

ANNUAL REPORT  
2006

Alcatel • Lucent 

Because  
the world is  
**Always on.**





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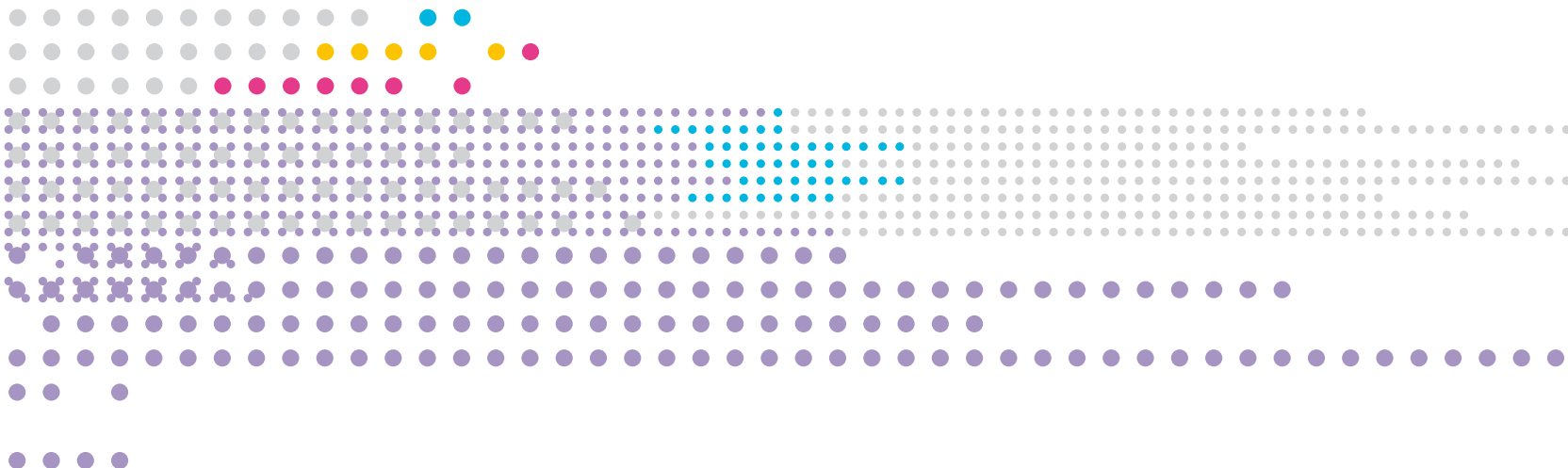
# PROFILE

Alcatel-Lucent's vision is to enrich people's lives by transforming the way the world communicates.

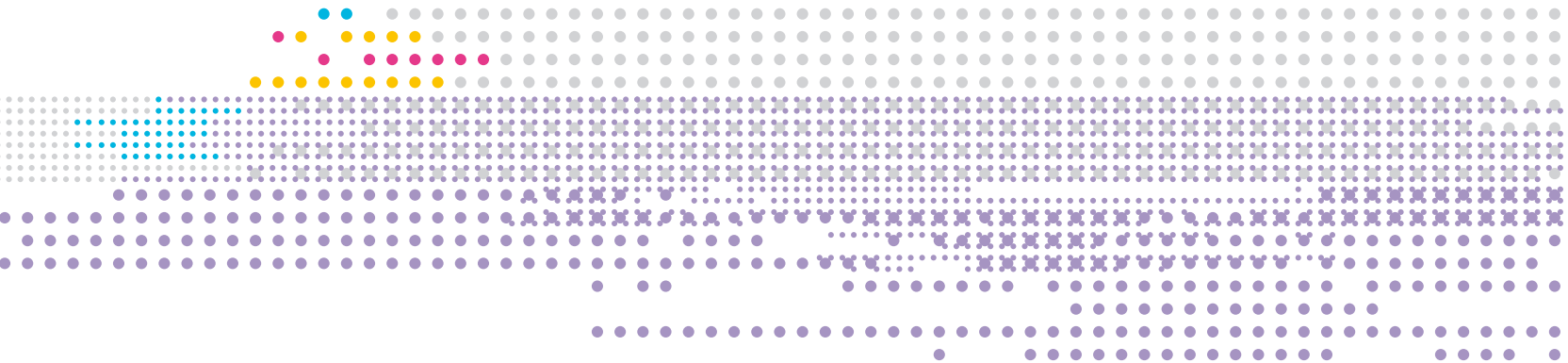
Alcatel-Lucent provides solutions that enable service providers, enterprises and governments worldwide to deliver voice, data and video communication services to end users. As a leader in fixed, mobile and converged broadband access, carrier and enterprise IP technologies, applications and services, 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 telecommunications business, and one of the largest research, technology and innovation organizations in the industry.

Alcatel-Lucent achieved adjusted pro-forma revenues of 18.3 billion euros in 2006.



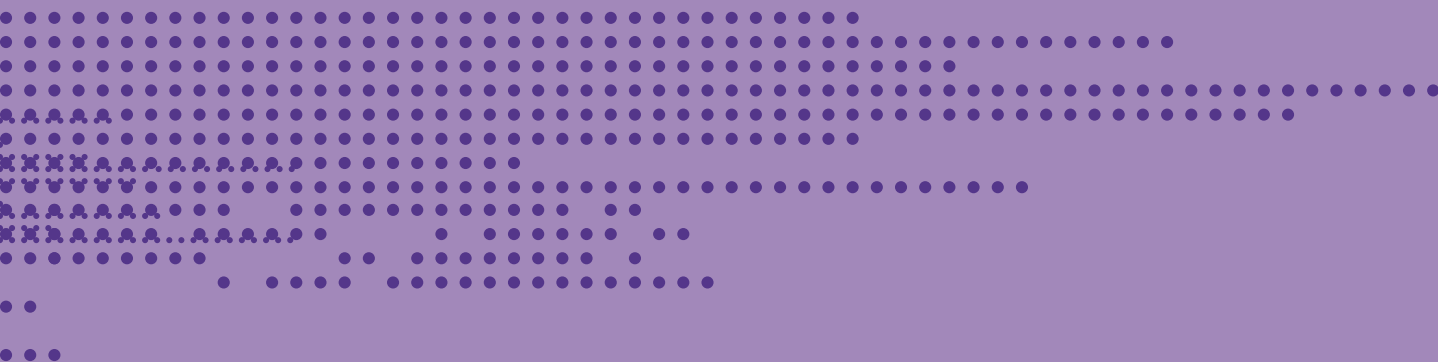
Because  
the world is  
Always on.





CUSTOMERS FIRST

WE MEET  
OUR  
CUSTOMERS' NEEDS  
BY  
ANTICIPATING THEM



Active in

130

countries



INNOVATION

WE NEVER  
STOP  
ASKING  
WHAT'S  
NEXT



25,000  
active patents



TEAMWORK

WE KNOW  
OUR  
DIVERSITY  
IS OUR  
STRENGTH



104

nationalities  
represented



RESPECT

WE INSPIRE  
EACH OTHER  
TO GIVE  
OUR BEST



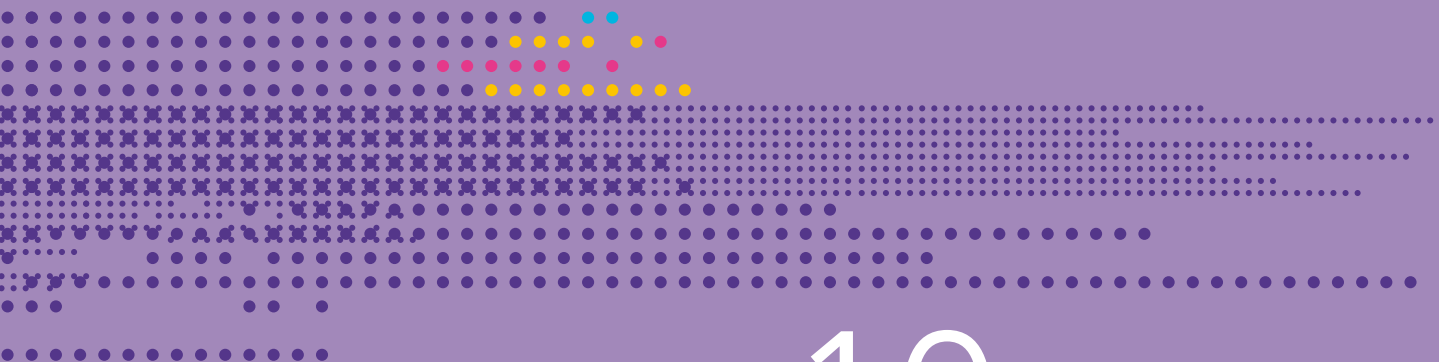
80,000  
employees  
worldwide





ACCOUNTABILITY

WE  
ACT  
WITH  
CONVICTION



We uphold the **10** principles  
of the United Nations  
Global Compact

MESSAGE FROM...

## ... THE CHAIRMAN



The word I often use to describe what's happening in telecommunications today is "transformation." It applies equally to the evolution of markets and companies, to customer expectations and corporate business models, and of course, to the ongoing advancement of the technologies themselves.

