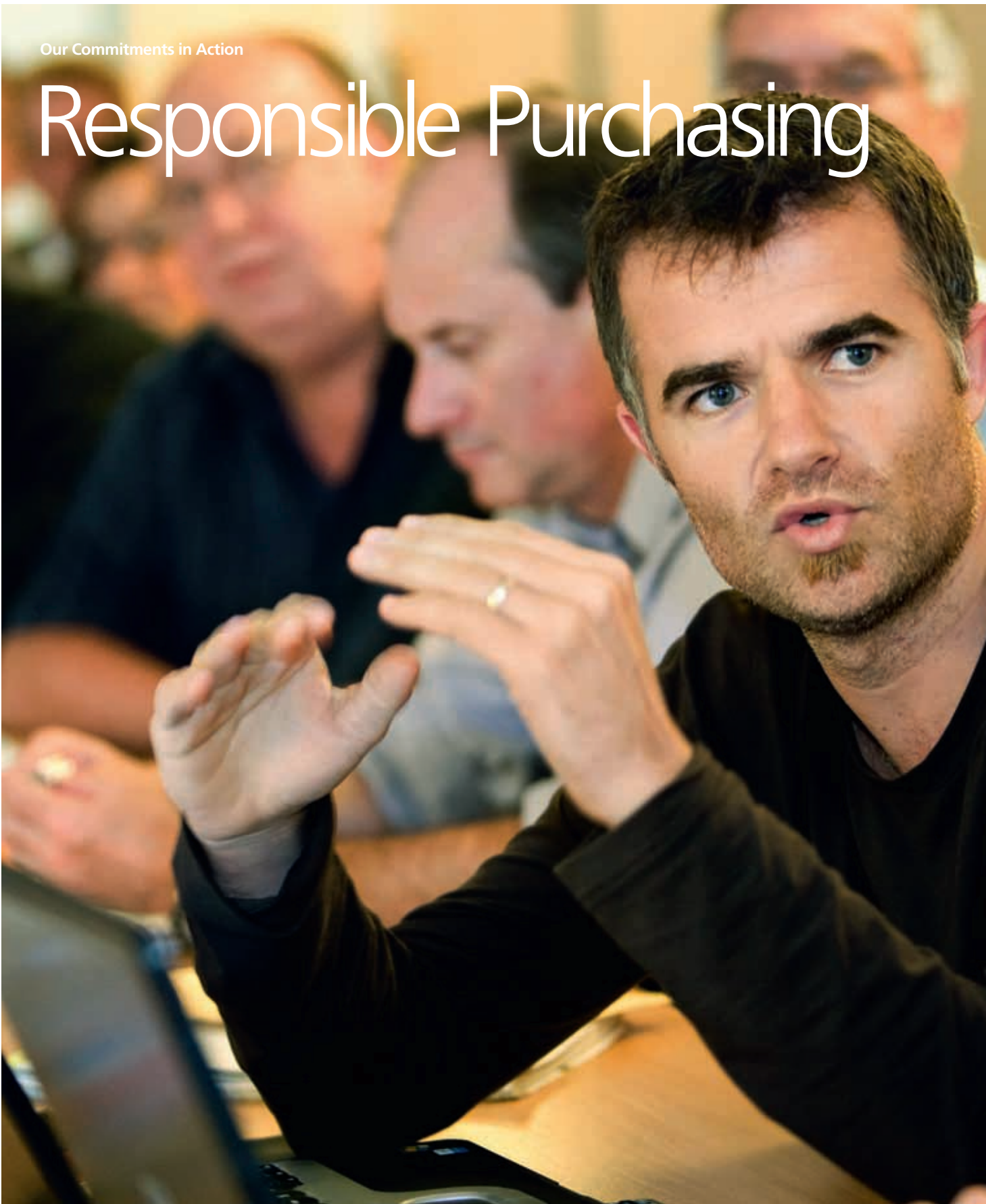
Key achievements

- More than 450 suppliers have been assessed on their CSR practices since late 2004
- 25 persons were trained in 2007 to perform onsite supplier CSR evaluations
- All improvement plans resulting from onsite supplier assessments performed since 2005 have been carefully followed up
- Live awareness sessions on responsible purchasing and corresponding roles and responsibilities were organized with more than 500 procurement employees worldwide since late 2006

In 2007, Alcatel-Lucent laid the foundation for ongoing sustainable, responsible purchasing while redefining its purchasing policies and processes. Working cooperatively, Procurement and Sourcing, together with the Environment, Health and Safety (EHS) department, the CSR steering committee and Corporate Audit Services, defined company rules and expectations for managing CSR with suppliers.
Based on a clear strategy and goals, training programs were established to ensure that all involved in purchasing understand their roles and responsibilities, and to encourage collaborative management of CSR through the company's supply base. Spearheading supplier-related CSR is the company's Global Procurement and Sourcing Department (GPS), which plays a key role in monitoring the commitment and conformance of Alcatel-Lucent suppliers to internationally recognized standards for ethical, social and environmental practices.

Most pictures in this chapter illustrate the live awareness sessions on responsible purchasing that were organized with procurement employees worldwide.

Principles of CSR in the supply chain

Alcatel-Lucent established a company-wide policy requiring corporate social responsibility to be factored into purchasing. Alcatel-Lucent must inform suppliers of its CSR commitments and expectations, manage suppliers using CSR practices, and assess suppliers' CSR practices—in particular, regarding ethics, labor rules, health and safety, and the environment. This purchasing policy complements Alcatel-Lucent's commitments defined through its Statement of Business Principles and EHS policy.

Engagement through training and awareness development

Since the procurement and sourcing teams play a decisive role in ensuring that the entire supply chain cycle complies with Alcatel-Lucent standards, these teams have to be particularly aware of CSR issues. A broad program of CSR awareness-building for the purchasing community has been built through training modules. These dedicated CSR awareness sessions were organized in 2007 in Europe (in Paris, Vélizy, Vimercate), North America (in Murray Hill, Whippany,

Naperville), and China (Shanghai). Training will be conducted throughout 2008 to ensure that integrated purchasing teams are aware of their roles and responsibilities, and of how these support the rest of the organization. Cooperation between the teams performing onsite assessments, supplier-facing teams, and GPS CSR representatives is key to addressing responsible purchasing.

CSR on the front line

In 2007, Alcatel-Lucent reshaped existing CSR activities to suit the purchasing organization and mission of the company. By providing short and simple CSR guidelines for all purchasing-related processes, Alcatel-Lucent empowered its purchasing teams to ensure—personally and directly—that supplier contracts reflect the company's CSR expectations, and that the risk of supplier non-conformance is managed carefully. This makes CSR more active in the supply chain day-to-day. Alcatel-Lucent's purchasing policy sets objectives and defines roles and responsibilities for managing CSR as it relates to procurement. The CSR in purchasing policy of Alcatel-Lucent is implemented by embedding CSR in key purchasing processes and tools.

These focus on:
> Clarifying, contractually, Alcatel-Lucent's CSR expectations with respect to business principles, the environment, and health and safety;
> Identifying ways Alcatel-Lucent can work with suppliers to help them, when appropriate, meet CSR requirements;
> Integrating CSR into the company's commercial relationships.

