

CORPORATE SOCIAL RESPONSIBILITY REPORT  
**2006**

Alcatel-Lucent 

Because  
the world is  
**Always on.**



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Most of the photos used to illustrate this report are of Alcatel-Lucent employees. Some are from a photo essay entitled "Bridging Cultures to Share Our Vision" commissioned by the Alcatel-Lucent Corporate Communications department to commemorate the Alcatel-Lucent merger (see page 45). Others were taken at company events during 2006. We sincerely thank all the employees who agreed to be photographed and especially those whose photos appear here.

For the purpose of this document, the expression "the company" means either Alcatel when referring to a period ending on November 30, 2006, or Alcatel-Lucent when referring to a later period. The company Alcatel Lucent (hereafter "Alcatel-Lucent") resulted from the merging of the companies Alcatel and Lucent Technologies Inc. (hereafter "Lucent"), together with all their consolidated subsidiaries on November 30, 2006.

## PROFILE

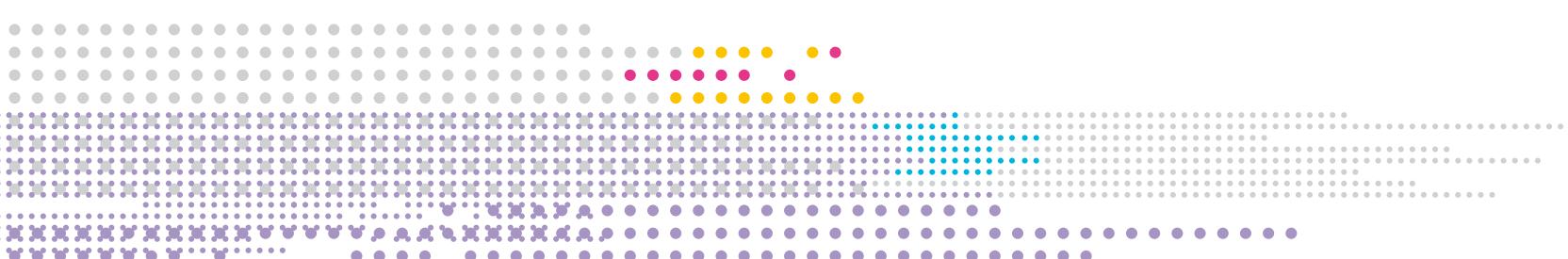
Alcatel-Lucent's vision is to enrich people's lives by transforming the way the world communicates.

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 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 adjusted proforma revenues of 18.3 billion of euros in 2006.

ALCATEL-LUCENT,  
A TRULY GLOBAL LEADER  
IN COMMUNICATION  
SOLUTIONS



€2.7 BILLION  
R&D INVESTMENT

130 COUNTRIES  
WORLDWIDE PRESENCE

€18.3 BILLION  
REVENUES

# MESSAGE FROM THE CEO



*Corporate social responsibility  
is a part of who we are and how  
we do business every day.*

Dear Stakeholder,

Through the merger of Alcatel and Lucent Technologies, we have brought together two great companies to form an even greater company. This combination of two global communications leaders represents a strategic fit of vision, geography, solutions and people, and creates a truly global enterprise that transcends national borders. It also has brought together two corporate cultures that value innovation, excellence and corporate social responsibility (CSR).

Alcatel-Lucent's stated vision is **to enrich people's lives by transforming the way the world communicates and connects**. For us, enriching people's lives is about more than just delivering the latest communications applications. It's about operating in an environmentally friendly manner. It's about providing a healthy work environment for our employees. It's about working to close the digital divide to achieve "Broadband For All." It's about working with suppliers and partners that share our commitment to being socially responsible. And it's about enhancing the communities in which we live and work through corporate philanthropy.

Alcatel-Lucent has several things in place to help us deliver on these commitments.

- Our **Corporate Values** – Customers First, Innovation, Teamwork, Respect and Accountability – all speak to a shared system of beliefs that are consistent with a socially responsible company.
- Our **Statement of Business Principles** establishes the minimum standards of behavior and are based, not only upon the laws and regulations that affect our business, but also on the concepts of integrity, respect, fairness, diversity and ethical standards of behavior.
- Our participation in the **UN Global Compact** underscores our commitment to respecting human rights, adhering to and promoting labor standards within our sphere of influence, protecting the environment and supporting anti-corruption laws.
- Our **Office of Business Conduct** ensures that the company's commitment to business conduct and legal compliance is fully implemented and embraced by all Alcatel-Lucent people.
- And lastly, our **dedicated CSR and foundation organization** monitors the action plan, our progress and specific indicators that are published every year.

In the pages that follow, you will learn about our efforts in five main areas of CSR: digital inclusion, human resources, supplier relations, the environment and philanthropy. Let me briefly touch on each here.

**BROADBAND FOR ALL:** As a leading provider of global communications solutions, Alcatel-Lucent is committed to using its innovations to help achieve a more inclusive information society. Our global reach and our portfolio of products and services will enable us to fulfill this commitment by supporting emerging countries in their efforts to integrate and adopt the latest communication developments and by offering innovative applications tailored to local needs to favor the social and economic development of emerging countries.

**HUMAN RESOURCES:** Merger integration is always challenging – especially when you are dealing with companies with the size and scope of Alcatel and Lucent. That said, our teams have already made great progress in ensuring that best-in-class human resource practices, processes and tools are in place, offering employees a growing, global, diverse workplace within one of the world's leading communications solution providers. We are confident that the diversity of our workforce will help ensure success wherever we operate. To remain competitive, however, we must adapt to ever-changing market conditions. As a result, we will implement a set of measures that include the reduction of our global workforce by about 12,500 positions over the next three years. These are very difficult, but necessary, decisions. Alcatel-Lucent is committed to approaching these reductions in a fair and balanced manner, and to treating all employees with care and respect. We will do what we can to minimize the impact on those leaving the company in accordance with local regulations.

**SUPPLIER RELATIONS:** Our Procurement Department has been committed to assessing the CSR performance of our suppliers against internationally recognized standards of ethical, social and environmental practices. In 2006, the Dow Jones Sustainability Index recognized our strategy toward suppliers as a "best practice." This approach to CSR in the supply chain is part of our commitment to promote CSR within our sphere of influence.

**ENVIRONMENT:** We will endeavor to undertake initiatives to promote greater environmental responsibility and encourage the development and implementation of environmentally friendly technologies. Alcatel-Lucent is compliant with European legislation dealing with Waste of Electronic and Electric Equipment (WEEE), as well as the legislation concerning the Restriction of the use of certain Hazardous Substances (RoHS). We are committed to reducing the power consumption of our products and facilities, and to limiting the environmental impacts of our products throughout their life cycles.

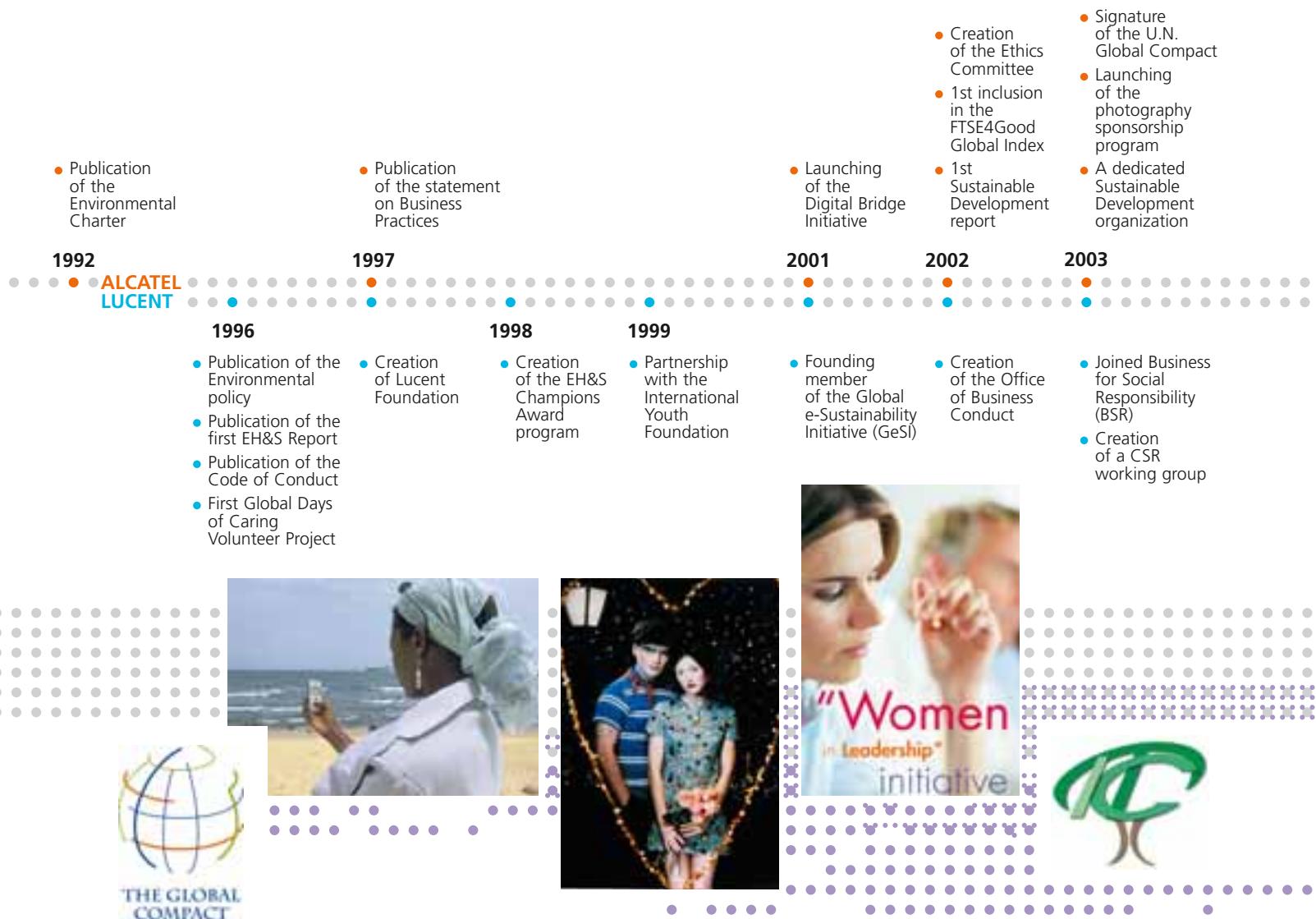
**PHILANTHROPY:** Philanthropy is one of the major pillars that support Alcatel-Lucent's commitment to corporate social responsibility and to promoting cultural diversity and dialogue. As such, we are committed to enhancing and serving the communities where our employees and customers live and work. In addition to the company's dedicated foundation that supports education and youth development programs, Alcatel-Lucent will continue to develop its global photography sponsorship program and to support employee volunteerism in community service projects around the world.

As you can see, Corporate Social Responsibility is a part of who we are and how we do business every day.



Patricia Russo  
Chief Executive Officer

# ALCATEL-LUCENT: A LONG HISTORY OF ENGAGEMENT IN



## CREATION OF LUCENT TECHNOLOGIES FOUNDATION

The mission of the Lucent Technologies Foundation was to improve education by enriching the practice of teaching and improving student's academic performance. The primary focus was on the physical sciences and mathematics in the communities where Lucent had a business presence and the urban communities nearby. The Foundation also implemented a multi year program of global grants focused on youth development.

(SEE PAGE 40)

## DIGITAL BRIDGE INITIATIVE

In partnership with international institutions, local authorities and operators, the company committed to reducing the digital divide and promoting universal access to information and communication technologies.