The word has obvious significance for us at Alcatel-Lucent. The merger that produced our company was an act of deliberate transformation in direct response to the conditions of today's telecoms industry—and in anticipation of conditions to come. Our merger was purposefully designed to combine our strengths in innovation, products and geographical reach, leveraging our advantages in each.

Innovation is at the heart of our business. To be a leader in the telecoms field, we must be at the forefront of driving new technologies. This demands investment; it requires talent. Bringing together under one corporate roof the breadth and depth of engineering expertise that resided separately in the former Alcatel and Lucent gives us an enormous advantage in this regard. This is evident in the combined 25,000 patents our company holds today. In joining forces, we have created one of the most powerful R&D organizations, positioning us uniquely as world leader.

On the portfolio side, our merger generated real benefits by significantly expanding our product range. Alcatel and Lucent brought to the table complementary product lines and technologies. Alone, neither company served all telecoms markets. The combined company offers an expanded product portfolio, with solutions suited to every market and technology: wireline and wireless; voice, data and video; business and residential.

By joining the two enterprises, we established what I believe to be the ideal geographic balance, with one-third of our sales and activity in the U.S., one-third in Europe, and one-third in the rest of the world. This equilibrium is essential for the pursuit of our ambition to put the tools of communication into the hands of people in all societies, from all walks of life. The merger also enabled us to achieve synergies and cost savings that would never otherwise have been possible.



THE MERGER THAT PRODUCED OUR COMPANY WAS AN ACT  
OF DELIBERATE TRANSFORMATION IN DIRECT RESPONSE  
TO THE CONDITIONS OF TODAY'S TELECOMS INDUSTRY—  
AND IN ANTICIPATION OF CONDITIONS TO COME.



In the end, what we have created through this merger is an enterprise capable of facing the challenges of its markets effectively, successfully and, most importantly, enduringly. I am pleased to point out that our customers support us in having done so. This didn't have to be the case. Often, customers worry that the merger of vendors will mean less competition, less flexibility for them. Yet in the case of Alcatel-Lucent, customers appreciate the advantages—to them. They see that our technology and worldwide presence deliver what they need from a supplier in today's market: reliability, stability, reach.

The transformation that has brought us to where we are today has been not only a corporate one, but a personal one as well. I have taken on the role of Chairman of the Board; my colleague, Patricia Russo, has taken up the reins as CEO. I am fully confident in her abilities as leader to guide our post-merger company to success. She and her entire executive team are working together to build Alcatel-Lucent's momentum and capitalize on its full promise.

I am proud to serve as Chairman, to have exchanged my operational preoccupations for ones of governance; to be able to make a different kind of contribution than I have done previously. My principal focus now is accountability: to our customers, to our shareholders, to our employees—by living up to our word, holding fast to our promises, fulfilling our commitments.

I believe we have built a great company through the merger of Alcatel and Lucent. And I can only conclude this message by commending all the people throughout our organization who make it so. Our teams have worked hard even as they've been required to make changes and attend to the complex and energy-intensive business of a merger. Their efforts have been tremendous; their contributions invaluable. I thank them all, and look forward to what we, all together, will achieve through this company in the coming years.

Serge Tchuruk

INTERVIEW WITH...

# ... THE CHIEF EXECUTIVE OFFICER



Patricia Russo  
Chief Executive Officer

Alcatel-Lucent was born out of its two namesake companies on December 1, 2006. CEO Patricia Russo shares her perspective on progress to date—and what lies ahead.

## WHAT DOES ALCATEL-LUCENT BRING TO THE GLOBAL TELECOMMUNICATIONS MARKET?

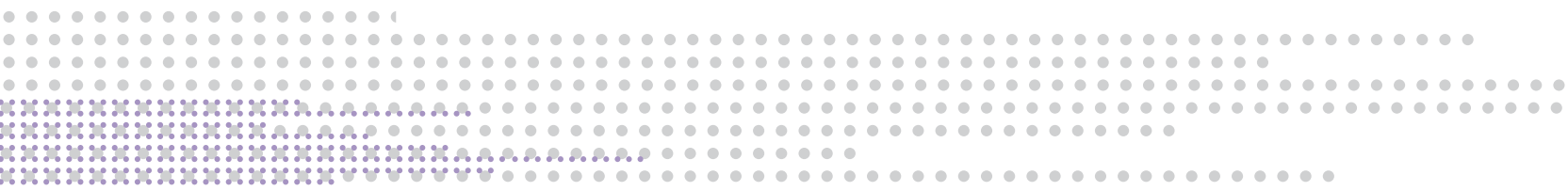
**P. RUSSO:** We're bringing a robust set of insights and capabilities to help create advantages for our customers in the telecoms space. Our merger secured for us a first-mover lead in addressing the ways the industry is evolving. Today we have the size and scope to enhance our offerings to enterprise and carrier customers. We have the capacity and expertise to deliver secure, end-to-end, business-critical communications solutions—around the world. We're global, we're multicultural; we're equipped and structured to build and manage the most complex networks for the world's largest operators and corporations, and we have a strong ecosystem of partners. Finally, we possess tremendous R&D assets and facilities—literally among the best in the world. It's up to us to ensure that our innovation continues to build momentum, generating new products and solutions to support growth down the road.

## HOW DO YOU SEE THE TELECOMS MARKET TODAY?

We don't see just one telecoms market. There are the mature markets of the developed world and the fast-growing markets of the developing world. Both are crucial to our business, but they have very different needs. Alcatel-Lucent has extensive experience in each. We know how to respond in the appropriate ways. At the same time, we're pursuing a larger agenda, which is in fact to bridge the digital divide that separates the two. To bring the social and economic benefits of the Internet to all people, allowing those in even the poorest countries to gain a stronger voice in the global community. Through our Broadband for All initiative, we're helping carriers in growing economies cost-effectively acquire the latest technologies and business models. That's one piece of the answer. The other is that we recognize the different customer needs within those markets: for carrier solutions, enterprise solutions, and leading-edge services for all our customers. We've structured our business along these lines.



**OUR MERGER SECURED FOR US A FIRST-MOVER LEAD  
IN ADDRESSING THE WAYS THE INDUSTRY IS EVOLVING.  
TODAY WE HAVE THE SIZE AND SCOPE TO ENHANCE  
OUR OFFERINGS TO ENTERPRISE AND CARRIER CUSTOMERS.**



#### **HOW WOULD YOU CHARACTERIZE THE COMPANY'S FIRST MONTHS?**

—  
We are making good progress. I am confident we will be able to resume growth during the year. It is a monumental task to bring together two well-established global companies with different cultures. We had a great deal of preparation: eight months of dedicated planning preceded our unveiling of the new company. In that time we established the business model and organizational structure, and made key decisions about our products and platforms. And of course, we've continued this work since the merger. We've talked with our customers around the world on the choices we've made, and feedback is positive.

#### **AS YOU SAY, EXECUTING THE MERGER IS A MONUMENTAL TASK. WHAT ARE YOU DOING TO ENSURE ITS SUCCESS?**

—  
Together with my management team, I've been focused from the beginning on identifying and capitalizing fully on the complementarities and the synergies within our company. There are technological synergies, functional synergies, cultural synergies. These last must never go underappreciated. I've said it before: technology can bridge the miles but only people can bridge cultures. Global competitiveness demands diversity. We have to be able to do business knowledgeably with a wide range of customers, governments, regulators, universities and research institutes around the world. And of course, we must seek out efficiencies as well. We will achieve cost savings by the optimization of our supply chain and services, the elimination of duplicate resources, and product rationalization, among other measures. Globally, our planned changes will affect about 12,500 positions. I'm committed to ensuring this process be managed sensitively and fairly, and in compliance with all local laws and regulations. We will manage these reductions with care, because we are committed to serving our customers' needs, and will maintain the appropriate workforce level to do that.

#### **WHAT'S THE MOST IMPORTANT ITEM ON YOUR AGENDA RIGHT NOW?**

—  
Growing our top line, without a doubt. We've been focused on integration planning—and importantly so—but we've never taken our eye off creating value for our customers. We believe that is one of our key jobs. By delivering advanced converged services to the carrier and enterprise segments of our market, we can help our customers grow both their top and bottom lines. By the way, we're getting very positive signals from our customers, with major new contracts in hand and in sight.

#### **WHAT IS YOUR OUTLOOK FOR THE FUTURE?**

—  
I have confidence in the future of Alcatel-Lucent, both because of the work we've done in building this company, and also because of my absolute confidence in the future of telecoms itself. There is no doubt it will remain key for every part of the world economy—for enterprises, operators and end users. Yes, we know the market is difficult; the competition is fierce. We know there will still be consolidation. But this market has incredible potential, and we are the best-positioned company to profit from it. We made the choice to be a global player with a vast portfolio of technologies. We also made the choice to be present in local markets around the world—to work closely with our customers, informed by an intimate understanding of their distinct needs and cultural contexts. So indeed I have the conviction that we're doing the right things to serve the world's telecoms markets. Telecoms has a bright future, and we're going to be a key part of it.