Dialogue is essential to CSR and is fostered by distributing information about Alcatel-Lucent commitments and clarifying expectations towards suppliers.

Tracking supplier CSR practices

Alcatel-Lucent is tracking its suppliers' CSR practices over time. The company has set a goal of assessing supplier CSR practices covering 65 percent of its annual purchased volume by the end of 2008—taking into account any evolution that has or will occur within the supplier base since the creation of Alcatel-Lucent. Alcatel-Lucent CSR evaluations involve:
> Standards definition–what's required of suppliers, as formalized in contract clauses, embedded in contractual templates and used worldwide.
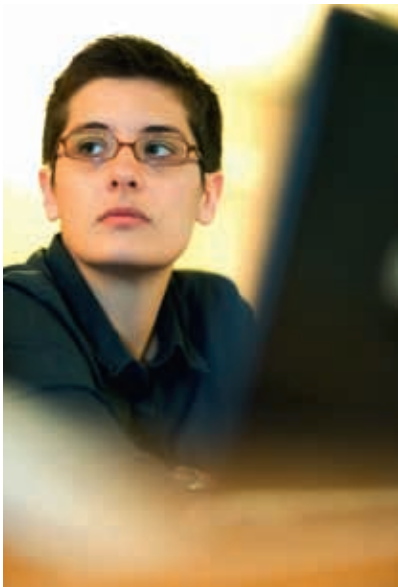
> 66
>
> Close cooperation between Global Procurement and Sourcing and Corporate Audit Services is key to ensuring the success of this program. It involves true teamwork. We are committed to pursuing our collective efforts in this area.
>
> **Jean-David Calvet** – Vice-President
> Global Procurement and Sourcing
>
> 99

Alcatel-Lucent CSR in procurement stakeholders

Together committed to knowledge/ competence sharing for continuous process improvement

Supplier-facing teams

Procurement CSR organization

Customer-facing teams

CSR supplier management

Corporate Audit Services

CSR Director and CSR Steering Committee

EHS Office and network

Human Resources

Internal cooperation and partnering for CSR

Close cooperation between Global Procurement and Sourcing (GPS) and Corporate Audit Services (CAS) is key to ensuring the success of CSR in the supply chain. The two work together to have a more detailed review of a set of suppliers that may require further understanding of their practices on site. In 2007, five suppliers were selected for onsite evaluations to determine their conformance to Alcatel-Lucent's CSR standards. Onsite assessments are performed by professional auditors from the CAS, EHS and GPS departments, who are trained in CSR through dedicated training modules provided to staff members from these departments.

GPS is responsible for verifying the appropriate and timely implementation of corrective actions or improvement plans when a supplier does not meet SA 8000 requirements or internationally recognized environment regulations or standards. CAS performs follow-up reviews in the field if necessary.

In 2007, Alcatel-Lucent worked closely with previously evaluated suppliers to monitor and resolve issues identified in the field. Follow-up onsite assessments showed significant efforts and improvements, clearly demonstrating that suppliers take seriously the results of Alcatel-Lucent evaluations and pursue corrective action.

SA 8000:
A standard at work

Alcatel-Lucent uses the Social Accountability 8000 (SA 8000) standard as a basis for its onsite evaluations. SA 8000 addresses several areas of widely accepted international labor rights: child labor, forced labor, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours and remuneration. As part of its evaluation, Alcatel-Lucent has added environmental considerations to the scope of SA 8000.

of each supplier or service provider. The Alcatel-Lucent platform addresses ethics, social management, environment in operations and products, and health and safety management.

With the experience gained over the past years, Alcatel-Lucent has reinforced its requirements for documentation to support suppliers' assertions. Accuracy has become the objective: understanding the supplier's scope of operation and scope of associated policies and processes, and how these elements address the CSR domains most at risk as regards the supplier's activity.

Embedding CSR in the supply chain: Risk and performance management

In defining its overall supplier management strategy, processes and tools, Alcatel-Lucent has integrated ethical, social and environmental practices into the criteria it uses to assess supplier risks—alongside standard measures such as: financial strength, pricing, manufacturing capacity and responsiveness, quality, innovation, human resources management, service and support, logistics, and strategic fit. By including CSR in both its risk and performance management systems, Alcatel-Lucent is able to apply CSR inputs and analysis at key points throughout the supplier relationship cycle.

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These onsite evaluations are based on the Social Accountability 8000 (SA 8000) standard, which follows norms defined by the International Labor Organization conventions, the Universal Declaration of Human Rights, and the International Convention on the Rights of the Child.

Laurent Arnaudo – Vice-President, Corporate Audit Services

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> Questionnaire-based CSR practices evaluations, enabling a written dialogue with suppliers to understand their practices relevant to CSR and help Alcatel-Lucent be accurate in its evaluation.
> Identification of suppliers for whom an onsite evaluation is needed, to understand their working environment and improve future evaluations.
> Onsite evaluations and follow-up of actions taken by the supplier to resolve any gap between practices and Alcatel-Lucent values and principles.

Enhancement through assessment

Alcatel-Lucent uses a common platform for supplier evaluation, adapting the focus of each assessment to the specific business

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CSR CHAMPIONS AWARDS*

Global Procurement and Sourcing (GPS), Audit and Sales team members received a CSR Champion Award in 2007 for their collective dedication to implementing the CSR purchasing program throughout the company.

THE PLAYERS

Alcatel-Lucent recognizes the importance of ensuring that its suppliers meet international labor, and health and safety standards in line with SA 8000 principles, as well as environmental standards. The close partnership between Procurement at Alcatel-Lucent, the company's Corporate Audit Services and customer-facing teams has been indispensable to the successful establishment of CSR supply chain standards.

THE NEED

While there is no legal requirement to manage the CSR performance of suppliers, the company understands that doing so is key to sustainability—and increasingly important to customers. Multidisciplinary team members from France and the United Kingdom worked in 2006 and 2007 to roll out and refine the Alcatel-Lucent CSR purchasing program, in line with both

Alcatel-Lucent values and the expectations of Alcatel-Lucent customers. To quote a judge of the CSR Champions Awards: "Managing the supply chain in a responsible manner is arguably one of the most important challenges multinational companies face at this time."

THE SOLUTION

The pillars of the program were to:
• Issue CSR questionnaires to assess supplier CSR performance ;
• Conduct CSR-specific onsite evaluations ;
• Employ CSR as part of the criteria to assess a supplier ;
• Track CSR performance in the supplier rating system along with other operational performance criteria.

To ensure maximum effectiveness of the CSR program and to achieve the greatest results, GPS stakeholders worked to implement GPS

policies for CSR, using an array of tools that support their daily activities (e.g., Supplier Rating System, Commercial Capability Matrix, CSR questionnaire and assessment checklists, etc.). Significant effort went into having suppliers sign clauses pertaining to business principles, the environment, and health and safety in commercial relationships. Buyers and negotiators worked to address CSR supplier practices in their relationships with suppliers.

In its scope, the project not only reaches out to many suppliers, but also engages several departments within Alcatel-Lucent: CSR, Human Resources, Procurement, and Environment, Health & Safety, to name a few. The team is the ambassador of what became a company engagement across the Alcatel-Lucent organization.