(SEE PAGE 38)

## PHOTOGRAPHY SPONSORSHIP PROGRAM

By choosing in 2001 to support photography, Alcatel's goal was to promote cultural diversity and exchange. Free of linguistic or cultural barriers, photography speaks instantly to each person. Technical advances in digital photography make the art form a very accessible means of expression.

(SEE PAGE 44)

## SIGNATURE OF THE U.N. GLOBAL COMPACT

Launched in July 2000 by U.N. Secretary-General Kofi Annan, the Global Compact asks companies to "embrace, support and enact" the ten principles defined by this organization in terms of human rights, labor standards and environmental practices and fight against corruption.

(SEE PAGE 9)

## WOMEN IN LEADERSHIP INITIATIVE

In March 2005, Alcatel launched the "Women in Leadership" initiative. Approved and supported by the Executive Committee, this program aimed at increasing gender balance within company management.

(SEE PAGE 25)

## MEMBERSHIP IN THE GLOBAL E-SUSTAINABILITY INITIATIVE (GESI)

By joining the GeSI, Alcatel and Lucent confirmed their desire to develop dialogue with partners and peers in the telecom sector, to share best practices, and to benefit from a collective approach on key topics related to corporate social responsibility.

# CORPORATE SOCIAL RESPONSIBILITY

- Dedicated Sustainable Development reporting tool
- Publication of the Social and Purchasing charters
- Launching of the Global Performance Management program
- Launching of a program on CSR in the supply chain

**2004**

- Inclusion in the FTSE4Good US 100 Index
- Formalization of the Global Human Rights Statement
- Creation of the CSR Council
- Official launch of "Lucent Connects" employee volunteer program



International Youth Foundation®



- Launching of the "Women in Leadership" initiative
- Member of the Global e-Sustainability Initiative
- Inclusion in four major sustainability indexes
- The World Summit on the Information Society in Tunisia

**2005**

- ISO14001 certification of Lucent's Environmental Management System
- Launch of the Global Youth Volunteer Project

**2006**

- Inclusion in the Dow Jones Sustainability STOXX index

- Signature of the U.N. Global Compact



## PARTNERSHIP WITH THE INTERNATIONAL YOUTH FOUNDATION (IYF)

IYF was established in 1990 to bring worldwide resources to young people in need. By partnering with IYF, Lucent joined hundreds of other companies, foundations and civil society organizations in helping millions of young people gain access to the life skills, education, job training and opportunities critical to their success. (SEE PAGE 43)

## GLOBAL DAYS OF CARING (GDOC) VOLUNTEER PROJECT

GDOC was Lucent's annual month-long volunteer project that encouraged Lucent employees, retirees, friends and family members to participate in one of many local projects in communities around the world. (SEE PAGE 43)

## LUCENT CONNECTS

In November 2004 the Lucent Foundation rolled out the Lucent Connects Global Employee Volunteer Program. The mission of this program was to strengthen Lucent's commitment to social responsibility by supporting and encouraging volunteer activities performed by teams of employees in communities around the world where they live and work.

## CSR IN THE SUPPLY CHAIN

After formalizing in a dedicated charter its approach towards CSR in the Supply Chain, Alcatel decided to reinforce its commitment and launched an extensive survey of supplier's practices in terms of CSR, in close collaboration with the Internal Audit Department. (SEE PAGE 32)

## SUSTAINABILITY INDEXES

In September 2006, the company's listing in the Dow Jones Sustainability World Index was renewed for the second year in a row. Alcatel was also been included, for the first year, in the Dow Jones Sustainability STOXX Index that gathers the best performing companies with respect to corporate social responsibility in Europe and the Eurozone. The company was also listed in the FTSE4Good World index Series, the ASPI Eurozone and Ethibel indexes. (SEE PAGE 48)

## CSR CHAMPIONS AWARD

This award program honors employees who have proactively addressed environment, health and safety and CSR issues in their business practices, workplaces and communities, and who have demonstrated outstanding individual or corporate citizenship. Award recipients receive a grant to a nonprofit organization that the team or individual chooses.

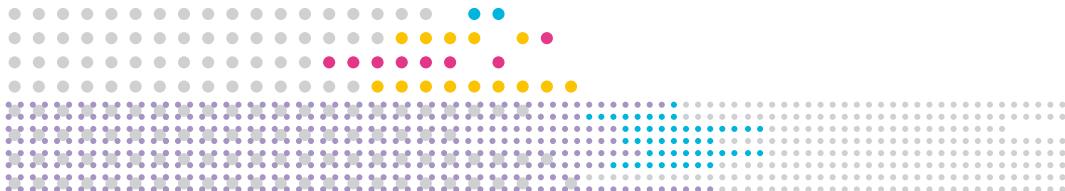


## FIRST CSR COMMITMENTS

- December 1, 2006: Day 1 of the new company
- Common internet and intranet CSR web pages
- Creation of a dedicated "Corporate Social Responsibility and Foundation" organization within the Corporate Communications department (SEE PAGE 48)
- February 2007: First Alcatel-Lucent CSR Steering Committee
- Completion of the Alcatel-Lucent CSR report 2006
- Setting up of common working methodology and processes
- Definition of corporate CSR objectives. (SEE INSIDE BACK COVER)



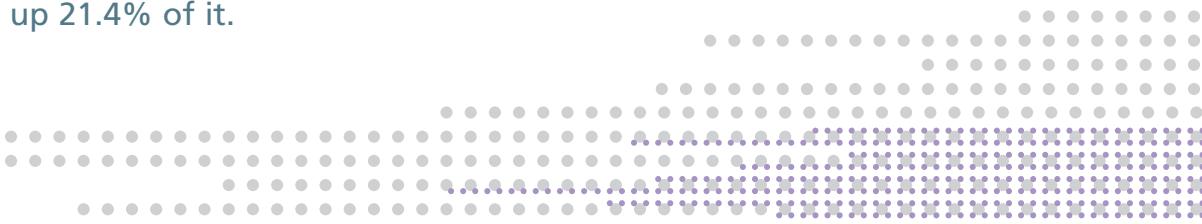
# FOUNDATIONS OF OUR CSR APPROACH



Our Corporate Social Responsibility (CSR) pledge comes directly from our values and our Statement of Business Principles that formalizes our high standards of business ethics. Corporate Social Responsibility is strategic for the company. We are increasingly approached by our stakeholders to engage on these issues. Each employee is therefore encouraged to promote responsibility within his or her sphere of influence.

# A RESPONSIBLE GOVERNANCE

The merger reinforced the company's commitment to responsible governance. The positions of Chairman of the Board and CEO are separated in the new company. The new Board of Directors is also more representative of the company's overall workforce as women now make up 21.4% of it.



## Composition of the Board of Directors

Since November 30, 2006, the Alcatel-Lucent Board of Directors has 14 members. Included on the Board are the former Alcatel Chairman and CEO (now Chairman of the Board), the former Lucent President and CEO (now CEO of the new company), five former Alcatel Board Directors, five former Lucent Board Directors and two new jointly appointed independent European Directors.

The maximum term of office for a Director remains four years, as it has been since Alcatel's 2000 Annual General Meeting. Two Board observers, proposed by an employee-only "Fonds Commun de placement" and elected for a two-year term at the shareholders meeting also attend the Board meetings.

## Authority of the Board of Directors

The Board exercises its authority in full and ensures that the contribution of each Director is entirely effective, as required under the corporate governance rules contained in the operating rules introduced by the Board of Directors on February 3, 2003, and revised on November 30, 2006.

## Specialized committees

Alcatel-Lucent applies 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 that examine some of the most complex issues in preparation for Board meetings. On November 30, 2006, the Board of Directors of Alcatel-Lucent adopted new rules of procedure and created four committees.

The **Audit and Finance Committee** reviews accounting standards and methods, verifies internal control procedures, examines off-balance sheet commitments and risks, carries out the procedure for the selection of the company's auditors and decides on the definition of their missions.

The **Corporate Governance and Nominating Committee** is responsible for studying questions about the composition, organization and functioning of the Board of Directors and its committees, defining the corporate government principles applicable to the company and to examine the succession plans of the main senior executives.

The **Compensation Committee** is responsible for the remuneration of company Officers and the main senior executives, and the company's policy on allocating stock options, granting bonus shares and capital increases reserved for employees.

The **Strategy and Investments Committee** is tasked with examining the company's strategic and investment orientation and to monitor the integration of Alcatel and Lucent.

Each committee can get information from the company's top management, and particularly from the Chief Financial Officer, the Human Resources Director, or the Strategy Director.

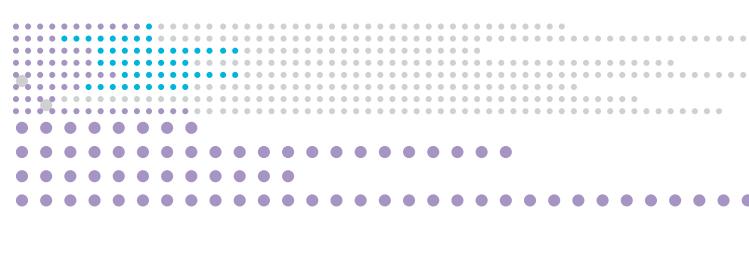
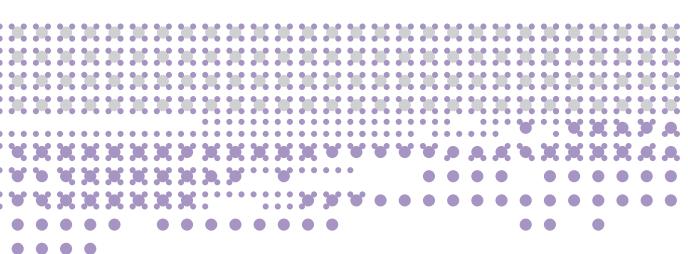
## Criteria for selecting Directors

The Alcatel-Lucent Corporate Governance and Nominating Committee nominates new Directors based on strict selection criteria. Directors must understand the company's high-technology businesses, have sufficient financial expertise for the proper understanding of the financial statements and for evaluating compliance with accounting standards, and be entirely independent of the company's management.

The criteria for independence identified by the Board of Directors combine the definition proposed by the French AFEP-MEDEF reports, the criteria adopted by the New York Stock Exchange and the provisions of the Sarbanes-Oxley Act. According to these criteria, 11 of the 14 members of the Board are independent.

## Alcatel-Lucent Statement of Business Principles

Today more than ever, corporations are held to higher and higher standards of behavior. To embody this ethic, Alcatel-Lucent has developed its Statement of Business Principles. These Principles apply to all employees and guide the way they interact with each other, competitors, suppliers, shareowners, business partners and customers. They establish the minimum standards of behavior and are based not only upon the laws and regulations that affect business but also on the concepts of integrity, respect, fairness, diversity and ethical standards of behavior. Employees can consult the Statement of Business Principles on the company intranet. It is also available externally on the corporate web site at the following address: <http://www.alcatel-lucent.com/sbp>



## VISION, MISSION, VALUES

The Alcatel-Lucent vision, mission and values form the cornerstones of the new company. These statements set the tone for the way the company will operate.

### OUR VISION

To enrich people's lives by transforming the way the world communicates.

### OUR MISSION

To use our unique capabilities to ensure that our customers thrive, our business grows and we enrich the personal communications experience for people around the world.

### OUR VALUES

**Customers First:** We exist to serve our customers. Our success will be determined by how well we perform for our customers.

**Innovation:** We are intuitive, curious, inventive, practical and bold, which allows us to create new ideas for our customers, our business and employees. These ideas come from anywhere throughout our global operations.

**Teamwork:** Success requires teamwork. We are collaborative and respect the contributions of each person to the team's success.

**Respect:** We are a global company with many cultures.

We respect and embrace people and perspectives from all over the world.