# MAKING IT POSSIBLE





Because  
the world is  
Always on

## TRANSFORMING THE WAY PEOPLE COMMUNICATE

Every technological breakthrough begins with an idea, a possibility. At Alcatel-Lucent, ideas are always percolating. Throughout our global operations, we maintain a constant focus on research and innovation. We relentlessly pursue each next great opportunity to push out the boundaries of communication. That commitment has put Alcatel-Lucent technologies at the center of everyday life in communities around the world.



 MAKING IT POSSIBLE...

... FOR SUSAN,  
CARDIOLOGIST  
MOTHER AND  
FRIEND



SUSAN RECEIVES AN  
ECHOCARDIOGRAM OVER  
HER HOSPITAL'S FIXED  
NETWORK AND,  
IN REAL TIME, PROVIDES  
A DIAGNOSIS TO  
COLLEAGUES IN NAMIBIA.



**CONNECTING THE DEVELOPED AND DEVELOPING WORLDS**

Susan is an echocardiology specialist at a large American hospital. She uses state-of-the-art technology to provide remote diagnoses for African patients, helping in the fight against pandemics such as tuberculosis and HIV/AIDS. With broadband technology from Alcatel-Lucent and a digital medical diagnostic solution from Global Imaging Online, medical practitioners in isolated African communities can capture and transmit echocardiogram results, sending them via satellite and over the Internet to specialists in North America, who can provide immediate assistance in diagnosis and treatment.





WHEN SUSAN'S SON SETH  
ENTERS FIRST AVENUE SCHOOL  
EACH WEEKDAY MORNING,  
AN SMS IS PUSHED TO HER  
CELL PHONE CONFIRMING  
HIS SAFE ARRIVAL.



#### CONNECTING PARENTS AND THEIR CHILDREN

The Guardian Angel solution developed by Alcatel-Lucent and SIM card manufacturer Oberthur Card System reassures parents like Susan who are anxious for peace of mind, by enabling them to protect their children at all times. Alcatel-Lucent's location server monitors children's movements within defined checkpoints through their mobile phones. The system instantly reports any digressions to parents, and confirms arrival at prescribed destinations.

IN A SPARE MOMENT, SUSAN UPLOADS  
PHOTOS FROM A RECENT TRIP  
AND SHARES THEM WITH HER TRAVEL  
COMPANIONS, EACH ONLINE AT HOME.



#### MAINTAINING TIES WITH FRIENDS

Thanks to IPTV technology and triple play applications, the camaraderie continues for Susan and her chums. Using My Own TV from Alcatel-Lucent, Susan creates her own personal TV channel over which she shares digital vacation photos and video. Virtually together while each relaxed at home in front of her TV, the women review highlights of their visit, share more laughs and reconnect.

MAKING IT POSSIBLE...

... FOR KIM,  
UNIVERSITY STUDENT  
SMITTEN BOYFRIEND  
AND SOCCER FAN



FIXED AND MOBILE NETWORKS  
CONVERGE TO MAKE KIM'S  
PERPETUAL CONVERSATIONS  
WITH HIS SWEETHEART  
AFFORDABLE.



**MAKING CONNECTIONS THAT COUNT**

The pace of life in Hong Kong for Kim is brisk. With the demands of a university study schedule and extracurricular pursuits, he relies on his mobile phone to stay in close touch with his girlfriend. His parents are grateful for the convergence of fixed and mobile networks, which ensure that Kim's calls are billed at the most economical rate. With convergence, the network automatically detects where Kim is located, billing at a low rate when he chats at home over the fixed network, and at a higher wireless rate when he roams outside the house.



KIM COLLABORATES ON  
A UNIVERSITY ASSIGNMENT  
WITH A FELLOW STUDENT  
IN CALIFORNIA—SHARING  
AND EDITING DOCUMENTS  
IN REAL TIME.



#### **FACILITATING CROSS-CULTURAL COLLABORATION**

Alcatel-Lucent's advanced data and wireless network capabilities support the activities of students, professors and administrators in universities around the world—and the high bandwidth requirements that accompany them. These solutions deliver the highest levels of service while meeting the reliability and security demands of higher-education networks.

IN A SHARED VIRTUAL LIVING  
ROOM, KIM AND HIS FRIENDS  
WATCH A CHAMPIONSHIP  
SOCCER GAME ON TELEVISION.



#### **PROMOTING TEAM SPIRIT**

IPTV solutions from Alcatel-Lucent reveal what's possible when fixed networks, triple play applications and fiber optics team up. Amigo TV allows Kim and his friends to enjoy a sporting match together, exchange on-screen text, chat verbally and transmit emoticons and other symbols to add fervor to the gathering.



 MAKING IT POSSIBLE...

... FOR DAVID,  
OIL & GAS EXECUTIVE  
NEWS HOUND  
AND FAMILY MAN



DAVID SATISFIES HIS APPETITE  
FOR NEWS WITH REGULAR TV  
FEEDS STREAMED TO HIS  
MOBILE PHONE.



**ACCELERATING INFORMATION FLOW**

As CEO of a multinational oil and gas company, David requires ongoing access to industry news and market information. With Mobile TV from Alcatel-Lucent, he can view live television directly on his cellular phone—anywhere, anytime. Mobile TV combines terrestrial and satellite broadcast delivery technologies to support rich mobile content.



DAVID COMMUNICATES VIA  
SATELLITE VIDEO CONFERENCE  
WITH COLLEAGUES WORKING AT  
AN OFFSHORE EXPLORATION  
SITE IN THE NORTH SEA.



#### DRIVING BUSINESS IMPROVEMENT

Operations at David's petroleum company have been revolutionized with the implementation of a turnkey vertical-market telecom solution from Alcatel-Lucent. A terrestrial fiber-optic network connects onshore plants, and a fiber-optic submarine cable links up with the offshore platform. Integrated satellite, LAN, WAN and radio systems and third-party equipment support real-time voice, video and data communications between personnel, and closed-circuit television optimizes security at production facilities.

WHILE DAVID AWAITS A FLIGHT AT DUBAI  
AIRPORT, HE CATCHES THE BIG NEWS  
OF THE DAY: A SHORT MOVIE OF HIS SON'S  
FIRST STEPS SENT FROM HIS WIFE'S CELL PHONE.



#### KEEPING FAMILY TOGETHER

Who says business travel has to get in the way of family time? Mobile services make it possible for relatives and friends to share special moments across time zones—instantly. Airports around the world are adopting Alcatel-Lucent's wireless WiMAX networking solutions for the convenience of their travelers. A frequent flyer—and frequent visitor to the world's airports—David takes full advantage of WiMAX's broadband networking capabilities, securely sending and receiving information for business and family needs.

MAKING IT POSSIBLE...

# ... GROUNDBREAKING TECHNOLOGIES



OUR INNOVATIONS TARGET THE NEEDS OF THE REAL WORLD. NOT ONLY WHAT OUR CUSTOMERS REQUIRE TODAY, BUT ALSO WHAT WE UNDERSTAND THEY WILL NEED TOMORROW. OUR VISION IS GROUNDED IN PRACTICALITY—AND FIXED FIRMLY ON THE FUTURE. **Olivier Baujard**, Chief Technology Officer, Alcatel-Lucent



## On the frontiers of technology

Alcatel-Lucent's research community is playing a pivotal role in developing today's and tomorrow's communications technologies, through leading research in:

- Multimedia and mobile/fixed services and applications
- New service delivery architectures and platforms
- Wireless and wireline broadband access
- Packet and optical networking
- Network security
- Enterprise networking and communication services

Alcatel-Lucent invests in fundamental research in fields that include mathematics, the physical sciences, nanotechnology, and convergence and computer sciences.

Alcatel-Lucent is active in 130 standardization organizations, contributing to the commercial success of innovative technologies.

Alcatel-Lucent's leadership is driven by its innovations. That's why the company invests around 15 percent of its revenues every year in R&D activities—amounting to €2.7 billion in 2006.

Combining the world-renowned research organization Bell Labs with Alcatel's pioneering Research and Innovation, Alcatel-Lucent today pursues groundbreaking research by scientists and engineers at research centers around the world. Numerous technologies developed by Alcatel-Lucent research teams enhance the company's product and solution offerings, enrich its applications and services, improve network security, and provide key technological breakthroughs in radio and optics.

### WIRELESS: 3G AND BEYOND

In 2006, Alcatel-Lucent introduced technologies to deliver high-bandwidth multimedia services, including a software-defined radio solution with multi-band and multi-standard operations, and a 3G LTE demonstrator that implements the latest 3G LTE radio technology defined by 3GPP. Alcatel-Lucent also unveiled its Base Station Router, which integrates key components of third-generation (3G) mobile networks into a single network element for flexible indoor and outdoor deployments.

### WIRELINE: OPTICS, ETHERNET AND SERVICE-AWARE ARCHITECTURES

Among a number of industry firsts last year, Alcatel-Lucent achieved Ethernet WDM transmission at 100 Gigabits per second in tests over 2,000 km, and set the world record for capacity x distance of 3.1 Petabit/s/km. For converged metro access networks, Alcatel-Lucent launched Acuity—an end-to-end network architecture delivering high-bandwidth multimedia services at a lower cost to business, residential and mobile subscribers.