*These awards recognize individuals and teams within Alcatel-Lucent who have made an extraordinary contribution in the area of CSR. To know more, see page 58.

Digital Inclusion

Our digital inclusion achievements in 2007

Three Digital Bridge projects: Haiti, Madagascar and Mali.

- In Haiti and Madagascar: Launch of the first projects involving deployment of Internet broadband access in rural and underserved areas
- Mali: Implementation of the Pésinet pilot project, an e-medicine initiative to fight infant mortality

Development of our relationship with international organizations as an active contributor to the global agenda for bridging the digital divide.

Today, accessing mobile telephony and broadband services is essential for economic and social development. To achieve a more inclusive information society, Alcatel-Lucent has reinforced its long-standing international commitment and made digital inclusion a central part of its approach to corporate social responsibility.

Alcatel-Lucent's Digital Bridge Initiative makes innovative use of information and communication technologies (ICT) to improve life in the under-served, usually rural areas of emerging countries.

In 2007, Alcatel-Lucent launched its first projects deploying Internet broadband access in rural areas, in Madagascar and Haiti, and initiated the Pésinet pilot project to fight infant mortality in Mali.

Madagascar: Bringing broadband to Antananarivo

Alcatel-Lucent has been working since the fall of 2006 to supply high-speed Internet access to the deprived of Madagascar, in collaboration with partners ATD Quart Monde (a non-governmental organization set up to fight world poverty) and Data Telecom Service (DTS, an Internet access provider and telecommunications operator).

Improving quality of life
In Madagascar, the program's goal is to enable deprived people in Antananarivo, the nation's capital, to obtain training, find a decent job and improve their living conditions. The program offers:
> Annual IT (information technology) discovery and training programs for 100 youth every year (aged 16-25 years);
> A software program to teach basic literacy to give young people on the street the skills they need to work in the local economy;
> The establishment of a 'craft cooperative' for adults that will use the Internet to promote and sell artisans' handmade wares—such as wooden furniture, embroidery and woven fabrics—and increase their

revenues. The goal, over two years, is to offer jobs to 50 or so craftsmen and women, to provide a living for some 300 people.

Connecting people
The project was inaugurated on October 17 as part of a contribution to the International Day for the Eradication of Poverty.
> Five sites have been selected, the first of which (the craft cooperative and an IT training center) were connected in October 2007.
> Two complementary broadband technologies are used to connect the sites: wireline (DSL) and wireless (WiMAX Rev-e).

The partners' roles
> Alcatel-Lucent provided and installed, free of charge, the necessary telecommunications equipment (a WiMAX station and associated terminals). It assisted with project setup and is involved with ongoing management.
> DTS has assumed all connection costs for two years for the five chosen sites, and is helping the craft cooperative involved in the project create a website for itself.
> ATD Quart Monde is supplying skilled people to help new users make use of broadband technologies.

Overcoming isolation

"For Madagascar, the deployment of telecoms infrastructures and the Internet is an excellent way of overcoming the island's geographic isolation. Alcatel-Lucent has been operating in Madagascar for 25 years, playing an active part in its development in fixed and mobile telephony and Internet access. This project is part of our 'Broadband for All' vision," said Thierry Albrand, Vice President of the Digital Bridge Initiative at Alcatel-Lucent.

Haiti: Fair trade goes wireless

The principle of fair trade is that the people responsible for producing food and other agricultural products should be adequately compensated for their work, living in dignity on the fruit of their labors. Through a project called *"Traçabilité du Café"* (Coffee Traceability), Haitian coffee growers are being provided the technological tools to support their fair-trade efforts—through the ability to trace coffee, from the beans that are picked to the cup that is poured.

Using wireless systems to trace coffee
In 2007, Alcatel-Lucent signed a two-year cooperation agreement with a consortium of partners (Cafés Malongo, the University of Nice Sophia Antipolis and Haiti's mobile telephone operator Voilà) to offer broadband Internet access to coffee plantations in the isolated rural areas of Cap Rouge in Haiti. Using WiMAX and RFID (Radio Frequency Identification) technologies, growers will be able to trace their fair trade-labeled production and sell coffee on the best possible terms by reducing the number of intermediaries involved.

Helping farmers live better
The project's main goals are to:
> Help Haiti's farming communities manage coffee production to meet demand, and acquire new, superior techniques through remote learning to increase the profitability of their cooperatives;
> Help develop local expertise in WiMAX Rev-e (for broadband wireless Internet) and RFID labels (for traceability) to support the development of agricultural telecenters in Haiti;
> Pioneer a range of innovative services in agricultural telecenters focused on education, health, e-government and ecotourism.
Alcatel-Lucent has committed to supply the necessary WiMAX Rev-e equipment at no cost, and will help set up and run the project.

RFID: How it works

RFID (Radio Frequency Identification) technology allows an object to be identified and tracked through a radio wave-emitting tag attached to or integrated in the object. Once the processes involved in project Coffee Traceability are fully mature, consumers equipped with latest-generation cell phones will be able to read the RFID tags on coffee and learn everything about it—from its production in small-scale local farms through its conditioning and delivery to the store shelf.

International engagement

Alcatel-Lucent is pursuing its active involvement in international programs to bridge the digital divide, collaborating with the world's leading organizations in this field, such as the International Telecommunications Union (ITU), which is responsible for implementing the agenda established at the World Summits on the Information Society (WSIS) held in 2003 (Geneva) and 2005 (Tunis).

ITU honors Alcatel-Lucent's contribution

Alcatel-Lucent has a long-standing relationship with the Development Bureau of the ITU, called ITU-D, which focuses on helping developing countries fulfill their citizens' right to communicate through information and communication technologies (ICTs).

Alcatel-Lucent supports many ITU-D programs, training ICT professionals in developing countries through the ITU Centers of Excellence. Last year, Alcatel-Lucent signed an agreement with the ITU to support its Youth Education Scheme and Youth Incentive Scheme, to provide telecommunications scholarship and training to youth from developing countries.

In the same spirit, Alcatel-Lucent, a founding member of the ITU Connect the World initiative, participated in the organization's board meeting in Geneva in May 2007.

Alcatel-Lucent's ongoing contribution was publicly recognized at the opening ceremony of the Telecom Development Advisory Group (TDAG) in Geneva on April 16th, 2007, when ITU-D director Sami Al-Basheer presented Alcatel-Lucent with a certificate acknowledging the ITU's gratitude for the company's support over the past 10 years.

Internet Governance Forum

Alcatel-Lucent was an active contributor to the second Internet Governance Forum (IGF), held in Rio de Janeiro in November 2007. The company focused particularly on the access development agenda: ensuring universal broadband access to the Internet for those billions in the world without Internet access.

EASSy* submarine cable for Africa

Alcatel-Lucent works with international organizations such as the World Bank to help finance key telecom infrastructure projects in developing countries. For example, Alcatel-Lucent was selected to provide the EASSy submarine cable delivering international connectivity for East African and other land-locked countries of the region.

The EASSy submarine network will deliver a regional capacity of 320 Gbit/s, enabling governments and businesses to support new applications such as remote medical diagnosis and international call centers, and proving consumers with accessible, affordable broadband Internet.

*EASSy (the East Africa Submarine Cable System) is a project set up by 22 licensed telecoms operators in Eastern and Southern Africa and several international carriers.