**Accountability:** We do what we say we will do. We own a collective responsibility towards customers, colleagues, communities and shareholders.

### UNITED NATIONS GLOBAL COMPACT

Alcatel-Lucent is a longstanding signatory of the United Nations Global Compact, an international initiative that brings companies together with UN agencies, labor and civil society to support universal environmental, ethical and social principles. Alcatel-Lucent is committed to integrating the 10 principles of the Global Compact into its strategy, corporate culture and day-to-day activities.

## THE TEN PRINCIPLES OF THE GLOBAL COMPACT

### HUMAN RIGHTS

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

### LABOUR 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 labour.
- 5: Uphold the effective abolition of child labour.
- 6: Uphold the elimination of discrimination with 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.

# ETHICS & COMPLIANCE

Alcatel-Lucent is committed to ethical business conduct. As a company, we understand that only by upholding the highest level of business ethics and personal integrity can we achieve and sustain long-term business excellence. For this reason, integrity is a core value for Alcatel-Lucent from its inception.

To live out this commitment, Alcatel-Lucent has implemented a robust compliance and ethics program – namely, a framework of internal controls, processes and principles that work together to provide reasonable assurance of Alcatel-Lucent's compliance with applicable legal and regulatory requirements, as well as the Company's corporate policies.

## Appointment of a Chief Compliance Officer

Alcatel-Lucent's Chief Compliance Officer has responsibility for ethics and compliance across the company. In this role, its reports to the CEO as well as to the Audit and Finance Committee of Alcatel-Lucent's Board of Directors. The Chief Compliance Officer oversees the implementation of an effective program of compliance consistent with applicable international laws, standards and appropriate business practices as set forth in Alcatel-Lucent's Statement of Business Principles.

**The specific responsibilities of the Chief Compliance Officer include:**

1. Overseeing and monitoring the implementation of the Company's compliance activities, with particular focus on Anti-Corruption.
2. Coordinating the education and training programs that focus on ethics and compliance.
3. Assisting senior financial management in coordinating internal compliance reviews and disclosure decisions.
4. Ensuring independent investigation and action, as appropriate, on compliance matters.
5. Developing policies and programs to encourage reporting of suspected fraud or other misconduct without fear of retaliation.
6. Establishing procedures to capture and record compliance violations.

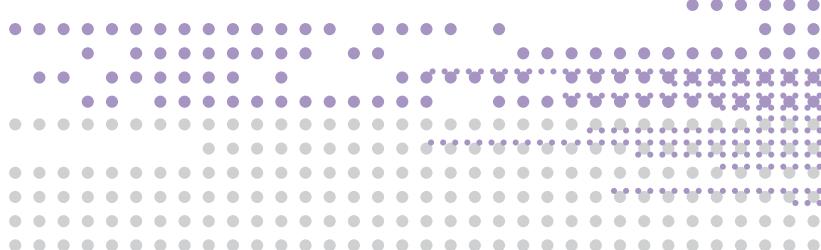
## The Office of Business Conduct

The Chief Compliance Officer oversees the Office of Business Conduct (OBC) that is responsible for providing overall strategic direction, expertise and leadership for ethics and compliance across the company. The OBC is engaged in coordinating global ethics and compliance systems across the company, which are fully integrated into business operations and designed to detect and avoid business and legal risks. Acting as an interface with employees, the OBC helps guide employees in ethical business dealings and provides information about the company's policies and compliance programs.



*As employees of Alcatel-Lucent, our daily decisions and actions significantly affect the success of our business. As we go about our jobs every day, each of us is expected to adhere to the highest standards of honesty, integrity and fairness – standards that will drive the success of the business as we move forward as a new company.*

Janet Davidson, Chief Compliance Officer



## A MULTI LEVEL COMPLIANCE ORGANIZATION

The company has undertaken significant effort to develop and implement a comprehensive compliance management structure across the organization to support and further integrate ethics and compliance into business operations.

To ensure coordination and cooperation among the corporate functions that play key roles in Alcatel-Lucent's compliance system, the company formed in February 2007 the **Alcatel-Lucent Ethics and Compliance Council** to take over from the former Alcatel Ethics Committee and the former Lucent Compliance Council. This Council consists of the Chief Compliance Officer and senior management representation from the following organizations: Law; Human Resources & Communications; Information Technology; Internal Audit; Finance; Global Supply Chain & Procurement; and the Office of Business Conduct.

Chaired by the Office of Business Conduct, the Council meets monthly and is responsible for overseeing the design and implementation of a comprehensive "best in class" companywide ethics and compliance system.

**Key responsibilities of the Alcatel-Lucent Ethics and Compliance Council include:**

- Monitor the major regulatory and policy developments of the company's compliance program areas and report on the associated business impact.

- Review compliance trends (hotline data, compliance repository reports, disciplinary actions and compliance dashboard metrics) to identify and address systemic ethics and compliance issues across the company and to ensure consistent enforcement of discipline.
- Establish the appropriate "culture of ethics and compliance" through review and approval of significant compliance communications, i.e., compliance alerts, training launch letters, policy communications.
- Monitor independent investigations and actions on compliance matters, and report significant regulatory, compliance and ethics issues to the senior leadership within the company and to the Alcatel-Lucent Board of Directors, including the Audit and Finance Committee, as appropriate.

Alcatel-Lucent is currently developing a consolidated process for employees to report potential violations of law or company policy through one global Compliance Hotline. The process will be established in 2007. The process is jointly owned by the Audit Department, the Human Resources department and the Office and Business Conduct. Each case that is reported is investigated and managed by the lead organization assigned to it.

In addition to the Corporate Ethics and Compliance Council a dedicated organization has been set up to cascade down the program and ensure its implementation at each level of the company.

Reporting regularly to the CEO and the Audit and Finance Committee



# A TRULY GLOBAL LEADER

Massive transformation in the telecommunications industry has prompted telecommunication suppliers to adapt to meet their customers' requirements. Globalization has created pressure on prices, forcing companies to develop economies of scale and new ways of doing business.

The Alcatel-Lucent merger gave the company the critical size and the global reach needed to compete in a demanding and evolving industry. Expert, driven, intuitive, innovative, Alcatel-Lucent is the first truly global communications solutions provider with the most complete end-to-end portfolio of solutions and services in the industry. For the full year 2006, Alcatel-Lucent's adjusted pro forma revenue was Euro 18.3 billion.

## OPERATORS

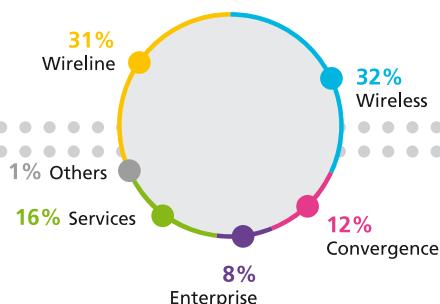
The purpose of the "Operators" segment is to meet the needs of telecommunications operators. It comprises the wireline, wireless and convergence businesses and accounts for 75% of revenues.

### Wireline

In 2006, after the turnaround that had been observed in 2005, the return to growth of the wireline network market was confirmed for all geographical areas worldwide. The company leveraged its international presence and its competitive product offering to take advantage of this evolution.

**Access: IP transformation and the adoption of fiber optic**  
 Alcatel-Lucent is the world leader in high-speed access with more than 123 million Digital Subscriber Line (DSL) lines delivered at the end of 2006. Alcatel-Lucent's Intelligent Services Access Manager (ISAM) product family is the first platform of IP access services specially designed for triple play solutions and has confirmed its success on the market. At the end of 2006, it was used by more than 125 operators, compared with 70 at the end of 2005.

BREAKDOWN OF REVENUES BY SEGMENT (in %)



The increase in connection speed required to provide triple play services such as high-definition television (HDTV) has pushed telecommunications operators to invest in fiber-to-the-home technologies. In July 2006, the U.S. operator Verizon announced that it had selected Alcatel-Lucent for the supply of a GPON access infrastructure that will enable it to offer up to 50 Mb/s to its residential subscribers. This success confirms the soundness of the company's innovation strategy and adds to the 60 references in the optical access field that it had achieved up at the end of 2006.

With the success of triple play solutions, telecommunication operators are bound to provide their clients with an end-to-end solution that includes elements for managing the end subscriber (user speed and quality parameters, customization of services). To meet this expectation, the company has developed a software solution called the Digital Home Care Solution, which was honored by the International Engineering Consortium (IEC) at the European Broadband World Forum in October 2006.

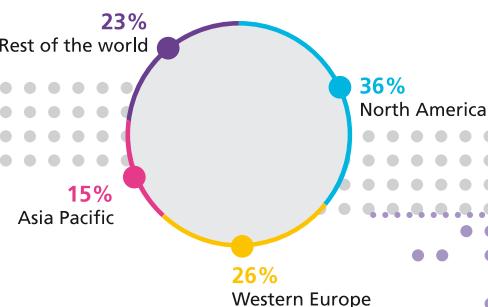
## KEY FIGURES

**Revenues: €5.70 billion in 2006**

- # 1 in NDSL with 39% market share <sup>(1)</sup>
- # 1 in optics, Terrestrial and Submarine with 23% market share <sup>(2)</sup>
- # 2 in IP/MPLS edge routing and Carrier Ethernet with 17% market share <sup>(3)</sup>

(1) Dell'Oro  
 (2) Ovum RHK  
 (3) Synergy

BREAKDOWN OF REVENUES BY GEOGRAPHICAL AREA (in %)



Thanks to the company's portfolio of high-speed access solutions, it can effectively address all the needs of its clients both in terms of technologies (DSL, GPON and WiMAX) and network typologies (urban, remote or rural stations), in all types of economic contexts (mature and high-growth).

### **IP networks: Alcatel-Lucent snatches up second place on the global market**

In 2006, as in 2005, the IP routing equipment market for telecommunications operators grew sharply, driven by the increase in the number of users of high-speed services.

The company made strong inroads into this market in 2006 and developed faster than the industrial sector, going from third to second place among global manufacturers thanks to a comprehensive routing product portfolio.

High availability, performance and flexibility of use were at the heart of the company's innovation and differentiation strategy in the field of IP with the Multiprotocol Label Switching (MPLS)  standard, used in particular to route IP data efficiently in complex networks.

At the end of 2006, over 160 clients in more than 60 countries (compared with 90 clients in 40 countries at the end of 2005) had deployed Alcatel-Lucent's routing products.

### **Optical networks: a growth momentum**

For the sixth year running, the company was ranked the world's No.1 manufacturer with a range of products and solutions designed to address the needs of all types of customers and all types of optical network needs.

Alcatel-Lucent continued to innovate and notched up significant successes, in particular in Dense Wavelength Division Multiplexing (DWDM), a technology that allows higher speeds on each optical fiber, thus saving on the installation of additional fibers. Alcatel-Lucent had more than 150 DWDM  customers at the end of 2006.

The company's optical solutions have been chosen to form the high-speed infrastructure of many companies and organizations that want to create a network to meet the strategic requirements of data and image transmissions.



## **Wireless**

### **Mobile Infrastructure: continued growth in 2G; momentum building in 3G**

In 2006, the GSM business was affected by a heightened competitive environment, but turned in a solid performance due to strong subscriber growth in emerging countries, growing Alcatel-Lucent's footprint in Russia, Africa and the Middle East.

In particular, China registered good growth driven by renewed investment in GSM and ongoing preparation for the beginning of HSDPA and TD-SCDMA  (China's home-grown 3G standard) rollouts. The company now has more than 170 customers in 93 countries.

Alcatel-Lucent enhanced its entire line of its Evolium GSM/EDGE radio solutions in 2006 to meet the needs of operators for increased capacity and flexibility by optimizing the portfolio to support existing and new data-based applications. The solution also increases coverage while reducing power and footprint for overall reduction in cost of ownership.