### APPLICATIONS, SERVICES AND CONVERGENCE: BREAKTHROUGHS IN IMS

Alcatel-Lucent is developing IMS technology enablers such as a Universal Reachability Service (the simplest and most efficient way to reach a contact) and Identification Agent (for receiving information about a caller at the first ring). In IPTV, Alcatel-Lucent's family of triple-play applications received the International Engineering Consortium InfoVision Award at Broadband World Forum Asia 2006.

### A WORLD-CLASS PATENT PORTFOLIO

In 2006, Alcatel-Lucent patented more than 1,400 new innovations. The company maintains a cumulative portfolio of 25,000 active patents worldwide.



**OUR RESEARCH COMMUNITY HAS WON**  
6 NOBEL PRIZES, 3 JOHN TYNDALL AWARDS,  
6 MARCONI AWARDS, 2 DRAPER PRIZES, 28 IEEE  
MEDALS OF HONOR, 9 U.S. MEDALS OF SCIENCE,  
A GRAMMY AWARD, A GENERAL FERRIÉ AWARD  
AND A BLONDEL COMMITTEE MEDAL.

#### AN INNOVATION POWERHOUSE

The merger brings together the expertise of Bell Labs and Alcatel's former Research and Innovation organization, creating a community of researchers and scientists in 10 countries: the U.S., Canada, France, Germany, Belgium, U.K., Ireland, the Netherlands, India and China.



## Partnerships and acquisitions

Alcatel-Lucent's R&D strategy is to leverage the company's innovative capacity by fostering specialized clusters of excellence in countries around the world. These clusters are located in highly competitive areas that have dynamic academic and industrial environments, recognized scientific and technical talents, and markets with a concentrated potential for growth. Research partnerships are a key approach and include:

- Collaboration with operators such as British Telecom Research to enhance IMS applications and service solutions, and TeleCom New Zealand to improve mobile networking
- Participation in collaborative projects established by key governments and national agencies in Europe, North America and China
- A joint venture with the University of Pittsburgh Medical Center to develop advanced communications technologies for the healthcare industry

Alcatel-Lucent also emphasizes focused technology acquisitions and investments, such as the acquisition of VoiceGenie to boost its Genesys contact center solution, and the participation in a round of financing for SEQUANS to strengthen Alcatel-Lucent's presence in WiMAX technologies.

## BELL LABS:

### A HISTORY OF MAKING HISTORY

Bell Labs is a leading source of new communications technologies and has been for more than eighty years. It has generated more than 32,000 patents since 1925 and has played a pivotal role in inventing or perfecting key communications technologies, including the transistor, digital networking and signal processing, lasers and fiber-optic communications systems, communications satellites, cellular telephony, the solar cell, electronic switching of calls, touch-tone dialing, and modems.

### BELL LABS' EXPERTISE: FUELING THE ALCATEL-LUCENT INNOVATION ENGINE

Bell Labs is an important part of the Alcatel-Lucent innovation engine and works in close partnership with Research and Innovation to anticipate new communication technologies and applications, and help customers build and manage multi-service broadband networks. Groundbreaking innovations in wireless networking, optical transport, nanotechnology and network optimization from Bell Labs today enhance many Alcatel-Lucent products and solutions.



**OUR GOAL IS NOTHING LESS THAN TO BE THE INDUSTRY LEADER IN INNOVATIVE R&D. WE SEE IT AS OUR ROLE TO ENSURE THAT ALCATEL-LUCENT ALWAYS HAS A DECISIVE ADVANTAGE IN THE MARKETPLACE.**



Jeong Kim, Alcatel-Lucent Bell Labs



# ACTIVATING THE FUTURE





Because  
the world is  
Always on

### THE ENGINE OF A NEW WORLD

Telecommunications has revolutionized the world, with the rise of the Internet and wireless technologies; the coming together of voice and data; and the advent of video and media streaming. Today, broadband communications are integral to the daily workings of the global economy and of societies on every continent, fostering competitiveness and growth, contributing to improvements in social welfare and education, and fueling the "knowledge economy." Telecommunications is an engine perpetually engaged in activating the future.

# ... TELECOMS: THE DRIVER FOR GROWTH



**A**round the world, telecommunications is driving economic competitiveness and growth, while helping bridge the digital divide, with broadband communications a key enabler. As the new medium of commerce and culture, telecommunications supports everything from transactional websites and international call centers to e-learning tools and remote diagnostics.

## WHERE WE LEAD

Alcatel-Lucent is #1 in:

- ADSL
- Terrestrial optics
- Submarine optics
- CDMA networks
- Long-haul microwave transmission
- Real-time payment
- Contact center applications
- Voice self-service portals
- Enterprise telephony (EMEA)

## A necessary business. A challenging business.

Although telecommunications is essential, it is not always an easy business to be in. Change is constant. Keeping pace demands vigilance, strategic thinking, adaptability. The market regularly cycles up and down. Yet telecommunications remains an attractive business, because it is a critical industry in every country. Alcatel-Lucent is committed to this business, as the need for telecommunications is great, and the opportunities around the world are compelling.

## Seizing the opportunities

Alcatel-Lucent understands the requirements of the world's telecommunications markets. We see the big picture—all the big pictures, in fact, from region to region, among developed countries and those just beginning to build out their telecom infrastructures. More importantly, our company has the vision, the strategies, and the dedicated business units to help governments, carriers, enterprises and their end customers take—and receive—the full advantage of today's technologies and those just around the corner.

## BREADTH. DEPTH. FOCUS.

Through its three operating segments—Carriers, Enterprise and Services—Alcatel-Lucent meets the full needs of today's telecommunications customers.

# MEETING USER NEEDS



User demands and expectations are constantly evolving—and have to be met. Consumers, especially in mature markets, expect ubiquitous connectivity, with voice and data always available, and increasingly seamless transitions between fixed broadband and mobile modes.

Enterprises are ever-more dependent on—and ever-more strategic about using—communications technologies; they must be, to compete. Governments are delivering greater numbers of services electronically every day.

Alcatel-Lucent's user-centric broadband services are helping carriers, enterprises and governments meet user needs in mature and growth markets alike.



## Different needs, different strategies

The world may be increasingly connected, but it is hardly uniform. The telecommunications needs of mature markets such as North America, Europe and Japan differ widely from those of growth markets such as Africa, India and China. Mature markets are faced with the need to transform their networks, services and businesses, while emerging markets are adopting state-of-the-art telecom technologies to build out their infrastructure. These two very different markets cannot be served by the same strategies.

### A REGULATED INDUSTRY—THE IMPACT ON GROWTH

Telecommunications is a strongly regulated industry: service providers especially are subject to stringent requirements that shape growth patterns. Alcatel-Lucent understands the regulatory environment and works within it to help customers build their business and succeed.

## A truly global company

Alcatel-Lucent is ideally positioned to respond to the wide range of needs and opportunities around the globe. We have the reach, with activity in 130 countries, on every continent. Our portfolio is broad, with solutions for operators and service providers, and carrier-grade technologies for enterprises as well.

Our sophisticated, dedicated and comprehensive research and development facilities—including the world-renowned Bell Labs—put us not merely on the leading edge, but in a position of defining it.

Alcatel-Lucent has the capacity and the capabilities to provide true end-to-end solutions and the types of services today's customers require, from integration and deployment to outsourced network management and operation.

Perhaps most critically, Alcatel-Lucent has the experience of working with carriers, enterprises and governments around the world, and the proven expertise to identify requirements, envision solutions, and deploy them with great success.

## ENABLING ENTREPRENEURSHIP

Alcatel-Lucent has made it a priority to help individual entrepreneurs and start-ups develop value-added services and applications that meet local needs in markets around the world. The company's Tunis and Cairo Partnership Centers are chief examples. At these centers, Alcatel-Lucent provides a platform for developers to implement innovative services for mobile networks, while developers retain full ownership of their ideas. In this way, Alcatel-Lucent facilitates telecom-industry access for all in the field.

ACTIVATING THE FUTURE...

## ... IN MATURE MARKETS

### BRITISH TELECOM: TRANSFORMING SERVICES

With margins on traditional fixed voice services declining, British Telecom resolved to meet the future head-on by building the definitive "21st-century network," based on the convergence of voice and data, fixed and mobile services, and ICT. Alcatel-Lucent has helped the U.K. service provider—which has more than 20 million corporate and residential customers—execute one of the world's first and largest commercial VoIP (voice over Internet protocol) deployments, delivering converged multimedia communications to customers.

### THE BROADBAND LEADER

Alcatel-Lucent is the worldwide leader in deploying fixed broadband (ADSL) networks. It is also the only company whose portfolio encompasses all three mobile broadband technologies: CDMA, UMTS/HSDPA and the proprietary 3G standard in China, TD-SCDMA, to serve markets around the globe.



Established industries tend to grow slowly—not by leaps and bounds. This is true for telecommunications in the developed world, in countries such as the U.S.A., Canada, European Union nations, Korea and Japan. Service providers' revenues climb more or less in line with GDP, in low, single-digit increments.