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CSR CHAMPIONS AWARDS*

The Pésinet pilot project is an e-medicine initiative providing preventive health care services to fight infant mortality in Mali.

THE PLAYERS

In July 2007, Alcatel-Lucent joined forces with the Orange Mali Foundation, Afrique Initiatives, Médicament Export (Médex) and Kafo Yeredeme Ton to launch the Pésinet project in Mali, run by the latter. The goal: provide preventive healthcare services at affordable cost for underprivileged children from birth to five years old, using remote diagnosis based on weight monitoring.

THE NEED

The world's poorest, most isolated people have great difficulty accessing medical care. Remote medical diagnosis via mobile communications or the Internet can make a crucial difference for these people, while improving the productivity of doctors—

a scarce resource in the developing world.

To ensure these services remain available in the long term, affordability, and financial sustainability are key. The Pésinet program, supported financially by the Alcatel-Lucent Digital Bridge Initiative, is designed to transfer the technical and business know-how to ensure a self-sustaining, replicable model.

THE SOLUTION

The procedure in Mali involves trained members of the local community ("weighing agents"), who visit families weekly—two times a week for children under one year old—to record children's weight and any symptoms of illness.

The information is input via a mobile phone-based Java applet and uploaded to

a database via GPRS. The database software is designed to identify risk trends, and alerts a doctor if dramatic weight loss is recorded. In such cases, the doctor text messages the weighing agent and requests that the family bring the child to the Pésinet center for examination. The service also includes access to certain medication when necessary.

The weight-monitoring approach has proved very effective in identifying a range of illnesses—from malnutrition to malaria— and enabling timely medical intervention.

*These awards recognize individuals and teams within Alcatel-Lucent who have made an extraordinary contribution in the area of CSR. To know more, read page 58.

Foundation and Corporate Sponsorship

Photos by Raghu Rai:
- At a public telephone booth opposite Charminar Hyderabad.
- Lambada Tribals, Shahapur Tanda Village, Andhra Pradesh.

Key achievements in 2007

- Created and incorporated the Alcatel-Lucent Foundation
- Aligned the Foundation with the vision and mission of the corporation
- Published a Global Charitable Contributions policy
- Established an international Alcatel-Lucent Volunteer Program
- Launched the CSR Champions Award program
- Carried out a variety of programs (see details in the following pages)
- Expanded participation in France's "Cercle Passeport Télécoms" program
- Continued global volunteer initiatives

The Alcatel-Lucent Foundation leads the company's charitable activities—managing grants, corporate contributions and employee volunteerism on a global scale.
The Foundation, which receives funding from Alcatel-Lucent, is a non-governmental, non-profit, private organization that is governed by its own board of trustees and constitutes a legally independent entity.

Focused on education and youth development, the Foundation supports the commitment of Alcatel-Lucent to social responsibility by serving and enhancing the communities where employees and customers live and work. Global grants are awarded according to the priorities of the Foundation and managed either by the Foundation itself or by a partner if donated outside the United States. The Foundation continues to hone its approach in the interest of helping transform the way the world communicates.

In addition to the programs led by the Foundation, Alcatel-Lucent supports a number of cross-cultural initiatives—using photography and video as key media for capturing and expressing diversity.

Members of the Foundation Board of Trustees

GLOBAL POLICY FOR CHARITABLE CONTRIBUTIONS

Alcatel-Lucent seeks to be an active, contributing member of the communities where it does business and has a heritage of social responsibility. The following policy, which applies to all Alcatel-Lucent employees and all subsidiaries and consolidated joint ventures of the company, governs its contribution of money or other resources for charitable purposes:

*"All charitable contributions must be made in full compliance with applicable legislation. All contributions must be done in accordance with the company's Statement of Business Principles, including its anti-corruption policies. Alcatel-Lucent allows only Regions, Business Groups, Corporate Functions, Fondation Azaria, and the Alcatel-Lucent Foundation to make contribu-*tions. *No other donations shall be made outside of these organizations and entities."*

The Alcatel-Lucent Foundation provides advice and counsel as needed to any region, business segment or corporate function seeking to make a contribution using funds from budgets under its control. These contributions may focus on any of the Foundation's priority areas: education, youth, health and human services, arts and culture, employee volunteerism, and special business or community opportunities. Funding for individuals, or labor or political organizations is not permitted, nor is the funding of multi-year pledges. Contributions must be made to appropriate organizations.

The Foundation Board

The Alcatel-Lucent Foundation is managed by its Board of Trustees, which meets twice annually and is composed of the following senior executives:
• Pat Russo, Chief Executive Officer and Chairperson of the Board of Trustees
• Steve Reynolds, General Counsel
• Hubert de Pesquidoux, Chief Financial Officer
• Caroline Guillaumin, Vice President Corporate Communications and Corporate Social Responsibility
• Jim Cocito, Chief Operating Officer for the Americas Region
• Mary Lou Ambrus, Vice President of Communications for the Americas Region and Vice Chairperson of the Trustees
• Rod C. Alferness, head of the Office of Chief Scientist of Bell Labs
• Frederic Rose, President of the Asia-Pacific, Europe, Africa and the Middle East Region
• Andrew Levido, Chief Operating Officer of the Asia-Pacific, Europe, Africa and the Middle East Region
• Béatrice M. Tassot, Executive Director of the Alcatel-Lucent Foundation and Secretary of the Board of Trustees.

EMPLOYEE VOLUNTEER PROGRAM

Managed by the Alcatel-Lucent Foundation, the Alcatel-Lucent Employee Volunteer Program is working to develop an employee-driven program that capitalizes on the long history of community involvement by former Alcatel and former Lucent employees. Collectively, these past efforts represent thousands of hours of community service and reflect the commitment to the community that has been an important part of the history of both companies. This volunteer program centers on team efforts and is designed to ensure the corporate social commitment legacies of both companies will continue.

Company-supported initiatives

Twice a year, Alcatel-Lucent promotes team projects that run several weeks, to allow employees to schedule around workloads, holidays and other time-sensitive issues.

> International Days of Caring, late April, make up a month-long event that focuses on projects nominated by employees. Initiatives are team-driven, with an employee team coordinator leading each volunteer project.
> International Youth Development Project, which is scheduled for the November/December period, aligns with the Foundation's philanthropic focus on education and supports young people between the ages of 5 and 20.

Both programs are supported by the Foundation through project development assistance; funding to cover project expenses; and volunteer grants, when teams have devoted enough hours of volunteering to qualify. In addition, the employee United Way Campaign in North America and Canada is a component of the volunteer program.

PROGRAMS AND PARTNERSHIPS

Partnership with the International Youth Foundation (IYF)

In 2007, Alcatel-Lucent completed a three-year, US$ 2.8 million program with the IYF called the Global Fund for Youth Development (GFYD), which is currently helping young people and teachers in 14 countries through curriculum development, teacher training, and improving educational quality through technology and life skills. The Global Fund for Youth Development aims to help young people gain confidence and succeed in school and in the workplace. The fund is currently active in 14 countries: its programs range from curriculum development and teacher training to technology and life skills initiatives that improve the quality of education. To date, nearly 129,000 youths and 106,000 adults have directly benefited from GFYD programs in Argentina, Australia, Brazil, Germany, India, Japan, Mexico, the Netherlands, the Philippines, Poland, Russia, South Korea, Spain and Venezuela.