As a global leader in the development and deployment of third-generation (3G) networks, Alcatel-Lucent has deployed commercial 3G (CDMA2000 and W-CDMA/UMTS/HSPA) systems for more than 70 operators worldwide. Alcatel-Lucent counts 12 of the world's top 15 mobile service providers as its customers.

Alcatel-Lucent is the world's leading provider of CDMA2000 networks with nearly double the market share of the nearest competitor. Alcatel-Lucent furthered its CDMA2000  leadership in December by upgrading a major New Zealand mobile operator's network. The operator can now offer its customers super-fast upload and download speeds for services such as video conferencing, multi player gaming and streaming video.

## **KEY FIGURES**

### **Revenues: €5.82 billion in 2006**

# 2 in worldwide Mobility infrastructure <sup>(4)</sup>

# 1 in CDMA <sup>(5)</sup>

# 2 GSM in fast-growing markets <sup>(7)</sup>

# Leader in W-CDMA and WiMAX

# 1 in long-haul microwave transmission <sup>(6)</sup>

- (4) Dell'Oro
- (5) Dell'Oro
- (6) SkyLight Research
- (7) Alcatel-Lucent

## FOUNDATIONS OF OUR CSR APPROACH

### Acquisition of Nortel's UMTS business

On December 31, 2006, Alcatel-Lucent completed its acquisition of Nortel's UMTS  radio access business to strengthen its leadership position in this technology. With this acquisition, one in four UMTS operators – about 40 customers around the world – use Alcatel-Lucent UMTS solutions. This deal formed part of a long-term strategy to ensure Alcatel-Lucent would be the pacesetter of the ever-evolving communications market.

### WiMAX (high-speed wireless access): a leadership position

Alcatel-Lucent continued its market leadership in 2006 by launching the Evolium WiMax base station, based on the latest IEEE standard. The recent trends in WiMax activity confirmed the growing acceptance of the Alcatel-Lucent solution, as demonstrated by an important win with BellSouth. The WiMax business also showed strength with new wins in Poland, Russia and Japan.

Furthering its commitment to universal WiMax, the company expanded its partnerships and adopted an Open CPE  policy to give its customers the optimal choice of terminal devices in terms of time-to-market, price and features.

Also in December 2006, Alcatel-Lucent was selected to conduct Malaysia's first field trial of the Universal WiMax solution. The company also inaugurated a state-of-the-art WiMax reality center in Seoul, South Korea. This lab is entirely dedicated to showcase WiMax IEEE 802.16e-2005 technology and demonstrate its huge potential for broadband multimedia mobile services.

### Wireless transmission business: maintaining leadership position

Alcatel-Lucent is the world's leading manufacturer of microwave transmission equipment with more than 500,000 microwave radios delivered worldwide. The company led the market in point-to-point microwave radio sales in North America in the first quarter of 2006. A new generation digital microwave radio product was introduced this year. It provides an effective solution for high-capacity applications, addressing transmission needs for public and private telecommunication networks.

## Convergence

The urgent need for convergence – that is, "blended services" that help people to better communicate across multiple devices and networks – is pressuring service providers to transform their existing networks so that they can capture new revenue streams quickly.

Alcatel-Lucent is leading the pack in Convergence. Its solutions bring together all the elements needed to deliver converged networks and billable end-user services.

With more than 900 Convergence customers around the world, Alcatel-Lucent's mission is to create value for service providers as they transform their networks, to deliver innovative voice and multimedia communication solutions that are as easy to use as TV or mobile phones, and to make those services available to everyone.

### Mobile core network switching: a clear migration from TDM to NGN/IMS

The significant shift from traditional TDM to NGN/IMS  solutions continued in 2006, positively affecting Alcatel-Lucent's mobile solutions business. The company now has the largest worldwide base of NGN wireless core technology, with now more than 60 million lines installed, including a commercial UMA launch in North America.

Alcatel-Lucent's NGN/IMS core soft switch platform carried live traffic in more than 60 GSM  and UMTS sites worldwide in 2006, with new shipments and deployments being registered in fast-growing markets such as Russia, Kazakhstan, Chile, Thailand, Malaysia and China.

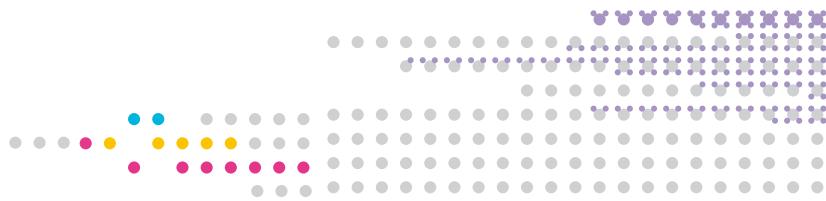
In 2006, key Convergence highlights included: the positive momentum continued in the NGN/IMS activity, with a rapidly growing installed base in China, North America and Western Europe; in the multicore activity and for both mobile and fixed operators, the traditional circuit core networks continued to be replaced by packet or IP-based core networks, which now account for a significant portion of the business. Deployment of maintenance services and new software releases contributed to optimize the business with the existing customer base; the deployment of video services at fixed operators across all regions continued to drive our IPTV applications business. The converged payment solutions for mobile operators gained traction, with 220 customers to date.

## KEY FIGURES

### Revenues: €2.09 billion in 2006

- Alcatel-Lucent is the global leader in convergence, serving the world's largest fixed and mobile service providers
- # 1 in real-time payment, with more than 200 customers, driving migration towards convergent payment <sup>(8)</sup>
- Leader in IMS, with wide-ranging field experience, including more than 15 deployments carrying live traffic
- Leader in subscriber management, supporting 20% of the world's mobile subscribers and serving 150 service providers around the world

(8) Alcatel-Lucent



 GLOSSARY P. 49

## ENTERPRISE

The Alcatel-Lucent Enterprise Business is focused on delivering secure, end-to-end business critical communication solutions that enable new business generation.

Growth and innovation are driven by the continued ramp up of IP penetration, the ongoing convergence of IT and communication technologies, the need to give employees and customers pervasive and secure access to the enterprise's business systems and communication tools, the use of technology as a business weapon and competitive differentiator with the goals of reducing costs, increasing employee productivity, and increasing customer satisfaction.

### KEY FIGURES

**Revenues: €1.49 billion in 2006**

- # 1 in contact center applications <sup>(9)</sup>
- # in voice self-service portals <sup>(9)</sup>
- # in enterprise telephony, EMEA <sup>(10)</sup>
- 12.8 million Ethernet ports shipped

(9) Gartner

(10) Frost and Sullivan



## SERVICES

The new company created a dedicated business group bringing together all the activities that were formerly divided within Alcatel.

The creation of this group demonstrated the strong strategic commitment of Alcatel-Lucent to grow its services business and provide the market with more information about its achievements in this field.

The main growth areas are: fixed and mobile communication network integration, with particular focus on the conversion to "all-IP", business services (integration of OSS/BSS systems and communication applications, consultancy); maintenance, especially multivendor maintenance; and network operation. These services are targeted at telecommunications operators, as well as business and the public sector. Alcatel-Lucent's references and combined resources in these areas position the company as a leader of this market.

All these services are targeted at telecom operators, as well as companies and government departments.

In 2006, Alcatel-Lucent signed a final agreement with Thales for the transfer of its space and critical security systems business, but retained its communication solutions for the vertical markets of transports, energy, defense and the public sector. Alcatel-Lucent helps operators to rationalize network operation by automating critical activities and operating processes, and by optimizing existing environments through the introduction of new technologies. New contracts for broadband network deployment, all-IP infrastructures, IPTV and service unbundling confirm the leading status of Alcatel-Lucent in this area.

### KEY FIGURES

**Revenues: €2.97 billion in 2006**

- # 2 worldwide in professional services <sup>(11)</sup>
- 20,000 network experts

(11) TBR

# AN INNOVATION POWERHOUSE

Alcatel-Lucent is one of the largest innovation powerhouses in the industry, representing a combined R&D investment of €2.7 billion in 2006 and a portfolio of over 25,000 active patents spanning virtually every technology area.

## A global R&D presence reinforced by a strategic partnerships

The merger between Alcatel and Lucent on December 1, 2006 created one of the most powerful R&D organizations in the communications industry with unrivaled technical and scientific expertise. Alcatel-Lucent is now paving the way for tomorrow's technologies and markets through a high level of investment in R&D in areas that support our solutions, products and services. The company's research activities focus on domains that are expected to provide significant market differentiation for today's needs and open future revenue opportunities.

In 2006, Alcatel-Lucent continued to develop its international R&D network by engaging in strategic collaborations with scientific and technical talent and organizations. For example,

- In France, the company has reinforced its involvement in the "competitiveness clusters" such as "System@tic" around Paris, and "Images & Réseaux" in Brittany.
- In Belgium, key contributions have been achieved with the MUSE Project, which focuses on a low-cost multi-service access network.
- In Germany, national collaborations in optics and wireless technologies have been developed through the BMBF (Bundesministerium für Bildung und Forschung - Federal Ministry of Education and Research).

- In North America, Alcatel-Lucent actively collaborates with government agencies including the Defense Research Development Canada, NASA (U.S. National Aeronautics and Space Administration), and the U.S. Departments of Defense Labs and of Energy. Projects include studying end-to-end security impacts on networks, laser communications programs, secure wireless systems, mobile networking, and advanced electronics, optical networking, and integrated sensor technologies.

Alcatel-Lucent also established fruitful collaborations to anticipate and meet future customer needs with a number of operators including Telecom Italia and British Telecom Research.

## Alcatel-Lucent research community: unrivaled, internationally recognized expertise

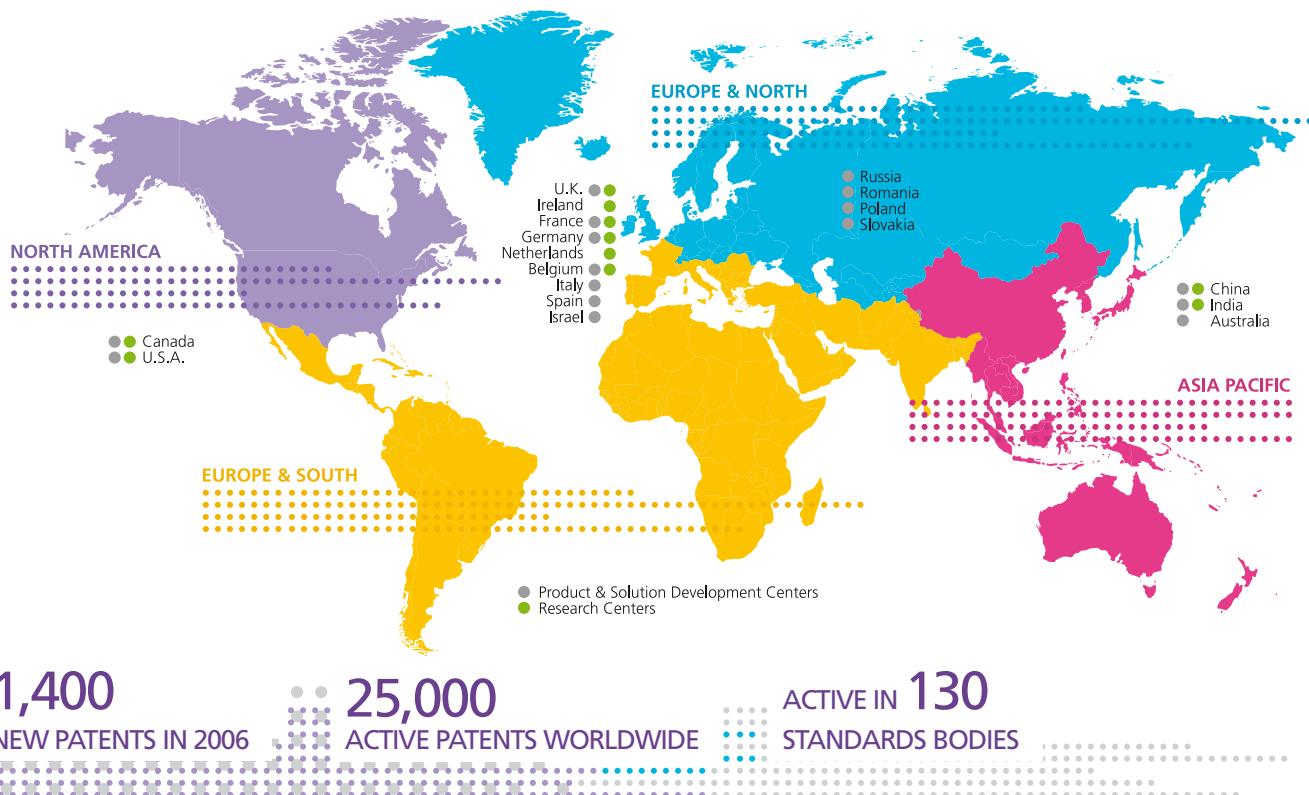
The combination of Bell Labs and Research and Innovation (Alcatel's former research arm) created a community of researchers and scientists in 10 countries: U.S., Canada, France, Germany, Belgium, U.K., Ireland, Netherlands, India and China.