Today's mature telecom markets are in the process of transformation. Public-switched telephone networks are on the decline. Broadband is the order of the day, bringing new pricing structures, services and business models. Mobile voice markets are all but saturated; mobile data has great potential, yet present-day bandwidth is insufficient and usage patterns remain unclear.

In response to all this change and unpredictability, service providers need to transform themselves to remain competitive. They are proceeding cautiously, to limit heavy capital investments, and to keep operating expenses in check. Alcatel-Lucent is working to help them achieve these goals.

### ON THREE FRONTS

Among service providers, transformation takes three forms:

**Network transformation**, involving the convergence of voice and data, and fixed and mobile traffic onto a common IP core with common transport (and eventually, with common access);

**Service transformation**, developing new service capabilities to deliver a broader range of options to an increasingly diverse customer base;

**Business transformation**, reengineering network operations, operation support systems, call centers, customer relationship management (CRM) and billing mechanisms to achieve the greatest efficiency and cost effectiveness.

### CAPTURING NEW REVENUE

The goal of all of these efforts is to enable carriers to increase revenues from their traditional voice and data business, and to capture new revenue streams from converging technologies.

In the residential market, service providers are becoming content distributors, through the convergence of telecoms and media. In the enterprise market, service providers are moving into ICT (information and communication technology), as it converges with telecoms.



# ... DRIVING TRANSFORMATION



## AT&T: TRANSFORMING THE NETWORK

To deliver ultra-high-speed broadband services to customers and compete with new entrants in its traditional telecom space, AT&T is working with Alcatel-Lucent to cost-effectively transform its network. New deployments are taking fiber directly to the user. Where infrastructure already exists, AT&T is taking advantage of fiber-to-the-node (FTTN) technologies to extend significantly higher-bandwidth capacity to customers.



**A**lcatel-Lucent is actively involved in helping customers transform their networks, services, and businesses, and offers end-to-end support to achieve these goals.

### Transforming networks

The triple play of voice, data and video remains a preoccupation for service providers, offering both new opportunities and demanding new investments in infrastructure. Alcatel-Lucent is working to help carriers take advantage of very high-speed digital subscriber line (VDSL) technology—the next leap forward in DSL—and to optimize their use of IP and optical Ethernet technologies for flexible end-to-end service delivery.

### Transforming services

The convergence of fixed and mobile services, the demand for high-speed Internet connectivity, the uptake of HDTV and IPTV—all of these are compelling examples of the drivers behind telecom service transformation today. Customers have high performance expectations and at the same time, high sensitivity to price. Services must be designed inventively to attract and retain. Alcatel-Lucent works closely and consultatively with service providers to identify opportunities for adding value and strategically reinvent their traditional offerings.

### Transforming businesses

The truth is that services, networks and operations are parts of a seamless whole; business transformation must encompass all three. Alcatel-Lucent helps service providers identify ways to unify and streamline their business systems, and offers a full range of outsourcing options that allow those customers to focus on their core business concerns and rely on Alcatel-Lucent's experience to see them through the transformation process.

### UNIVERSITY OF PITTSBURGH MEDICAL CENTER: TRANSFORMING THE BUSINESS

The University of Pittsburgh Medical Center (UPMC) is the largest integrated health care enterprise in Pennsylvania and one of America's leading nonprofit health systems. Recognizing the operational and health care-related advantages of communications technologies, UPMC is working with Alcatel-Lucent to adopt a converged IP infrastructure for its wired and wireless voice and data systems—and develop advanced communications applications that meet the needs of this health care provider.

ACTIVATING THE FUTURE...

## ... IN GROWTH MARKETS

### GETTING THE MOST OUT OF LOW ARPU

Markets with low average revenue per user (ARPU) do not mean low value for service providers. On the contrary, carriers in emerging markets are skilled at creating highly profitable business models—for example, by permitting by-the-second billing for mobile services—that generate valuable returns. Alcatel-Lucent's considerable expertise and technological flexibility enable such lucrative approaches.



In developing countries, telecommunications is very much a growth industry. Moreover, it is linked in a fundamental way to the growth, prosperity and social advancement of those countries themselves. Connectivity is an enabler of change, opening the doors to opportunities.

Mobile telephony is leading these markets, as service can be established rapidly, flexibly, with less infrastructure. Demand for mobile telephony is extremely high, with the "next billions" of subscribers on the horizon. New subscribers in these markets often generate a low average revenue per user (ARPU), but carriers are very adept at ensuring profitability.

Where copper lines exist—in the big cities of China and India—ADSL is rolling out, delivering broadband to an increasingly

sophisticated customer base. Where there are no lines, alternatives such as WiMAX are being explored, wirelessly extending data networks and the multitude of services they can carry.

Growth markets are demanding the same systems the mature markets enjoy: next-generation technologies, the fullest bandwidth.

With a well-established presence in growth markets and the full range of end-to-end solutions, Alcatel-Lucent is ideally placed to support the telecom initiatives of carriers, service providers, enterprises and government customers. These may be local players or subsidiaries of established companies branching out from mature markets willing to make capital investments and take advantage of growth opportunities.



## GLOBACOM BUILDING WEST AFRICA'S FIRST 3G NETWORK

Nigeria's Globacom—Africa's fastest-growing GSM operator—launched its first mobile service offering in 2003. In 2007, its subscriber base topped 12 million. Now, continuing its leading role, Globacom has chosen Alcatel-Lucent to deliver West Africa's first 3G network. 3G will enable broadband Internet and multimedia services across a range of devices. Alcatel-Lucent's aim is to deliver an advanced, turnkey, end-to-end W-CDMA solution—including a UMTS/HSPA radio and core network with all integration services.

# ... BRIDGING THE DIGITAL DIVIDE



## CONTRIBUTING TO SUSTAINABLE DEVELOPMENT

Alcatel-Lucent is a proud and active participant in the World Summit on the Information Society—the most recent of which were held in Tunisia in 2005, followed by Geneva in May 2007. The Summit examines the social benefits of broadband in a range of areas, from e-business to agriculture, health and education. Together, industry leaders such as Alcatel-Lucent and legislative bodies are working to overcome barriers of affordability and accessibility to ensure that the global vision of 'broadband for all' can one day be realized.

**A**lcatel-Lucent's work in the world's growth markets is helping bridge the digital divide that separates the developed and developing worlds. For example, at C-DOT, India's WiMAX research center, Alcatel-Lucent is working to deliver broadband connectivity to users unreachable by the traditional telecom grid. The versatility of WiMAX makes it well suited not just for developing-country applications, but also for urban deployments in developed markets where average revenue per user is high.

In the Asian market, Alcatel Shanghai Bell—Alcatel-Lucent's joint venture with the Chinese government in which Alcatel-Lucent has a one-share majority—is a low-cost vendor that extends the company's access to that major market. While today's growth markets are not solely concerned with equipment cost, in situations where low-cost equipment is desired, Alcatel-Lucent is positioned to meet the need.

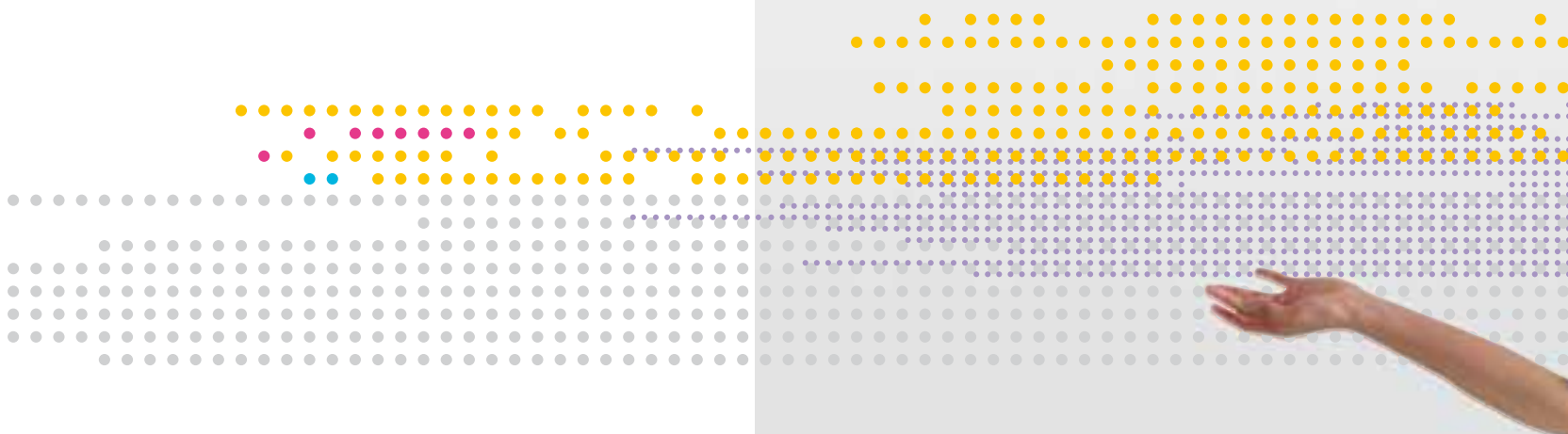
Alcatel-Lucent has a long record of success in emerging markets, with decades of experience and deep cultural connections to the countries in which it operates. Our ability to deliver end-to-end solutions has proved of great value as we've worked alongside our customers and partners to build networks literally from the ground up.