Intel International Science and Engineering Fair (ISEF)

Alcatel-Lucent renewed its support for the Intel International Science and Engineering Fair (ISEF) in 2007, directly targeting U.S. and international students who participate in science fairs, along with their parents, teachers and schools. Alcatel-Lucent sponsored the special awards ceremony and celebratory reception and dinner, as well as chemistry and mathematics awards categories, two of the 18 categories judged, scholarships for selected student finalists, and the participation of Nobel laureate Horst Stormer in the 'Nobel Prize' panel.

Conqueror of the Hill

In March 2007, Alcatel-Lucent held two Conqueror of the Hill competitions, one in Murray Hill, New Jersey, and the first ever outside that state, in Naperville, Illinois. The Conqueror of the Hill competition began at the Massachusetts Institute of Technology (MIT) with a course titled "Engineering 270", which challenged college engineering students to build a project out of a common set of materials and achieve a specific goal. The idea was then brought to the high school level in New Jersey.

Rutgers University Fellowship in Condensed Matter Physics

Rutgers and Bell Labs created this academic fellowship in 2004 to support, fund and train graduate students. Under this fellowship, created for a period of five years, Alcatel-Lucent and Rutgers contribute up to $100,000 a year for a total of five students each year, with the company funding the Fellows' stipends, and Rutgers their tuition and health benefits. This coming academic year (2008-09) will be the last to introduce a new scholar to the program. Alcatel-Lucent will continue to honor its commitments to the students already involved in the program through 2013.

Bell Labs Graduate Research Fellowships

In 1972, the Bell Labs Graduate Research Fellowship Program was created to increase the number of minorities and women in the fields of science, math, engineering and technology. Since then, many outstanding women and minorities in this program have pursued PhDs in these fields. The program gives participants the opportunity to gain firsthand research and development experience through onsite activities at Bell Labs, under the guidance of research scientists and engineers.

The creation of the Alcatel-Lucent Foundation resulted in a change of direction in the company's charitable program. Programs focused primarily on science and math—including this one—are being phased out. The company will honor its commitment to fund students currently involved in the program until the last completes the program in 2010.

IN THE SPOTLIGHT: "CERCLE PASSEPORT TÉLÉCOMS"

Alcatel-Lucent joined "Cercle Passeport Télécoms" in 2006, in partnership with French public institutions and six other telecom companies: SFR, Motorola, Ericsson, Nokia, Siemens and Nokia Siemens Networks.

The goal of the program is to help young people from high schools in disadvantaged urban areas complete their higher education at leading universities for telecoms engineering, general engineering and business studies. These youth come mainly from 42 secondary schools and 29 high schools in high-need areas designated by the French Ministry of National Education.

For each student supported by the program, Alcatel-Lucent makes an average four- to five-year commitment (covering one to two years of preparatory training and three years of university training). The company subsidizes tutors who:

> Commit to support students for a one-year period;
> Facilitate student entry into the company (identifying potential jobs, participating in orientations, leading site visits, etc.);
> Mentor students in their chosen career path (guiding them through research projects and helping them prepare for interviews);
> Help students build a strong business network.

The nature of the mentor-student relationship program can vary depending on the student's needs. The tutor may provide support related to a business project or help prepare the student for an interview or draft a résumé. Through moral and practical support, the tutor helps bring out the potential in each student.

In the 2007-08 school year, Alcatel-Lucent was the largest contributor to the program, with a network of 152 tutors representing half the total number of Cercle tutors, spread across the 12 participating sites of the program. In 2007, the company expanded its activity to include a network of 70 employee volunteers in the United States who work with students by telephone to improve their level of English.

Within Alcatel-Lucent, the Cercle program has elicited keen interest among employees. The program is moreover enabling Alcatel-Lucent to enhance cultural diversity in the company—increasing the social mix—as well as introducing students from underprivileged areas to corporate life.

CHAMPIONING THE CHAMPIONS

Alcatel-Lucent CSR Champions Award

This award program was integrated in 2007 into the newly formed Alcatel-Lucent to recognize individuals and teams who made extraordinary contributions in the area of CSR. The company asked CSR Europe, an independent non-governmental organization that works on CSR issues, to create a judging committee and select winners of the CSR Champions Award Program. From the 58 nominations submitted by Alcatel-Lucent employees, CSR Europe selected the following eight winners:
> Supplier CSR Management
> Certified Family-Friendly Company
> Humanitarian Meeting Place
> Cercle Passeport Télécoms
> Fresh Air Filtering
> F3B and African Scholar Project
> Pésinet
> Renewable Energy

Each CSR Champion received a certificate along with a US$10,000 or €7,320 grant to a nonprofit organization of the team's choice, in conformance with Alcatel-Lucent guidelines.

This report includes mentions of all of 2007's CSR Champions, each associated with its relevant area of CSR. Here after are two champions from the Citizenship category.

Certified Family-Friendly Company

In Germany, an Alcatel-Lucent employee created a child-care system for the summer holidays at the schools in Nuremberg. This allows employees to continue to work —even if the school is closed—by providing them with a child-care alternative that takes place at a 'Children After School Facility/ Day Care Facility'. The city of Nuremberg's Youth Service provides qualified personnel; parents fund the program, with some support from the company.

F3B and the African Scholar Project

Founded in 1999 by a Lucent Technologies employee, F3B (Three Female Basketballers) is a community service organization that works to increase international awareness and communication between American and African teenage girls. Each year, between the end of June and mid-July, F3B sponsors two one-week basketball clinics for 40 young women in Africa, with the assistance of a team of young economically disadvantaged African-American women. As an extension to the program in 2006, an African Scholar Project was initiated to provide cross-cultural experience in the U.S. for talented young women interested in math and science from former F3B host countries Morocco and Uganda.

CORPORATE SPONSORSHIP

Connecting India

To illustrate the boom of the telecommunications industry in India, Alcatel-Lucent asked the master of Indian photojournalism, Raghu Rai, to record his vision of this transformation.

Rai, an associate of Magnum Photos, has spent more than 30 years documenting the changes in Indian society. For this exhibit, he traveled across India for two weeks—from Mumbai to Delhi, from the Himalayas to south of Hyderabad—to show how fixed and mobile communications are ever-present in both urban and rural areas, including those well off and others not well off at all. In taking this wonderful trip around India, Rai shows how Indian society has "a great sense of connectivity," as he says.

Rai's photos from this trip were prominently featured from July through October 2007 in an exhibition in the Atrium of Alcatel-Lucent's Paris headquarters. The exhibit celebrated the 60th anniversary of the independence of India as well as the 60th anniversary of the Magnum agency. Rai's exhibit—one of an ongoing series of photo exhibitions Alcatel-Lucent has commissioned as part of its cultural sponsorship of photography—was also showcased at Rutgers University in New Jersey.

Photography and video

As a company focused on innovation, Alcatel-Lucent supports contemporary photography and video and their spirit of discovery. This is part of the company's citizenship objective of promoting cultural diversity through a language that is accessible to all.