Today, Alcatel-Lucent Research is playing a pivotal role in inventing or improving most of today and tomorrow's communications technologies in areas such as multimedia and convergent services and applications; new service delivery architectures and platforms; wireless and wireline broadband access; optical networking and packet transmission; network security; and enterprise networking. Alcatel-Lucent researchers also are making fundamental breakthroughs in areas such as nanotechnology, physical sciences, mathematics, and computer sciences.

€2.7 BILLION  
R&D INVESTMENT

14.9%  
OF ALCATEL-LUCENT REVENUES





The merger also strengthens the “incubator” initiatives that existed within both Alcatel and Lucent. Now called Alcatel-Lucent Ventures, the program’s mission is to further enhance innovation by leveraging research ideas that address new markets and create disruptive technologies. Currently, eight promising projects are under investigation and development.

### Remaining at the forefront of technology innovation

In 2006, Alcatel-Lucent demonstrated its leadership in several technology areas.

Numerous contributions from the labs enhanced the company’s product and solutions offerings. Key technological breakthroughs in radio and optics have been achieved.

For example, Alcatel-Lucent achieved a number of optical networking industry firsts, including WDM transmission at 100 Gigabits per second Ethernet over 2,000 km and the world record for Capacity x Times x Distance product with 3.1 Petabits/s/km.

In the wireless domain of third-generation (3G) and beyond broadband access network, key new Radio access technologies were introduced to ease delivery of multimedia and bandwidth-hungry services.

### A HISTORY OF INNOVATION

Alcatel-Lucent Research has a long history of technical achievements, disruptive inventions and business successes including the transistor, digital signal processing, the Charge-Coupled Device (CCD), the communications satellite, laser, and cellular telephony. Alcatel-Lucent’s 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, and a Grammy Award.

In the application and services domain, the company announced several breakthroughs in IMS that take advantage of surrounding information to develop technology enablers such as Universal Reachability Service (the simplest and most efficient way to reach your contact) and Identification Agent (knowing all about your caller at the first ring). Also critical for IMS is Alcatel-Lucent’s service enhancement layer, a suite of software tools that brings unique interoperability and network intelligence to converged networks. These tools were deployed in trials by a number of carriers in 2006.

And, in IPTV, the Alcatel-Lucent 5900 triple play applications family received the International Engineering Consortium InfoVision Award at Broadband World Forum Asia 2006.

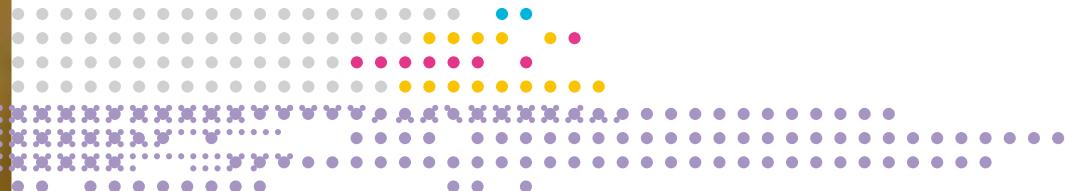
The corporate commitment to fostering a culture of innovation will ensure that Alcatel-Lucent continues to offer best-in-class inventions, technologies and solutions that not only meet customer’s business-critical needs today, but will also change the way people will communicate tomorrow.





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## TAKING UP CHALLENGES



On a day-to-day basis, being a socially responsible company means we conduct our activities with respect to the highest standards of business ethics, work to reduce the environmental impact of our activities and products, value our employees and promote diversity within our teams, and help promote the social and economic development of local communities where the company operates.

# HUMAN RESOURCES

For many years, the company has been focused on developing a human resources policy based on career and skill development, of which continuous learning is a crucial component.

The merger of Alcatel and Lucent combines the best-in-class human resources practices of both companies.



Diversity, mutual respect and equality are the key drivers of the company's policy of being a socially responsible citizen.

## THE ALCATEL-LUCENT MERGER

When the plan to merge the two groups was announced, a steering committee, an integration team and work groups, common to both companies, were formed within business groups, regions and corporate functions to manage integration and transition planning efforts.

Regular communication with employees on significant merger-related milestones and developments was provided on both companies' intranets throughout the pre-merger period. On Day 1, tailored communication was distributed to help each employee understand the company's new vision, mission, brand and organization. Events and face-to-face communication sessions with senior leaders were organized on the different work sites to present the business model to employees and to answer questions.

Within the framework of the global cost reduction plan of Euro 1.7 billion in annual pre-tax cost savings over three years, confirmed on February 9, 2007, Alcatel-Lucent announced a restructuring plan that could impact 12,500 positions. These savings will also include, for almost half of the amount, the optimization of our supply chain and services, the elimination of duplicate resources and product rationalization.

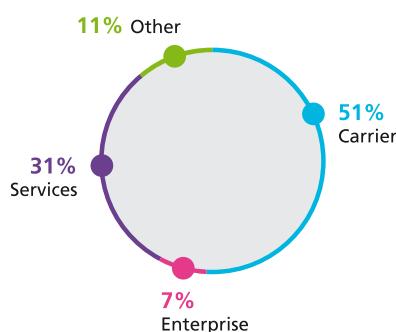
The workforce reduction will be managed with care, in accordance with all local rules and regulations.

## Workforce evolution

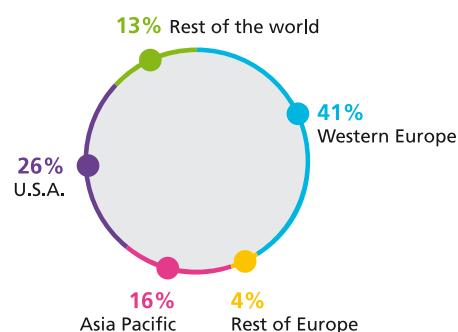
On December 31, 2006, Alcatel-Lucent employed 89,370 people worldwide, including the 29,861 employees who joined the company after completion of the Alcatel-Lucent merger and the 1,621 employees coming from Nortel due to the acquisition of Nortel UMTS technologies on December 29, 2006.

Total number of employees and the breakdown of this number by business segments is determined by taking into account 100% of headcounts at the end of the year of the employees of fully consolidated companies and of employees of subsidiaries consolidated using a proportionate consolidation based upon the company's percentage of interest in those companies.

HEADCOUNT BY BUSINESS GROUP (in %)



HEADCOUNT BY GEOGRAPHIC AREA (in %)





### Employee dialogue

Alcatel-Lucent respects the freedom of thought, opinion and expression and is committed to fostering an open dialogue with its employees, and when available, with their representatives on important decisions directly affecting them. In all countries where the company is present, it promotes active dialogue with all employees, through regular management briefing sessions, intranet communication, web chats and blogs, etc.

The European Committee for Information and Dialogue (ECID) provides information and facilitates the exchange of views at the European level between management and staff representatives. The committee meets in full at least twice a year. Items on the agenda range from the company's strategy, organization and competitive position, to changes in employment. The ECID has 30 staff representatives from the 15 European countries where Alcatel-Lucent operates.

In addition to the ECID's ordinary plenary sessions in 2006, there were 11 Extraordinary Meetings, either of the ECID itself, or of the ECID coordinating committee. Alcatel-Lucent's Chairman Serge Tchuruk met with the ECID coordinating committee, the French group committee secretary and the five main French union representatives regarding the Lucent deal on the same day the merger was approved by the Alcatel Board of Directors and before the news was made public. A series of dedicated meetings regarding the implications of the Thales partnership also took place.

As of the first quarter of 2007, the ECID will be renewed and will integrate employees from the former Lucent company who became part of the Alcatel-Lucent workforce before the end of the year 2006.

## Supporting employee development

Since 2005, Alcatel has been running a global performance management program. In 2006, 86% of managers and professionals had targets set as part of this; 63% of them were the recipients of development actions.

Because it is essential for all employees to have a clear vision of Alcatel-Lucent's objectives and of how each individual can contribute to achieving them, in line with the strategy, values and culture of the organization, this process has been retained within the new Alcatel-Lucent Group and was applied in 2007 to set the year's objectives.

The company also has a process in place to highlight key competencies and identify future leaders. In 2006, there were 60 reviews held throughout the world focusing on career development and succession planning.

This common approach to performance management will help to integrate the two groups and the Nortel employees who have joined them.



## Encouraging mobility

Due to the company's diverse geographic footprint, it can offer a wide variety of international career opportunities. This mobility is also functional as the company actively encourages its employees to develop their competencies in new domains. This is a key element of career development planning.

## Stepping up continuous learning

Global qualification, accreditation or certification programs have been initiated for critical areas, including marketing and sales, services and project management. These essential programs help employees to be successful in their current job as well as to adapt to future job requirements.

Access to learning solutions have been improved and simplified in 2006.

Upgrades to the learning management systems make it easier for employees to search, track, register and launch courseware.

With 19 training centers at the end of December 2006, Alcatel-Lucent's University offers employees and customers a large range of training in a variety of formats: traditional classroom, e-learning or virtual learning.

In 2006, Alcatel employees averaged 28 hours of training (up from 25 hours in 2005), 22% of which was taken via e-learning. Overall, 60% of the Alcatel employee population received formal training in 2006.

Following the merger, Alcatel-Lucent University's objective is to ensure the transition to a single learning management system and establish itself as a consultative value partner for each employee.

## TAKING UP CHALLENGES

### Developing teleworking

As a world leader in high speed technologies, Alcatel-Lucent is contributing to new forms of working by supporting teleworking initiatives in particular. In 2006, this matter was discussed with the European Committee for Information and Dialog (ECID) and led to the adoption, in December 2006, of a Charter on Teleworking, in line with the European Strategy for Employment. Building on the practices already carried out in France, Belgium, Germany, Italy, Norway, the U.K. and Spain, the charter established a common standard for Alcatel-Lucent's European workforce, aiming for a work-life balance and providing employees with greater autonomy.

### Ensuring employee health & safety

The Alcatel-Lucent EH&S Recognition Program for the installation workforce – that were formerly part of Lucent – is a program aimed at recognizing individuals and teams for their efforts and accomplishments that make installation work safer.