## MTS: DIFFERENTIATION IN A SATURATED MARKET



In Russia, telecommunications service provider MTS boasts a customer base exceeding 60 million subscribers. Yet the operator needed to stand apart from the country's other two top competitors. The key? Customer care. Alcatel-Lucent helped MTS establish a best-in-class virtual contact center and eight new regional networks supported by some 2,250 agents. From project scope and design through project management and systems integration, Alcatel-Lucent delivered the full package.

# COMBINING OUR TALENTS







Because  
the world is  
Always on

"An organization like Alcatel-Lucent thrives on the talent of its people, its teams. It's therefore essential we inspire and motivate employees, encourage mobility and foster corporate advancement. This way we will successfully position our enterprise for the global marketplace of the future."

Claire Pedini, Senior Vice President, Corporate Human Resources and Communications

COMBINING OUR TALENTS...

## ... BY ACHIEVING INTEGRATION



### Diversity brings vitality

Diversity of people and ideas is vital to Alcatel-Lucent and its prosperity as a global enterprise. Success in telecommunications demands the kind of thinking and innovation that multicultural and multidisciplinary collaboration bring.

Alcatel-Lucent promotes diversity, inclusiveness and tolerance across the organization, and encourages employees to broaden their experience by taking on different job functions and working in different geographic areas. Our employee base represents 104 nationalities.

In 2006, the company implemented two new diversity-training programs: an e-learning offering titled Building Bridges and a Diversity Toolkit.

At Alcatel-Lucent, Human Resources is a key business partner for the enterprise, actively supporting the corporation's aims and goals through a focus on its people. Human Resources' key priorities in 2007 are: *integration, synergies* and *people development*.

The task of integrating two large workforces—groups with different cultures, histories and ways of functioning—is not a simple one. Alcatel-Lucent continues to work to ensure that best-in-class human resource practices, processes and tools are in place, offering employees a global, diverse workplace within one of the world's leading communications solution providers.

### Harmonizing existing systems

To fully integrate the workforce and increase our operating efficiency, a broad array of systems, procedures and policies must be harmonized. These range from information systems and global performance management tools to career paths, remuneration policies and training programs. Two years will be needed to harmonize Human Resources' information systems. Workgroups have been established by country, business group and project to ensure that staff members have the skills and confidence to use these systems in their daily work.

### Aligning company programs

Compensation and benefits together are a key integration priority. The company aims to provide each employee with a total compensation package that is competitive with those of major technology firms in the employee's country.

To ensure successful integration, Alcatel-Lucent is committed to completing the process of organization mapping and staffing, seeking employee feedback through a series of surveys conducted over the course of the year. The results are being communicated internally and action plans put in place where needed.

Alcatel-Lucent has thus far launched several policies to promote integration, including a new international mobility policy that promotes global diversity, a common Sales Incentive Plan and a common Patent Award Policy. A new global Annual Incentive Plan (AIP) is also being implemented.

# ... BY SEEKING SYNERGIES



## Employee dialogue

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) facilitates an exchange of views in Europe between management and staff representatives. A vastly expanded set of meetings was held in 2006 prior to the merger; in 2007, ECID will be renewed, integrating former Lucent and Nortel employees.

Alcatel-Lucent is leveraging the integration of its two formative companies to create a strongly competitive enterprise that is highly efficient in its operations. Identifying synergies that enable cost reductions is essential to this. Alcatel-Lucent's synergy plan will help realize a total of €1.7 billion in pre-tax cost savings within three years—and at least €600 million in 2007 alone.

More than 50% of these savings will be generated through supply-chain and service optimizations and product rationalizations. The workforce impact is expected to be about 12,500 positions worldwide over three years. Workforce reductions will be fairly spread across all organizations and regions. Alcatel-Lucent is committed to managing the difficult but necessary reductions in a fair and balanced way, treating all employees with the utmost respect and dignity while taking into account the needs of each business and marketplace, and ensuring compliance with all local laws and regulations.

## Identifying best practices

The legacy expertise of the former Alcatel and Lucent puts a wealth of valuable practices at the disposal of the new organization. The best of those practices are being identified and adopted to equip Alcatel-Lucent for success in fields ranging from R&D to sales, product development to

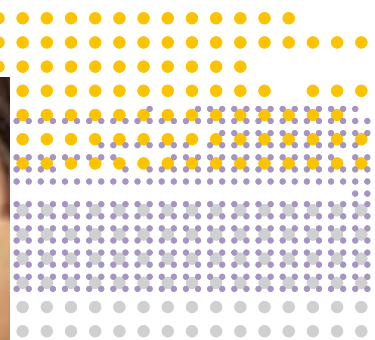
marketing, and finance to human resources.

One practice selected for company-wide implementation is the Global Recruitment Platform established by the former Lucent, which provides internal and external career

opportunities. Another example is the intranet-based Global Performance Management Tool established by the former Alcatel, which enables employees to provide meaningful feedback, discuss aspirations, and focus on what needs to be delivered to achieve success each year.

COMBINING OUR TALENTS...

# ... AND DEVELOPING PEOPLE



## Encouraging professional growth

Alcatel-Lucent believes each employee should be the prime mover for his or her own career development—and encourages that development by offering widely diverse career opportunities.

Committed to building and sustaining a high-performing global workforce, Alcatel-Lucent supports a culture of continuous learning for employees. It has initiated global qualification, accreditation and certification programs for critical functions including Marketing and Sales, Product and Project Management, and Services.

Alcatel-Lucent is committed to building a common corporate culture, managing change actively and providing internal support for the implementation of its new business model. The company's long-term objective is to develop the skills of the future among its workforce. Motivation, mobility (both functional and geographic) and training are all essential to this. Talent is a pivotal part of our business strategy to create a world-class organization and achieve our vision of a successful, unified company.

## Talent identification and development

Alcatel-Lucent assists in the career development of high-potential employees identified as able to fill key jobs or functions within the enterprise. The Company actively seeks out and cultivates these people, to develop future leaders who can assume tomorrow's management roles.

To support this goal, Organization and Personnel Reviews (OPRs) are being held throughout the organization to highlight key talents, identify future leaders and create greater visibility on business issues as they relate to talent, succession planning and development. In the same spirit, the company has launched an online 360° feedback assessment tool to support leadership effectiveness, career guidance and development.

In recognition of its achievements, Alcatel-Lucent was named Learning Leader for 2006 by Bersin & Associates, the American corporate learning analysts, under the Leadership Program Excellence category. Alcatel was honored for its STRETCH program—created in 2000 and continuously improved since then—which provides a development track for high-potentials.

## Extending access to training

Significant technical enhancements in 2006 improved employees' access to learning solutions—in the classroom, on the web and in other virtual settings. Upgrades to Alcatel and Lucent's Learning Management Systems now make it easier for employees to search, track, register and launch courseware.

Alcatel-Lucent University, the internal training organization, provides both employees and customers with access to a wide range of development opportunities. The objective of Alcatel-Lucent University is to ensure the transition to a single learning management system and establish the University as a consultative value partner for each employee.



## International recognition

In 2006, Alcatel-Lucent was recognized for its broad commitment to diversity:

- CEO Pat Russo was one of eight recipients of the CEO Diversity Leadership Award, presented by Diversity Best Practices in Washington, D.C.
- Fortune magazine, LatinaStyle, and the Human Rights Campaign recognized Lucent for its commitment to diversity.

## Integrating disabled employees

As part of its stated commitment to diversity, tolerance and equal opportunity, Alcatel-Lucent works actively to integrate people with disabilities into its workforce.

In 2006, the company signed a three-year agreement with five French unions to foster the professional integration of disabled employees.

Alcatel-Lucent also launched a new SMS messaging-alert service through [www.hanploi.com](http://www.hanploi.com), a recruitment website for disabled people. Subscribers are now alerted immediately once a job matching their profile or search criteria is posted.

## Women in Leadership

Recruiting, hiring and retaining talented women professionals remains a top priority for Alcatel-Lucent. This commitment is illustrated by the role of women at the very highest levels of Alcatel-Lucent management: seven (30%) of the 23 members of the leadership team managed by CEO Patricia Russo are women.

Alcatel-Lucent's Women in Leadership initiative aims to build awareness of the company's commitment to gender diversity. It promotes mentorship, training, networking and evaluation at local Alcatel-Lucent sites, through a broad array of activities.

## Lifestyle and balance

Alcatel-Lucent invests in the continuous training of its employees and promotes a healthy balance between private and professional life, specifically through the increasing role of teleworking. In December 2006, Alcatel-Lucent formalized this commitment in Europe by publishing a Charter on Teleworking, in cooperation with the European Committee for Information and Dialogue.