By fostering the creation of artistic video, Alcatel-Lucent enables the creation of high-quality content that can be exchanged and shared every day via the world's communication networks—inspiring fresh ideas about ways technology can be used to enable new modes of expression.

01

Photos by Raghu Rai:
01. A senior citizen in conversation in old Hyderabad.
02. Selling colorful paper-made wheels in old Hyderabad.
03. At barber's shop in a small village in Ludhiana.
04. At a private telephone booth in Mumbai.

02

03

04

Measuring Progress

"Tuyau," 2004, from the "Mobile" series
Photo: Loan Nguyen
Courtesy Galerie Esther Wœrdehoff

CSR ORGANIZATION, INDEXES AND REPORTING

Sustainability indexes: Recognition for good CSR practices

Alcatel-Lucent's CSR achievements in 2007 were recognized by the world's most prestigious and demanding sustainability index, the Dow Jones Sustainability Index. The DJSI lists companies whose CSR performance ranks in the top 10 percent among all 2,500 enterprises in the Dow Jones World Index. Ranking is based on a thorough analysis of each company's sustainable development practices and policies, specific to its industry sector.

Alcatel-Lucent was also designated 'SAM Silver Class' in the Communication Technology Sector for the 2008 SAM *Sustainability Yearbook*, the world's most comprehensive publication on corporate sustainability. Each year, the 2,500 largest companies in the world, as listed in the Dow Jones Global Index, are eligible to participate in SAM's Corporate Sustainability Assessment. Only the top-scoring 15% of those companies in each of the 57 sectors assessed by SAM are included in the *Sustainability Yearbook*.

Conforming to international guidelines

This present document has been written in accordance with the general guidelines and indicators published by the Global Reporting Initiative (GRI). The GRI has formalized international standards for CSR reporting. Started in 1997, GRI became independent in 2002. It is an official collaboration center for the United Nations Environmental Program (UNEP) and works in cooperation with the Global Compact.

CSR reporting tool

The CSR reporting tool is an online software solution used for collecting, reporting and managing CSR metrics and information. This reporting tool is vital for:
• Formalizing metrics and definitions of indicators
• Reducing the errors detected during the consolidation phase
• Ensuring indicators are validated at the local level
• Enabling Alcatel-Lucent's CSR reporting process to be assessed by external auditors (see page 67)

"

In 2007, the CSR Department of Alcatel-Lucent, together with its internal stakeholders, undertook the massive task of consolidating and compiling worldwide data from both former Alcatel and former Lucent.

Françoise Grumberg – CSR Director

"

Managing CSR

The Corporate Social Responsibility strategies and achievements of Alcatel-Lucent are overseen by the company's CSR Department. This department works closely with the steering committee that sets the company's CSR objectives and measures progress toward them.

The CSR steering committee meets monthly and involves representatives from: CSR and Foundation, Environment Health and Safety, CTO, Digital Inclusion, Public Affairs, Human Resources, Office of Business Conduct, Investor Relations, Marketing, Purchasing, Audit, Risk Management and Legal. The CSR department is also developing a network of correspondents company wide that provide input and help communicate CSR initiatives throughout the company.

A specific CSR global reporting tool and process

In 2007, the CSR Department of Alcatel-Lucent undertook the massive task of consolidating and compiling data from both former Alcatel and former Lucent worldwide. As a result, the reporting process now covers some 60 CSR indicators supplied by 36 different legal units throughout the entire merged global organization, representing 90% of the company's total headcount. That effort demanded the creation of a specific protocol—described in the following pages—and a four-month reporting process.

This process to collect and interpret all CSR indicators (see charts and comments on methodology and perimeter, page 64-65) uses the 'Enablon' tool, an application that permits efficient data collection and processing.

This created a solid baseline sense of the new company's CSR status and enables precise decision making for the future.

A dedicated workgroup harmonized the definitions and parameters of the social and environmental indicators to ensure consistency across former Alcatel and former Lucent. The workgroup also briefed and trained the network of con-

tributors and validators responsible for reporting data and investigated ways of improving reporting procedures.

A global reporting protocol was established to guide the reporting of metrics related to specific social, environmental, and health-and-safety (EHS) aspects of Alcatel-Lucent locations. It also clarifies the reporting process for contributors and validators, ensuring the accuracy, efficiency, consistency and reliability of data collected. The protocol is distributed via the online reporting tool to the global network of people involved in the CSR indicators reporting process.

Social indicators

	2006 Alcatel	2007 Alcatel-Lucent	Perimeter 2007
Headcount			
Total headcount as of Dec 31	89,370**	76,410	100%
Total non Alcatel-Lucent workforce	3,015	2,453	100%
Number of recruits	6,070	4,932	100%
Headcount inflow following Lucent merger	29,861	-	
Headcount reduction due to businesses transferred to Thales	-	-8,862	100%
Headcount increase due to acquisitions and insourcing	1,903	2,080	100%
Headcount reduction due to outsourcing and transfers	-246	-484	100%
Headcount reduction due to redundancies	-906	-4,299	100%
Headcount reduction due to natural departures			
(retirements, end of temporary work contracts, resignations, deaths)	-5,010	-6,327	100%
Headcount/ Diversity			
Percentage of women/headcount	24.2%	23.6%	100%
Percentage of women–Asia Pacific	26.6%	27.5%	100%
Percentage of women–Europe, South America, Middle-East, Africa and India	23.2%	20.6%	100%
Percentage of women–North America	26.5%	26.0%	100%
Percentage of women amongst the High Potentials	17.2%	18.3%	100%
Number of disabled employees	644	594*	89%
Training			
Training budget (as a percentage of payroll)	1.8%	1.2%	85%
Total hours of training per employee	28	20	85%
Percentage of training time *via* e-learning technologies	22%	32%	85%
Mobility			
Number of expatriates worldwide	894	792	100%
Expatriates by host region Europe	422	265	100%
Expatriates by host region North America	16	33	100%
Expatriates by host region South America	30	32	100%
Expatriates by host region Middle East, Africa and India	187	183	100%
Expatriates by host region Asia Pacific	239	279	100%
Health and Safety			
Number of days of absence due to work-related accidents per employee	0.07	0.11	73%
Rate of frequency (number of accidents per year per 1 million hours worked)	2.42	2.20	73%
Performance Management			
Percentage of managers and professionals who had an annual performance review	85%	90%	100%
Percentage of managers and professionals who had learning and development			
activities agreed upon	61%	74%	100%

* The number of disabled employees is underestimated. This is mainly due to the absence of local legal requirements towards companies in some regions. For example, in the US, there is no legal requirement to collect disability-related information; therefore, employees declare their disability on a voluntary basis only.

** The total headcount as of 31 December 2006 includes employees from former Alcatel, former Lucent and former Nortel UMTS. For 2006, the other indicators are Alcatel data only.

Definitions and methodology:
All indicators are based on Alcatel-Lucent data. The perimeter of 2007 social reporting, specified for each indicator, is measured in terms of total percentage of employees of Alcatel-Lucent covered by the indicator. Data on employees of activities transferred to Thales has been excluded from "Total headcount as of 31 December 2007" and also mentioned as "Headcount reduction due to businesses transferred to Thales". The available figures provided are consolidated at a corporate level either:

• Through the corporate financial information systems (headcount including gender headcount);
• Through the corporate HR information systems (training,mobility and performance management);
• Through the CSR reporting tool (health-safety, disabled employees).
The person responsible for reporting in each HR domain works with a specialized network of correspondents located throughout the world.