In late 2005, the RFS Radio Frequency Systems (RFS) management team in the United States launched several safety and health initiatives to help employees work more safely and promote an accident free environment. This resulted in a 75% reduction of both the incidence and severity of injury.

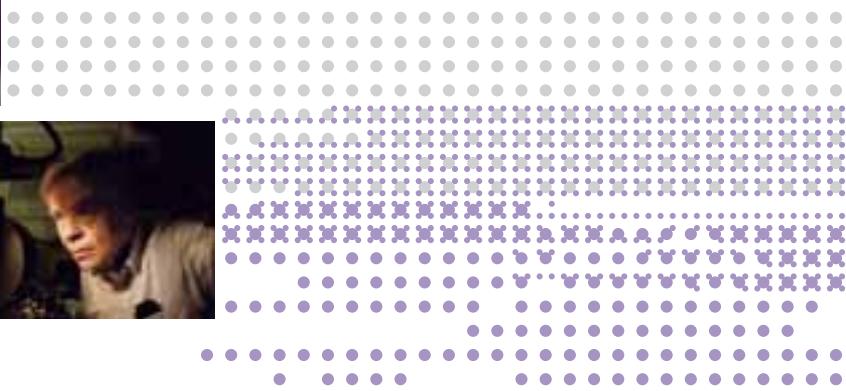
In North America, Alcatel-Lucent Health Services offers employees medical services including: on-site clinics, a consolidated Health Center, and an Employee Assistance Program (EAP) that provides counselling for problems such as substance abuse, relationship difficulties, psychological or emotional disorders, and stress.

### DIVERSITY AND EQUAL OPPORTUNITIES

As stated in the Alcatel-Lucent Statement of Business Principles, "Alcatel-Lucent is one company formed of many diverse and exciting cultures, thus each of us, the company's employees, must strive to appreciate, benefit from and understand one another's cultures and customs. Alcatel-Lucent's employees must not discriminate against one another, including for reasons of age, disability, ethnic origin, gender, race, religion, or sexual orientation".

*Diverse people and ideas are vital to our corporate culture and to our success as a global business. With employees representing 104 nationalities, we offer employees an inclusive workplace built on respect for individuals, and an appreciation of diversity in all its forms.*

Ethel Batten, Vice President, Global Diversity and Compliance



## Partnership with AIESEC: bridging cultural diversity into the teams

For the past three years, Alcatel has been focused on promoting cultural diversity thanks to a partnership with AIESEC, a non-profit international student platform with a global network of more than 800 universities, from over 93 countries. In 2006, this partnership resulted in 53 internships at sites in France, Germany, India and Canada. Graduates from China, Brazil, Romania, India, Canada, Russia, Netherlands and Hungary started to work on a large variety of projects which enriched the company's cultural diversity. The partnership has been renewed for 2007.

## Women in Leadership at Alcatel-Lucent: A corporate commitment implemented locally

The company continued to reinforce its commitment to improve gender diversity. Launched in 2005, the "Women in Leadership" initiative continued in 2006. Women make up more than half of the available talent coming out of business schools and ever-larger proportions of engineering graduates. Recruiting, hiring and retaining top female talent remains a business imperative for the company.

The initiative has also been implemented at local levels in many countries through tailored activities: awareness building, surveys, mentoring, training, participation in internal and external networks, focus groups and measuring progress.

With the Alcatel-Lucent merger, seven (30%) of the 23 members of the Alcatel-Lucent leadership team, managed by CEO Patricia Russo, are women.

## INITIATIVES TO PROMOTE EQUAL OPPORTUNITY

In November 2006, Alcatel units in Central and South America were awarded the 'Gender Equality Model distinction' by 'el Instituto Nacional de las Mujeres', an independent public institution which promotes gender equality.

2006 also saw Alcatel in Germany win an award from the Economics Ministry of Baden-Wurtemburg for the company's "Women in Leadership" initiative.

Lucent has also developed many initiatives to promote diversity within its teams. Pat Russo was one of eight CEOs to receive the "CEO Diversity Leadership Award" presented in October 2006 by Diversity Best Practices in Washington, DC.

## PROMOTING APPRENTICESHIPS FOR FRENCH STUDENTS

In June 2005, Alcatel signed the "Apprenticeship charter" sponsored by the French "Institut d'Entreprise". The purpose of this initiative is to give access to apprenticeship programs that enable students to pursue their studies while gaining professional experience. There are currently 350 apprentices working on Alcatel-Lucent sites around France, 60% more than 2 years ago. Alcatel-Lucent respects the diversity of the French society, especially in terms of cultures and ethnic origins, when hiring apprentices at different levels of qualification.



## INTEGRATING DISABLED EMPLOYEES IN FRANCE

Alcatel signed an agreement favoring the professional insertion of disabled people in May 2006, with all the French union organizations.

Alcatel-Lucent is committed to recruiting around 60 disabled employees by 2008, within the scope of this agreement, which is performed by a 'Mission Handicap' especially created for this purpose.

Beyond the issue of access to employment, the company is also committed to providing training courses and adapting technology as required to meet their needs.

# ENVIRONMENT HEALTH AND SAFETY

Efficient and effective management of environment, health and safety (EH&S) is a multi-faceted challenge that spans products, services and activities. Expectations of customers and employees have been a driving force in our long-standing commitment to EH&S consciousness.



*We are vigilant about making Alcatel-Lucent a safe, eco-responsible company by deploying EH&S management systems and by adding appropriate EH&S requirements in the different life phases of our products.*

Roy Femenella, Vice President, Environment Health and Safety

## ENERGY EFFICIENCY OF PRODUCTS: DUAL CHALLENGE, DUAL BENEFIT

Alcatel-Lucent considers the improvement of its products' energy efficiency as an environmental gain as well as an economic benefit for customers.

Assessments of the environmental impacts of products over their entire life cycle demonstrate that a product's greatest power consumption occurs mainly during its "usage phase".

Consideration of a product's energy efficiency in the early stages of design can then significantly reduce its total impact on the environment.

### Key initiatives in 2006

Both Alcatel and Lucent recognized the importance of improving the energy efficiency of products. Examples of the efforts in 2006 from both companies are outlined in the following paragraphs. In 2006, Alcatel maintained its efforts to improve the energy efficiency of high capacity broadband lines: the Access Division introduced a standby power saving feature for Asymmetric Digital Subscriber Line (ADSL) products. As network system operators begin to use this feature, significant reductions in energy consumption will be experienced.

Alcatel also undertook a project to examine the feasibility of measuring the energy efficiency of an entire telecommunications network. A pilot study was launched to investigate the energy efficiency of a Base Station Sub-System (BSS) comparing three generations of equipment in two network settings – in dense urban areas and in the countryside. The results demonstrated feasibility and energy efficiency improvement of the BSS during the last six years in both configurations.

Lucent's Bell Labs spearheaded a Central Office Cooling Study to develop cutting-edge cooling technologies to reduce the heat dissipated by telecommunications equipment and thus the air conditioning requirements and resulting energy consumption. The study considered the use of new materials, heat sinks, and enhanced equipment cooling techniques that include direct cooling and thermally improved transistor packaging. This consideration can result in substantial savings in energy consumption, as well as a reduction in CO<sub>2</sub> emissions. This study will be continued and if successful will be considered for future product enhancements.

### Building the new company's strategy

A task force dealing with energy efficiency was created in 2006 and is now composed of representatives from Alcatel-Lucent's Business Divisions and the Chief Technology Office.

Its mission is to:

- Combine existing expertise and practices across the organization in an effort to define a global policy on product energy efficiency and metrics to assess the company's progress in this area.
- Establish a long-term product energy efficiency improvement program.
- Launch pilot studies on specific products.

Alcatel-Lucent continues to work closely with customers and standardization bodies to define network features and architectures that allow improved energy efficiency.



### ECODECLARATION: THE PRODUCT'S ENVIRONMENTAL IDENTITY CARD

Alcatel-Lucent has decided to pursue a global ecodeclaration strategy across its entire portfolio. These ecodeclarations, based on the ECMA TR70 standard, present the environmental characteristics of a product such as energy consumption, electromagnetic and noise emissions, equipment batteries and packaging. This document indicates the product's compliance with legislation related to restriction on substances and provides information about management of the product at end of life. Alcatel-Lucent has established the goal of developing ecodeclarations for 95% of the company product portfolio by the end of 2008.

### A COMPREHENSIVE PLAN FOR WEEE\* DIRECTIVE COMPLIANCE

Since 13 August 2005, Alcatel-Lucent is responsible for managing the waste resulting from the products put on the EU market by either of the former companies unless otherwise specified with customers. To comply with the WEEE Directive, all legal entities under Alcatel-Lucent have registered in all countries where required and all relevant reporting and product related requirements have been fulfilled. Additionally, Waste Prevention and Recycling Plans were submitted to the environmental agencies of the countries requiring these Plans, such as Belgium and Ireland. To ensure compliance, contracts with customers and suppliers include WEEE related clauses to clearly delineate responsibilities concerning equipment end-of-life.

### Two approaches leading to compliance

To comply with the WEEE Directive, Lucent implemented centralized processes to handle WEEE-related obligations and the coordination of various stakeholders. As a part of these processes, a "Take-Back" help desk was established as the single point of contact for all take-back related requests. In support of these processes, Lucent joined the European Recycling Platform pan-European Compliance Scheme. Moreover, Lucent selected a general contractor to handle WEEE from its business-to-business equipment; created a process to assess the opportunity to resell and reuse the equipment, thus extending the life of these products; and identified a network of recyclers across EU that met Lucent's requirements for efficient and environmentally responsible recycling.

WEEE management in Alcatel was handled in a more decentralized manner. A project structure was put in place to federate WEEE local practices with a view to ensure compliance throughout the European Union. After selecting a service provider for collection and treatment operations, Alcatel worked to deploy operations across the company, adapting to local regulations and needs, and establishing a partnership with its service provider, globally and locally. As part of this partnership, Alcatel receives detailed reports on collection and treatment operations. These reports help us to understand the relative impact of some design features and of treatment processes on end of life management performance.

### Merging practices to build a common solution

Once the merger of Alcatel and Lucent was completed on November 30, 2006, a comprehensive review of the solutions to WEEE compliance was conducted.

Some key decisions were made towards a unified solution for Alcatel-Lucent's compliance on WEEE:

- A single web based interface for customers has been created together with a single set of contractual clauses.
- A common collection and treatment solution has been defined. It relies primarily on the partnership with Veolia as the main general contractor for collection and treatment operations and on the company's membership in the European Recycling Platform (ERP). ERP acts as an interface with some public authorities and as a compliance scheme in several countries for consumer equipment collection and treatment.
- A common end-of-life product information format has been agreed and will be implemented across product groups.
- As legal entities progressively merge, a consolidation of registrations and subsequent reporting processes will be completed.

\* WEEE: Waste Electric and Electronic Equipment.

### RECOVERED LEAD READY TO BE RE-USED

In 2006, Lucent joined the National Partnership for Environmental Priorities (NPEP), a program of the U.S. Environmental Protection Agency (EPA). The NPEP Program aims to minimize waste by fostering voluntary partnerships between EPA, state and local governments, commercial companies, and federal facilities.

Lucent targeted the lead-acid storage batteries that typically provide emergency power to network switching centres and wireless cellular sites, and reported to the NPEP the weight of lead-acid batteries de-installed and delivered to recycling facilities. In 2006, Lucent recycled 560.1 metric tons of lead-acid batteries, yielding 392.1 metric tons of lead that can be reused. The goal Lucent set for the 2005-2007 period to recycle 1,020.6 metric tons of lead is taken over by Alcatel-Lucent. As of January 2007, the company has recovered 764.7 metric tons.