## Passport to Telecoms

*Cercle Passeport Promotions Télécoms* is a tutoring program supported by Alcatel-Lucent and several partners that gives assistance to students from disadvantaged suburbs. Its aim: to provide tutoring that helps students succeed and build a network of professional contacts. Alcatel-Lucent is the largest contributor in France. The company sponsors tutors and provides financial support to students for the duration of their studies.

# CORPORATE GOVERNANCE





Because  
the world is  
Always on

**BY OUR VALUES. FOR OUR SHAREHOLDERS.**

Ethics are vital things. They drive corporate responsibility, and they are at the heart of good governance. It is that governance, ultimately, which creates value for shareholders. Alcatel-Lucent is committed to not only complying with but more importantly embracing the regulations of both French and U.S. law. This commitment begins in the offices of our CEO and Chairman in recognition of their obligation to Alcatel-Lucent's shareholders—for whom we all work to achieve our very best.

# ... MANAGEMENT AND CONTROL

## MANAGEMENT COMMITTEE



**PATRICIA F. RUSSO**  
Chief Executive Officer



**JEAN-PASCAL BEAUFRET**  
Chief Financial Officer



**FRANK D'AMELIO**  
Chief Administrative Officer and  
Senior Executive Vice President Integration



**ÉTIENNE FOUQUES**  
President Carrier Business Group



**CLAIRE PEDINI**  
Senior Vice President,  
Corporate Human Resources and Communications



**MICHAEL QUIGLEY**  
President, Science,  
Technology and Strategy



**3** DIRECTORS  
ARE WOMEN

**9** DIRECTORS  
ARE NOT FRENCH

**11** DIRECTORS  
ARE INDEPENDENT

## BOARD OF DIRECTORS

**SERGE TCHURUK**

Chairman of the Board of Directors

**PATRICIA F. RUSSO**

Chief Executive Officer and Director

**DANIEL BERNARD**

Independent Director  
President of PROVESTIS

**W. FRANK BLOUNT**

Independent Director  
President and Chief Executive Officer  
of TTS Management Corp.

**JOZEF CORNU**

Director

**LINNET F. DEILY**

Independent Director

**ROBERT E. DENHAM**

Independent Director  
Partner, Munger, Tolles & Olson, LLP  
(Law firm)

**EDWARD E. HAGENLOCKER**

Independent Director

**JEAN-PIERRE HALBRON**

Independent Director

**SYLVIA JAY**

Independent Director  
Vice President of l'Oréal U.K. Ltd.

**KARL J. KRAPEK**

Independent Director

**DANIEL LEBÈGUE**

Independent Director  
President of 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 ("Censeur")  
Engineer at Alcatel-Lucent France

**THIERRY DE LOPPINOT**

Board observer ("Censeur")  
Legal counsel at Alcatel-Lucent head office

**PASCAL DURAND-BARTHEZ**

Secretary of the Board

**AUDIT AND FINANCE COMMITTEE**

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

**CORPORATE GOVERNANCE  
AND NOMINATING COMMITTEE**

D. Bernard, President  
W. Frank Blount  
Linnet F. Deily  
Henry B. Schacht  
Jean-Cyril Spinetta

**STRATEGY AND  
INVESTMENT COMMITTEE**

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

**COMPENSATION COMMITTEE**

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



## COMMITTEES OF THE BOARD OF DIRECTORS



Alcatel-Lucent has applied the strictest recommendations regarding corporate governance, both in France and in the United States. One of these recommendations is to increase the efficiency of the Board of Directors through the creation of specialized committees which examine some of the most complex issues in preparation for Board meetings.

### AUDIT AND FINANCE COMMITTEE

**ROBERT E. DENHAM**, President

This committee's responsibilities include the review and supervision of accounting standards and methods, internal control procedures, off-balance-sheet risks and commitments and the appointment and instruction of external auditors.

### CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

**DANIEL BERNARD**, President

This committee's responsibilities include the consideration of issues relating to the composition, organization and operation of the Board of Directors and its committees, defining the corporate governance principles applicable to the company and examining the succession plans of senior executives.

### STRATEGY AND INVESTMENT COMMITTEE

**SERGE TCHURUK**, President

The mission of this committee is to consider the Group's strategic and investment proposals and to supervise the Alcatel/Lucent integration process.

### COMPENSATION COMMITTEE

**EDWARD E. HAGENLOCKER**, President

This committee sets the remuneration packages of corporate officers and senior executives, as well as the company's policy in relation to stock options, free shares and capital increases reserved for employees.

# ... OF ACTION AND ENGAGEMENT

## INVESTOR RELATIONS IN 2006

### PASCAL BANTEGNIE

ALCATEL-LUCENT'S VICE PRESIDENT FOR INVESTOR RELATIONS  
OFFERED THIS COMMENTARY ON EVENTS OF INTEREST TO SHAREHOLDERS IN 2006.

#### HOW WOULD YOU CHARACTERIZE THE YEAR 2006 FOR SHAREHOLDERS?

**P. BANTEGNIE:** If I had to choose one word, I would say it was "eventful." On April 2, 2006, we announced our intention to combine with Lucent Technologies. On December 1, the merger was a reality. On April 5, we declared we would be transferring to Thales our satellite business, rail signaling activity, and integration and services for critical systems—all while growing our stake as a key shareholder in Thales to 20.95%. We achieved those goals. And at the end of 2006 we finalized our acquisition of Nortel's UMTS radio access unit.

#### HOW WAS THE STOCK HANDLED ON THE MERGER OF ALCATEL AND LUCENT?

Through the merger, under the terms of the agreement, we created American Depository Shares, issuing them to former Lucent shareholders, who became Alcatel-Lucent shareholders. In all, more than three million ADS shareholders were added last year. Today, we have a balanced distribution among our shareholders in Europe, the United States and the rest of the world.

#### HOW DID THE STOCK FARE IN 2006?

After a disappointing 2005, the stock price closed on December 31, 2006 with an annual increase of 6.78 percent. There were three phases to the stock's journey through the year. First was a climb that peaked with the announcement of the intended merger; second was a sharp decline following a profit warning from Lucent and echoing the generally poor tone of American markets; and finally an upward phase with the closing of the merger and the purchase of Nortel's UMTS business.

#### HOW HAVE SHAREHOLDERS RESPONDED TO THIS YEAR'S DEVELOPMENTS?

Some 1,500 people attended Alcatel's annual general meeting on September 7, 2006. The participation rate—including respondents by email—was over 40%. We're very pleased with the active response of shareholders to the creation of Alcatel-Lucent, which was explained at the meeting by our Chairman and Chief Executive Officer. There were numerous questions from the audience; ultimately the merger was approved by a large majority. At the same meeting, shareholders approved a dividend of €0.16 per share, paid on September 11.

#### WAS COMMUNICATION WITH SHAREHOLDERS A PARTICULAR PRIORITY IN 2006?

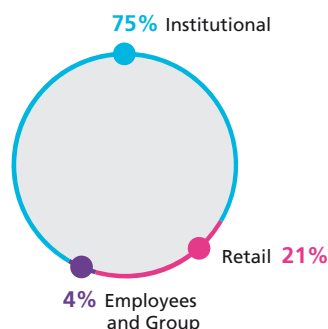
Indeed it was a priority, but then it is always a priority. Last year we worked closely with individual and institutional shareholders to explain the merger's purpose and aims. We held regional meetings in Lyon and Strasbourg, France, and in Brussels, Belgium. In Paris, Chief Financial Officer Jean-Pascal Beaufret addressed a meeting, and our company was present once again at the Actionaria Forum. Many one-on-one meetings were held with institutional investors in Europe and in the U.S. These encounters are necessary and enriching for us, as they offer opportunities to listen and respond to questions—and better understand shareholder concerns and wishes.

#### WHAT EVENTS ARE PLANNED FOR 2007?

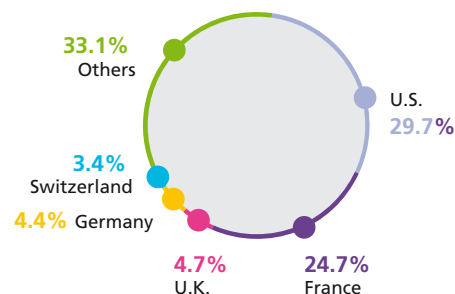
There will be a considerable increase in meetings with retail shareholders in 2007. More than 10 are planned already. We will continue to talk with institutional investors, both face to face and through special events such as Capital Market Day. We will organize meetings to explain Alcatel-Lucent's new structure and business activities—and quite possibly tackle the issue of sustainable development—and demonstrate some of our products. We certainly expect 2007 to be every bit as active as last year was.

## Information on Shareholders (at December 31, 2006)

CAPITAL BREAKDOWN (in %)



BENEFICIAL OWNERSHIP (in %)



## Listing

Alcatel-Lucent shares are listed on:

- Eurolist de la Bourse de Paris (Euronext)
- New York Stock Exchange, in the form of American Depositary Shares (ADS).

Each Alcatel-Lucent American Depositary Share (ADS) listed in the United States on The New York Stock Exchange represents an Alcatel-Lucent ordinary share.