2006-2007 changes:
For 2007, the main priority was to fully integrate and harmonize the reporting process within the Group in order to present consistent consolidated data on all the social indicators. The HR information systems and the specific CSR reporting tool have been fully integrated worldwide.
In 2007, the integration of former Alcatel and former Lucent in the reporting process and tools has resulted in the global coverage of Alcatel-Lucent.

Environmental indicators

	Units	2006 Alcatel	2007 Alcatel-Lucent	Perimeter 2007
Consumed energy and CO_2 emission				
Consumed electricity	GWh	796	**1,366**	100%
Consumed electricity by employee	MWh	13.8	**17.9**	100%
Consumed fossil energy	GWh	255	**584**	100%
Consumed fossil energy by employee	MWh	4.4	**7.6**	100%
Total consumed energy, including hot and chilled water	GWh	1,082	**1,975**	100%
Total consumed energy by employee	MWh	18.2	**25.5**	100%
Indirect emissions of CO_2, linked to consumed electricity	tCO_2*	244,729	**625,965**	100%
Indirect emissions of CO_2 per employee	tCO_2	4.2	**8.2**	100%
Direct emissions of CO_2, linked to consumed fossil energy	tCO_2	46,800	**115,906**	100%
Direct emissions of CO_2 per employee	tCO_2	0.9	**1.5**	100%
Total emissions of CO_2**	tCO_2	291,529	**741,871**	100%
Total emissions of CO_2 per employee	tCO_2	5.1	**9.7**	100%
Water and wastes				
Consumed water	m^3	2,261,933	**3,466,091**	100%
Consumed water per employee	m^3	39	**45**	100%
Production of hazardous waste	t	1,050	**1,392**	100%
Production of hazardous waste per employee	kg	18	**18**	100%
Percentage of hazardous waste recycled***	%	70	**56**	100%
Production of non-hazardous waste	t	21,012	**26,771**	100%
Production of non-hazardous waste per employee	kg	364	**350**	100%
Percentage of non-hazardous waste recycled***	%	63	**77**	100%
Other emissions				
Solvents	No significant quantities, indicator not relevant and not consolidated			
Halogenated hydrocarbon	No significant quantities, indicator not relevant and not consolidated			
Discharge into water (heavy metals)	No significant quantities, indicator not relevant and not consolidated			
Miscellaneous				
Production sites, ISO 14001 certified	%	60	**70**	100%
New products covered by ecodeclarations	%	> 95	**(1)**	100%

* tCO_2: CO_2 metric tons

** Emissions of CO2 linked to consumed hot and chilled water are not taken into account

*** Recycled: not released in a landfill and not burned without energy recovery

(1): In 2007, the indicator was upgraded to provided ecodeclarations for 95% of the Alcatel-Lucent product portfolio with initial results reporting at the end of 2008.

Definitions and methodology:
The 2007 environmental reporting perimeter includes all Alcatel-Lucent sites, owned or leased as of December 2007.
- For the 2007 exercise, 47 units representing a total of 79% of Alcatel-Lucent employees were surveyed.
- From this scope of reporting, the number of units having effectively reported resulted in the following corresponding percentage of total Alcatel-Lucent employees:
I. For energy consumption and CO_2 emissions: 34 sites accounting for 65% of total Alcatel-Lucent employees;
II. For water consumption: 31 sites accounting for 60% of total Alcatel-Lucent employees;

III. For non-hazardous waste production: 31 sites accounting for 63% of total Alcatel-Lucent employees;
IV. For hazardous waste production: 33 sites accounting for 66% of total Alcatel-Lucent employees;
- To account for 100% of Alcatel-Lucent employees, extrapolation procedures were applied based on calculated ratios per employee.

Reported waste does not include WEEE (Waste Electrical & Electronic Equipment).

2006-2007 changes:
Due to the modification of the reporting scope (addition of facilities within the portfolio from former Lucent Technologies Inc.) gross environmental indicators increased significantly.
Concerning energy consumption, CO_2 emissions and water consumption, ratios of these indicators per employee also increased due to North American specificities in terms of consumption habits and energy production mix.

CORPORATE CSR OBJECTIVES

Environmental objectives

- Provide eco-declarations for 95% of the Alcatel-Lucent product portfolio by the end of 2008

- By the end of 2008, define metrics and roadmaps to measure and increase product energy efficiency based on functionality for our key product families and for optimizing energy utilization within the telecom network

- Further integrate readiness and usage options for alternate energy sources (e.g., solar and wind) in product and network solutions in 2008

- Expand the scope of the third-party-certified EHS Multi-Site Management Systems to include new and existing certified ISO14001/ OHSAS 18001 management systems by the end of 2009

- By the end of 2008, establish Alcatel-Lucent's carbon footprint

- By the end of 2010, reach a 10% reduction in total CO_2 emissions from facilities from the 2007 CSR reported baseline

Social objective

- Further harmonize reporting procedures for social indicators across the organization by the end of 2008

CSR in the supply chain objectives

- By the end of 2008, verify the CSR performance of suppliers representing 65% of Alcatel-Lucent's total purchased volume

- Continue CSR awareness-raising among the procurement teams to allow the systematic examination of suppliers' CSR commitments during business reviews

ELI ERNST & YOUNG

Auditors' report on the reporting procedure for social and environmental information (year ended December 31, 2007)

At your request, we have reviewed the reporting procedure ("2007 CSR Protocol for the CSR Indicators Reporting") related to the social and environmental information collected through Alcatel-Lucent's Corporate Social Responsibility (CSR) reporting network and published in the 2007 CSR report on pages 64 to 65. Such reporting procedure review has already been conducted at former Alcatel level since 2003.

We have also reviewed the following qualitative statements:
- "More than 450 suppliers assessed on their CSR practices since late 2004" (p. 41).
- "25 persons were trained to perform onsite supplier CSR evaluations" (p. 41).
- "All improvement plans resulting from suppliers assessed on-site since 2005 have been carefully followed up" (p. 41).
- "Live awareness sessions on responsible purchasing and corresponding roles and responsibilities were organized with more than 500 procurement employees worldwide since late 2006" (p. 41).
- "The CSR steering committee meets monthly and involves representatives from: CSR and Foundation, Environment Health and Safety, CTO, Digital Inclusion, Public Affairs, Human Resources, Office of Business Conduct, Investor Relations, Marketing, Purchasing, Audit, Risk Management and Legal" (p. 63).

Alcatel-Lucent management has prepared the report and is responsible for the collection and presentation of information within it. Our responsibility is to report on our findings, based on the review carried out, and to formulate recommendations to the departments concerned.