## ELIMINATION OF HAZARDOUS SUBSTANCES FROM PRODUCTS

On July 1, 2006, the European Directive 2002/95/EC on the Restriction of the Use of Certain Hazardous Substances (RoHS) in Electrical and Electronic Equipment became effective for products placed on the EU market.

### Preserving performance and reliability

Operating as separate companies in 2006, Alcatel and Lucent achieved compliance with this Directive while securing the performance and reliability of their equipment and solutions.

Each company implemented comprehensive corporate programs and rolled out specific procedures, guidelines, and processes to ensure that all Alcatel and Lucent products shipped to the EU are fully compliant with the RoHS directive. Compliance with the RoHS directive required a significant effort to check hundreds of thousands of components from hundreds of suppliers and afterwards ensuring the traceability of their compliance status.

Both companies decided to use the exemption granted by the European Commission that allows the use of lead in solders for network infrastructure equipment. Products that were out-of-scope for the exemption were subjected to assessments and tests to demonstrate their robustness and long-term reliability.

### EUROPEAN UNION RoHS

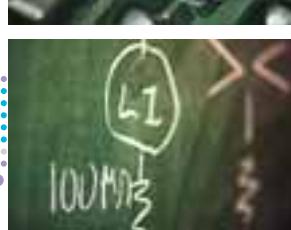
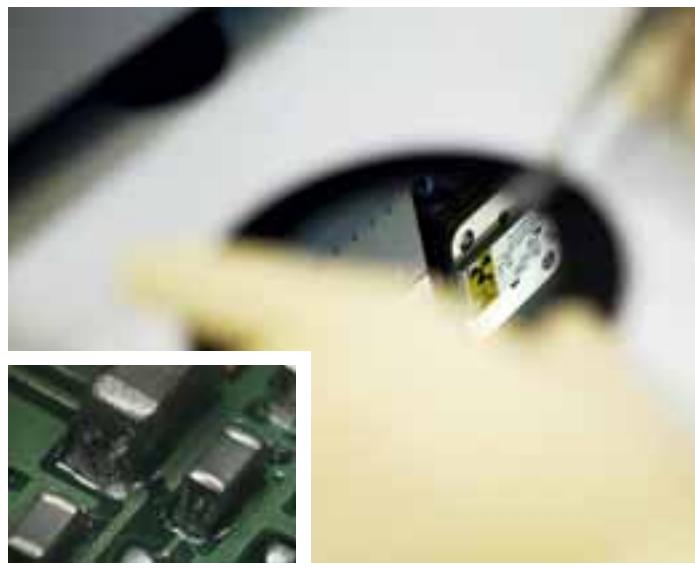
The RoHS directive restricts the use of lead, mercury, cadmium, hexavalent chromium, and certain brominated flame retardants in electrical and electronic equipment. This directive allows for the use of some exemptions, including the use of lead in solder for network infrastructure equipment.

### Going global

In December 2006, Alcatel-Lucent initiated a RoHS integration effort. Teams comprising members from both former companies looked for ways to align their individual programs, and thereby create a unified approach to compliance with material content restrictions. This important effort resulted in a common interpretation and implementation strategy for the new company.

The company's first objective for 2007 was to comply with "China RoHS" legislation, the first set of measures of which came into force in March 2007.

By combining efforts and strategies, Alcatel-Lucent is laying down the foundations that will enable the company to act proactively with the emerging global eco-environmental material restrictions.



### CHINA RoHS

This legislation requires companies to provide, as of March 2007, detailed information on hazardous substances present in products, if any, and to put a dedicated marking related to hazardous substances on the product and another marking giving recycling information on packaging.

### ELECTROMAGNETIC ENVIRONMENT AND HEALTH

Both Alcatel and Lucent have addressed the subject of radio frequencies and human health for many years. Alcatel-Lucent will consolidate initiatives undertaken by each former company with a view to support customer needs, ensuring employee safety, and continuing to advocate programs that raise awareness among governments, industry, the media and the general public.

#### Worldwide trend to harmonize exposure limits

Results of a large number of scientific research projects have been released in 2006 including those from some major long-term international studies. With this increasing scientific knowledge base, expert committees reaffirmed that to date there is no established health effects at exposure levels below the international guidelines developed by the International Commission on Non-Ionizing Radiation Protection (ICNIRP) and the Institute of Electrical and Electronics Engineers (IEEE).

These conclusions were emphasized by the publication of the World Health Organization (WHO) model legislation and the WHO Fact Sheet n°304 on "Base stations and wireless technologies". The Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR) of the European Commission also published a preliminary opinion suggesting that no health effect has been consistently demonstrated at exposure levels below the ICNIRP limits.

In addition, the adoption of the IEEE C95.1-2005 update by the American National Standards Institute (ANSI) also confirmed the worldwide trend towards harmonization of exposure limits with the ICNIRP guidelines at radio frequencies.

#### Participating in international standardization initiatives

In 2006, both Alcatel and Lucent played prominent roles in the development of regional and international standards for worker protection and for compliance assessment of products and sites.

Alcatel-Lucent will continue to support the finalization of a global standards framework based on the exposure assessment methods developed by the International Electrotechnical Commission (IEC). The IEC initiative aims to harmonize ongoing work being conducted by regional and international standardization bodies such as the IEEE and the European Committee for Electrotechnical Standardization (CENELEC).

#### Informing and training people

Both companies provided training on Electromagnetic Environment and guidance to their work forces. Lucent provided dedicated customer services and training to support the safe deployment of wireless products in the field. Alcatel informed employees in all the relevant EU countries about the provisions of EU Directive 2004/40/EC on electromagnetic fields (EMF) at work, and initiated its implementation.



#### NEW ANTENNA SOLUTIONS OFFER MULTIPLE BENEFITS

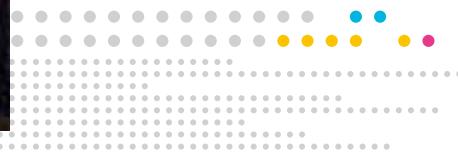
Alcatel-Lucent subsidiary Radio Frequency Systems developed a new rooftop antenna solution: the Optimizer Rooftop® reduces the visual impact of base station antenna installations, lowers engineering costs and provides operational advantages in terms of occupational health and safety.

## CONTRIBUTING TO TAKING UP THE CLIMATE CHANGE CHALLENGE



Total greenhouse gas (GHG) emissions are regularly reduced as a direct result of the implementation of energy efficient projects, fuel substitution, recycling activities and optimisation of the Real Estate portfolio. A review of 22 facilities in North America shows that, from 2003 through 2006, Lucent reduced annual consumption of electricity and natural gas, resulting in a 35% improvement in energy efficiency.

Since joining the U.S. Department of Energy "Voluntary Reporting of Greenhouse Gases" program in 1993, Lucent has reduced GHG emissions by more than 650,000 metric tons. Lucent is also a partner in the U.S. Environment Protection Agency (EPA) Climate Leaders Program, a voluntary industry-government partnership designed to develop long-term comprehensive climate change strategies. Alcatel-Lucent will continue this partnership.



## ENVIRONMENTAL MANAGEMENT OF OPERATIONS

Alcatel-Lucent is committed to protecting the environment and the health and safety of its employees, customers and communities where it operates, and long-lasting plans have been implemented to reduce:

- the consumption of natural resources;
- greenhouse gas emissions;
- waste production;
- and discharge into water and air from the operations.

One element of this commitment is demonstrated through the deployment of Environment, Health and Safety (EH&S) Management Systems.

### Achievements recognized by third-party certifications

On Lucent's side, a single common certified Environmental Management System (EMS) covers manufacturing, design and services activities in Australia, China, Germany, India, Ireland, Korea, Poland, Russia, Spain, the Middle East (Saudi Arabia, United Arab Emirates and Egypt), the United States and New Zealand, and is one of the most extensive multi-site certifications in the ICT sector.

As a result of the Environmental Plan adopted by the company since 1992, Alcatel's operations in Austria, Belgium, China, France, Germany, India, Italy, Romania, Spain and the United Kingdom, representing about 60% of all company's sites, obtained third-party certification to the ISO 14001 standard.

Following the deployment since 2005 of an EH&S management system, Alcatel-Lucent France obtained in the first half of 2007 a multi-site certification from Det Norske Veritas (DNV) for six locations: Eu, Lannion, Ormes, Orvault, Vélizy and Villarceaux-Marcoussis.

Both Alcatel Telecom Ltd. (UK) and Alcatel EU plant (France), also developed an Occupational Health & Safety (OHS) Management System, certified to the OHSAS 18001 standard. In addition, three third party certified (OHSAS 18001) systems at Lucent locations received a single multi-site certification. The systems represent six locations in Australia and New Zealand, two in Korea, and the Worldwide Services Organization-China.

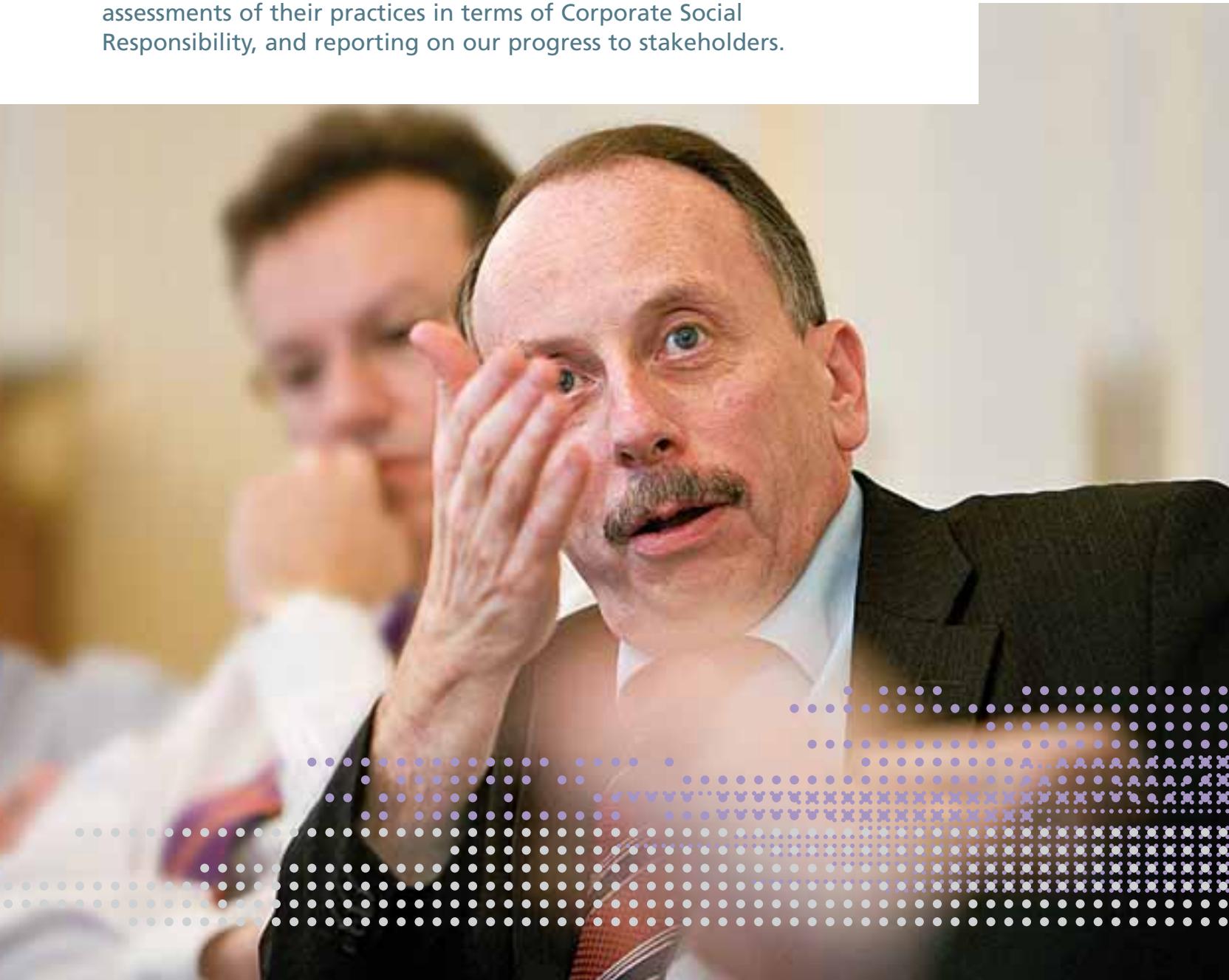
### A commitment to reinforcing programs in this field

Building on the management systems and environmental plans of the former companies, Alcatel-Lucent will put into practice those processes that best protect the environment while also controlling costs and promoting efficiency. The company will pursue four key goals in relation to EH&S:

- Expand the scope of the third-party multi-site system to continue to meet business needs.
- Improve access to tools, instructions and technical support to facilitate implementation of environmental plans.
- Further reduce greenhouse gas emissions and use of ozone-depleting substances.
- Identify additional ways to decrease energy consumption.