Alcatel-Lucent shares are also listed on:

- Euronext in Amsterdam and Brussels
- SWX Swiss Exchange (Basel, Geneva, Zurich)
- Frankfurt
- Tokyo
- SEAQ (London).

## ISIN Code

Since June 30, 2003, all securities quoted on the Euronext Paris stock market are identified by an International Securities Identification Number (ISIN).

Alcatel-Lucent: FR0000130007  
Symbol: ALU

## Indices

Alcatel-Lucent shares are included in the following stock market indices: CAC 40 and DJ Euro Stoxx 50.

## TRANSACTIONS FOR LAST THREE YEARS

Transactions in Paris	2006	2005	2004
Highest (in €)	13.82	11.70	14.82
Lowest (in €)	8.27	8.14	8.77
Last price (in €)	10.90	10.47	11.45
Capitalization (in billions of €)	25	15	15

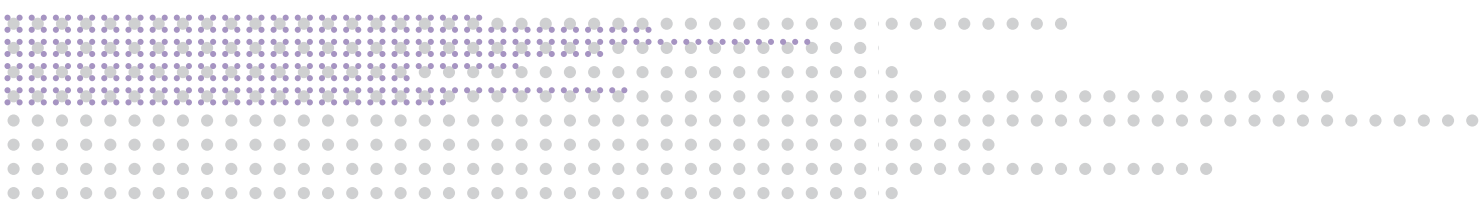
Transactions on NYSE (ADS)	2006	2005	2004
Highest (in \$)	16.51	15.75	18.32
Lowest (in \$)	10.63	10.44	10.76
Last price (in \$)	14.22	12.40	15.63
Capitalization (in billions of \$)	33	16	21

## TREND OF DIVIDENDS PER SHARE OVER 5 YEARS

	2006	2005	2004	2003	2002
Dividends distributed (in euros, per share)	0.16	0.16	-	-	-
Tax credit	N/A	N/A	-	-	-
Overall dividend	N/A	N/A	-	-	-

Dividends not claimed within five years are paid into the Treasury.

**A DIVIDEND OF 0.16 EUROS PER SHARE WILL BE PROPOSED AT THE ANNUAL GENERAL MEETING ON JUNE 1, 2007.**



## 2007 Financial Calendar

<b>FEBRUARY 9</b>	4th quarter and annual results 2006
<b>MAY 11</b>	1st quarter results 2007
<b>JUNE 1</b>	Ordinary and extraordinary annual general meeting (Paris)
<b>AUGUST 1</b>	2nd quarter results 2007
<b>OCTOBER 31</b>	3rd quarter results 2007

## Investors' Calendar

<b>MARCH 6</b>	Toulouse	Shareholders' meeting
<b>MARCH 15</b>	Lille	Shareholders' meeting
<b>MARCH 27</b>	Marseille	Shareholders' meeting
<b>JUNE 11</b>	Paris	Capital Market Day
<b>JUNE 12</b>	Lyon	Shareholders' meeting
<b>JUNE 14</b>	Nice	Shareholders' meeting
<b>NOVEMBER 6</b>	Paris	Shareholders' meeting
<b>NOVEMBER 16-17</b>	Paris	Actionaria Forum
<b>NOVEMBER 21</b>	Grenoble	Shareholders' meeting
<b>DECEMBER 6</b>	Nantes	Shareholders' meeting
<b>DECEMBER 13</b>	Bordeaux	Shareholders' meeting

## Contacts

### INDIVIDUEL SHAREHOLDERS

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Tel.: +33 1 40 76 13 72  
e-mail: [finance@alcatel-lucent.com](mailto:finance@alcatel-lucent.com)

### ANALYSTS & INSTITUTIONAL INVESTORS

Paris (France): +33 1 40 76 13 27  
Murray Hill (U.S.A.): + 1 908 582 8528

YOUR INFORMATION...

## ... OUR PRIORITY



Many publications are available to give you more information about Alcatel-Lucent's activities and evolution.

### INNOVATION MAGAZINE

New, semiannual information magazine, with expanded coverage. Its aim is to bring you regular update-to-date information about Alcatel-Lucent and its results, and to illustrate the full breadth of its business.



### CORPORATE SOCIAL RESPONSIBILITY REPORT

Every year, Alcatel-Lucent publishes a report on sustainable development, as this issue is a priority for the company. Indeed, a comprehensive policy for sustainable development is an essential tool for efficiently managing the risks of business activities as they relate to ethics, social and environmental responsibility, health and safety.

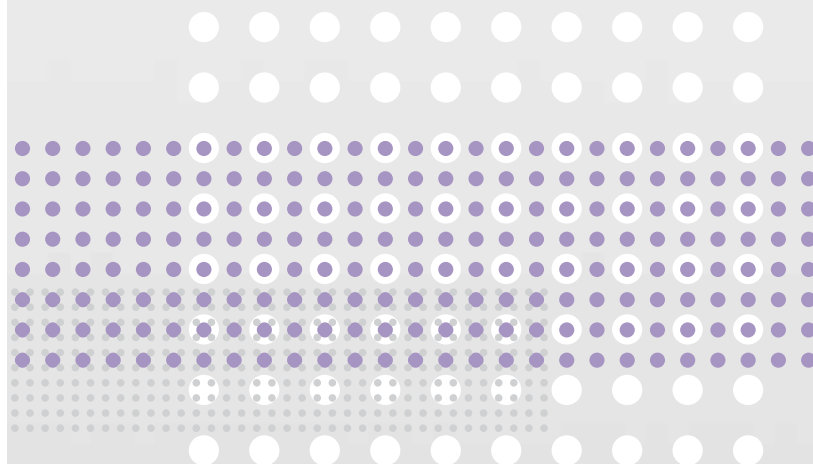


### ALCATEL-LUCENT INTERNET SITE

All information about our upcoming meetings and the shareholders' annual general meeting, as well as financial information and the stock price are available on our Internet site: [www.alcatel-lucent.com](http://www.alcatel-lucent.com)

This enhanced site keeps you up-to-date on the company's activity.

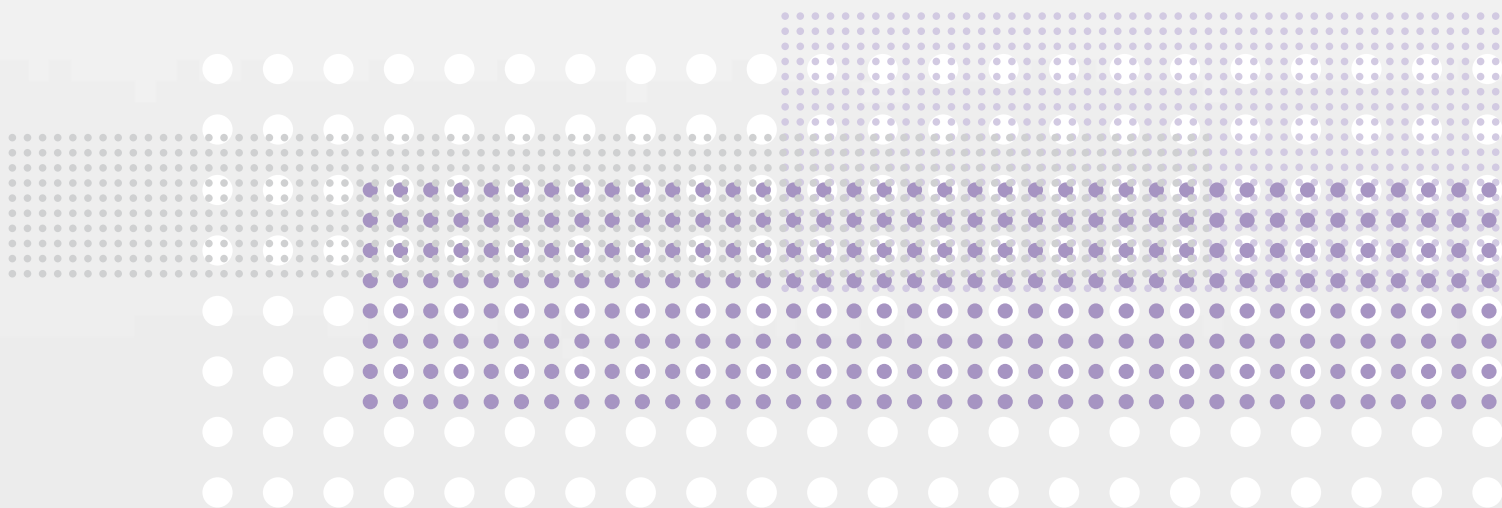




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