Nature and scope of our work

As agreed, we have completed the following agreed-upon procedures:
- Gaining an understanding of the CSR reporting procedure within Alcatel-Lucent and conducting interviews with:
  – Director Environment Health & Safety for EHS related reporting scope and procedures;
  – Human Resources Manager for social related reporting scope and procedures.
- Conducting interviews with the Human Resources and Environment, Health & Safety correspondents from the Murray Hill location and the Lucent Technology Inc. legal entity in order to assess the application of the procedures and the use of the dedicated computer-based reporting tool. These entities represent 21% of Alcatel Lucent's total workforce in 2007. They were selected to focus on former Lucent main units, as they entered Alcatel Lucent's CSR consolidation scope for the first year.
- Performing random tests on the indicators reported by these entities (check of data flow and controls).
- Together with the CSR Director and the Global Procurement & Sourcing CSR Manager, identifying and collecting supporting documents with respect to the above-mentioned qualitative assertions (reports of meetings, survey questionnaires, audit reports, services contract, etc.).

The performed procedures are less detailed than an audit carried out for the purpose of providing reasonable or limited assurance with respect to the data. However, they have enabled us to report the following findings on Alcatel-Lucent's CSR reporting of occupational accidents and disabled people employment as well as site environmental impacts reporting.

Findings

With regards to the CSR reporting procedure:
- Processes described in the social and environmental reporting procedure are designed to ensure the correct collection and consolidation of CSR indicators within Alcatel-Lucent. Despite consequent efforts aiming at adapting reporting procedure to the new CSR organization and at homogenizing former Alcatel and former Lucent practices, the application of reporting procedure is still not fully uniform within the network, in particular concerning the understanding of occupational accidents and disabled people indicators' definition.
- The dedicated computer-based CSR reporting tool used to report on social and environmental data has been deployed in Alcatel-Lucent's significant entities in order to be able to cover more than 80% of Alcatel-Lucent's total workforce. This tool is properly mastered by the correspondents belonging to the worldwide social and environmental reporting network that we have interviewed.
- Within the frame of an ongoing improvement process, internal controls performed both during data collection and data consolidation should be more formalized and more systematized. Description of roles and responsibilities should be reinforced regarding internal controls required at each step of the reporting.

We would also like to draw your attention to the "Definitions and methodology" paragraph presented in pages 64 and 65 of the report.

With regards to the qualitative information we have reviewed, the statements mentioned above are consistent with our findings.

Neuilly-sur-Seine and Paris-La Défense, April 28, 2008

ERNST & YOUNG et Autres	ERNST & YOUNG Sustainability Assurance & Advisory Services
Jean-Yves Jégourel	Éric Duvaud

GLOSSARY

3G: Third-Generation mobile technologies that support enhanced services such as multi-media and video.

CDMA: Code Division Multiple Access, a 3G mobile technology standard used primarily in North America.

DSL: Digital Subscriber Line, a type of broadband access that uses existing copper telephone lines.

DVBSH: Digital Video Broadcasting Satellite services to Handhelds, a hybrid (satellite and terrestrial) standard for digital video broadcast used to deliver IP-based media content and data to handheld terminals such as mobile phones or PDAs.

EDGE: Enhanced Data rates for GSM Evolution, an enhancement to GSM that allows for data transmission rates of up to 473 kbit/s.

EV-DO: Evolution-Data Optimized, an enhancement to CDMA that allows for data transmission rates of up to 3.1 Mbit/s.

FTTH: Fiber to the Home is a form of fiber-optic communication delivery in which an optical fiber is run directly onto the customers' premises.

GNOC: Global Network Operations Center, a location that is used to monitor network and service operations.

GPON: Gigabit Passive Optical Network, a PON enhancement that allows transmission rates of up to 2.488 Gbit/s.

GMS: Geographic Messaging Service is a new form of region-specific messaging for cell phones that extends traditional Short Messaging Service (SMS) and Multimedia Messaging Service (MMS).

GSM: Global System for Mobile communications, a mobile technology standard used primarily outside North America.

IP: Internet Protocol, a data transmission method used on computer networks such as the Internet.

IPTC: IP Transformation Center, a specialized Alcatel-Lucent lab that is used to develop, integrate and test end-to-end solutions that service providers can use to migrate their networks to full IP-based architectures.

IPTV: IP Television, a method of broadcasting television content over IP-based networks.

IMS: IP Multimedia Subsystem, an architectural framework for delivering Internet protocol (IP) multimedia to mobile users.

ISO 14001: an international standard that identifies the elements of an Environmental Management System necessary for an organization to effectively manage its impact on the environment. Compliance with this standard can be certified by an accredited third party on a voluntary basis.

LTE: Long Term Evolution, the name given to a project within the 3GPP (the Third Generation Partnership Project) to prepare the UMTS mobile phone standard for future requirements. The evolution of the 3G standard is the fourth generation of mobile technologies (4G).

MPLS: Multi-Protocol Label Switching, a data transmission method that can be used with a variety of technologies, including ATM, IP and SONET.

NGN: Next-Generation Network, a network designed to provide the advanced services needed for the convergence of voice, video and data applications.

OHSAS 18001: The international Occupational Health and Safety Assessment Series (OHSAS) 18001 specification identifies the elements of an Occupational Health and Safety Management System necessary for an organization to effectively manage its occupational health and safety risks. Compliance with this specification can be certified by an accredited third party on a voluntary basis.

PBX: Private Branch Exchange, a telephone system designed for enterprises that handles internal calls and manages shared external telephone lines.

PON: Passive Optical Network, an optical network that uses passive components to reduce overall operating costs.

RoHS Directive: Directive 200U95/EC restricts the use of certain hazardous substances in electrical and electronic equipment, contributing to the protection of human health and the environmentally sound recovery and disposal of waste equipment.

UMTS: Universal Mobile Telecommunications System, a 3G mobile technology standard used primarily outside North America.

VDSL: Very high-speed DSL.

VoIP: Voice over IP, a method of transmitting voice calls over an IP network instead of a traditional telephone network.

WDM: Wavelength Division Multiplexing, an optical transmission method that allows multiple signals to be transmitted over a single optical fiber.

WAN: Wide Area Network, a geographically dispersed long-haul telecommunications network usually associated with large enterprises.

W-CDMA: Wideband Code-Division Multiple Access, an enhancement to CDMA that allows for data transmission rates of up to 2 Mbit/s.

WEEE Directive: Directive 2OO2/96/EC on waste electrical and electronic equipment (WEEE) focuses on preventing waste electrical and electronic equipment (WEEE) and, in addition, ensuring the reuse, recycling and recovery of such waste. WEEE also seeks to improve the environmental performance of all organizations and individuals involved in the lifecycle of electrical and electronic equipment, including producers, distributors, consumers and those directly involved in the treatment of waste electrical and electronic equipment.

WiMAX: Worldwide Interoperability for Microwave Access, a broadband wireless data transmission method that is expected to allow service providers to offer a wireless solution for the "last mile" to consumers instead of optical fiber or copper lines.

THE TEN PRINCIPLES

Human rights
1 Support and respect the protection of universally proclaimed human rights.
2 Make sure that there is no complicity in human rights abuses.

Labor standards
3 Uphold the freedom of association and the effective recognition of the right to collective bargaining.
4 Uphold the elimination of all forms of forced and compulsory labor.
5 Uphold the effective abolition of child labor.
6 Uphold the elimination of discrimination in respect to employment and occupation.

Environment
7 Support a precautionary approach to environmental challenges.
8 Undertake initiatives to promote greater environmental responsibility.
9 Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption
10 Work against all forms of corruption, including extortion and bribery.

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