# SOCIAL RESPONSIBILITY IN THE SUPPLY CHAIN

Alcatel-Lucent believes that a responsible purchasing approach can only be successful if built in partnership with suppliers: engaging in regular dialogue with them, carrying out in-depth assessments of their practices in terms of Corporate Social Responsibility, and reporting on our progress to stakeholders.



## Leveraging past experience to develop best practices

In line with past commitments, Alcatel-Lucent will pursue programs to promote CSR principles and monitor implementation in the company's supply chain.

Alcatel-Lucent is currently assessing the past experiences of Alcatel and Lucent to leverage the competencies, solutions, and approaches developed – and build its new program on the best of both.

Alcatel-Lucent's approach to CSR in the supply chain is based on a set of clear commitments that integrate the strengths of each former company in this vital area. Key elements of the purchasing strategy were agreed upon in 2006 and will be formalized in a dedicated corporate charter in 2007:

- **Implement a CSR program in the purchasing community** thereby ensuring that Alcatel-Lucent's Statement on Business Principles is known and respected by the suppliers and sub-contractors. This includes the addition of a mandatory CSR clause in all purchasing contracts.
- **Engage suppliers and sub-contractors in regular dialogue on CSR matters via CSR questionnaires and possibly CSR on-site audits.**
- **Integrate the analysis and/or follow-up of CSR practices as a criterion in the selection and management of suppliers and contractors.**



### SUPPLIER RATING SYSTEM

This on-line corporate tool enables Alcatel-Lucent to put key supplier information at the fingertips of the entire purchasing community. All assessment results from CSR questionnaires are published on the system to support decision-making and members of the purchasing community are responsible for updating profiles based on their regular overall assessment of the performance of suppliers. This enables the whole organization to be aware of any change in a given supplier's CSR appraisal.

*Most of our major customers are today requiring evidence that we are able to monitor ethical and social risks related to our supply chain. They consider concrete actions as a key supplier selection criterion.*

Jean-David Calvet, Vice President, Global Procurement and Sourcing

## Evidence-based evaluations available in real time

For more than two years, Alcatel's Global Procurement and Sourcing Department has carefully monitored the commitment of its suppliers to internationally recognized standards related to ethical, social and environmental practices. Whether selecting a new supplier or re-assessing an existing one, Alcatel adopted an integrated approach to assess its suppliers: the evaluation of their practices in terms of Corporate Social Responsibility was a criterion used for analyzing their performance just as other criteria related to finance and strategy, quality, human resources and risk-management, for instance.

Lucent also had a process of evaluating its suppliers through questionnaires covering all aspects related to the business, including policies and practices in terms of Environment, Health and Safety, Human Resources and Quality.

In addition to the integrated supplier assessment, Alcatel's Global Procurement and Sourcing launched two years ago an extensive and dedicated survey of suppliers' practices in terms of CSR. The initial assessment is organized centrally within the procurement organization and carried out through a questionnaire requesting information on policies and implementation plans in the field of ethical, social and EH&S matters, ensuring that all elements are assessed based on evidence provided by the supplier. After having gathered all the evidences the supplier can or is willing to provide in support of its assertions, the CSR performance assessment is shared with the supplier.

## TAKING UP CHALLENGES

In 2006, the Dow Jones Sustainability Index recognized the company's strategy towards suppliers as a "best practice" in its sector.

Alcatel set in 2005 a corporate objective to evaluate CSR supplier performance for 70% of its total purchasing volume by the end of 2008. In 2006, the assessments were extended to 300 suppliers worldwide, accounting for around 60% of Alcatel's total purchase volume. Following the merger with Lucent a new corporate objective has been defined to integrate the overall supplier base of the new company.

Alcatel-Lucent is committed to evaluating by the end of 2008 the CSR performance of its suppliers covering 65% of the company's total purchasing volume.

### CSR Audits prompt corrective action

Close cooperation between the Global Procurement and Sourcing Department and Group Audit Services (GAS) has been key to ensuring the success of the company's program for CSR in the supply chain.

Upon reviewing the results of the 2005/2006 CSR survey, Alcatel decided to audit on-site nine of the assessed suppliers. The company pursued these audits based on the Social Accountability 8000 (SA 8000) following norms defined in the conventions of the International Labor Organization, the Universal Declaration of Human Rights, and the International Convention on the Rights of the Child.

Audits were conducted by teams of three to four employees, including internal auditing professionals, members of the procurement and sourcing department and quality department, or EH&S specialists. In each case, a local employee with appropriate knowledge of local legislation was brought onto the team.

In 2006, Alcatel worked closely with previously audited suppliers to monitor implementation of corrective action plans and resolution of the issues found in the field. The follow-up audits performed show significant efforts and improvements, clearly demonstrating that suppliers take seriously the results of Alcatel assessments and diligently pursue corrective actions.

As a result of the experience gained in 2004 and 2005, the assessments and audits carried out in 2006 were adapted. Two significant improvements are noteworthy:

- Questionnaires to suppliers were improved to enable the company to better assess suppliers' answers and pinpoint key aspects that enhance the overall accuracy of assessments.
- Audit process and tools were updated to put greater emphasis on some critical criteria. The improved process and tools will form the basis for Alcatel-Lucent's supplier CSR evaluations and audits.

### Building relationships with diversity suppliers in North America

To fulfill customers' expectations and comply with the U.S. Small Business Act (Public Law 95-507), both Alcatel and Lucent launched a program to expand business relationships with diversity suppliers.

In line with the approaches pursued by both former companies, Alcatel-Lucent in the U.S. is committed to providing fair and equal opportunities to qualified diversity suppliers. Alcatel-Lucent engages with diversity suppliers solely on merit. In the U.S., it is the company policy to open all major bids to businesses owned by minorities, women and veterans. Diversity suppliers are evaluated based on their financial strength, their bid responses, and their ability to meet quality standards.



**ALCATEL-LUCENT** is committed to evaluating by the end of 2008 the CSR performance of its suppliers covering 65% of the company's total purchasing volume.



Alcatel-Lucent will continue to support local and national councils concerned with diversity supplier issues, while also making contact with potential new suppliers, building on current relationships, mentoring, participating in training events, serving on committees and hosting events.

The Company's goal for 2007 is to establish a fully integrated set of processes and tools that will enhance the supplier diversity program while also providing customers with the most competitive business solutions to meet their needs.

### Central guidance and monitoring, regional leaders to spread the program locally

The company is committed to pursue its efforts on responsible purchasing, and to reinforcing and deploying its process and tools throughout the company.

To enforce this commitment, the company created a dedicated GPS CSR organization, which is fully responsible for implementing the CSR Purchasing strategy. The CSR supplier program will be coordinated at the central level. Regional heads will be responsible for overseeing the application of CSR principles in procurement processes and coordinating activities in their regions. Ultimately, this will lead to positive actions at local level.

In 2007, the major objective of the CSR program is to deploy a consistent CSR policy across the Alcatel-Lucent purchasing community, ensuring that all use common policies, tools and processes to assess and track suppliers' CSR practices.

### DEDICATED CSR TRAINING FOR PURCHASING TEAMS WORLDWIDE

The active involvement of all of procurement and sourcing teams is critical to the success of the CSR program. In fact, each member of the purchasing community plays a decisive role in ensuring that the entire supply chain cycle complies with the company's standards – including the rigorous pursuit of CSR policies and procedures.

For this reason, several training sessions dedicated to CSR have been organized in Europe (Paris, Vélizy, Strasbourg, Antwerp and London), North America (Plano, Texas, and Kanata, Canada) and in Asia-Pacific (Shanghai). In 2006, more than 270 buyers and negotiators had received guidance on how to engage suppliers and contractors in regular dialogue on CSR issues.

This training program will be extended to all major entities in 2007 to ensure that the integrated purchasing teams are all aware of their responsibilities.

# DIGITAL INCLUSION

The “broadband for all” vision lies at the heart of Alcatel-Lucent’s identity. Our business, our global reach, our long-standing presence in emerging countries and our values prompt us to take up this challenge. We are dedicated to enriching people’s lives by transforming the way the world communicates. By promoting innovation in technologies, business models and uses, we are taking part in the development of a more inclusive information society.



## PURSUING COLLECTIVE COMMITMENTS

In a world where the exchange globalization becomes the general operating principle, access to information and communication technologies is a key, a quintessential non-condition, for economic and social development. This is, of course, a crucial issue for emerging countries.

The United Nations organization clearly framed this challenge. In 2000, invited governments, together with the private sector, "to make available the benefits of new technologies, especially the information and communication technologies, to everyone", as part of the "Millennium Development Goals".

### "Broadband for all": a company's commitment to reduce the digital divide

Alcatel-Lucent's commitment is completely in line with that of the global community. The company has proved it by becoming, in June 2005, thanks to its Digital Bridge Initiative, a founding member of the "Connect the World" program, a global multi-partner initiative launched by the International Telecommunications Union (ITU).

A world leader in broadband access, Alcatel-Lucent has been present in over 130 countries for a long time and has a leading position in emerging countries. With more than 23,000 research and development experts and a worldwide R&D presence, Alcatel-Lucent is also a first rank contributor to the innovation dynamics in the communication sector. This puts the company in a perfect position to take part in the development of a more inclusive information society.

*Because we believe information and communication technologies should be available to anyone, our company is committed to mobilizing its energies, its innovative capacity and the talent of its employees to participate in this worthwhile collective challenge.*

Patricia Russo, Chief Executive Officer

### A reinforced partnership with ITU

In 2006, the company actively participated in all related events organized by ITU, including a panel in Doha (Qatar) in March 2006 during the World Telecommunication Development Conference (WTDC).

On this occasion, the company signed a new partnership agreement with the ITU to create the Youth Education Scheme (YES). This scholarship program targets young people from developing and least developed countries by providing support while they finish their third-level education in the telecommunications field. A sister program, the Youth Incentive Scheme, offers internships that help young graduates to achieve high-level practical experience in this field before beginning their careers.

The company also chaired the first Connect the World Executive Board, held in Turkey in November 2006 during the ITU plenipotentiary.

### Contributing to international research on ICTs and development

Early 2007, Alcatel-Lucent issued a joint study with the Economic and Social Commission for Western Asia (ESCWA), a UN agency based in Beirut, Lebanon, in charge of the social and economic development of 13 countries of the Middle East. This initiative is similar to the one carried out in 2005 with infoDev, when the company jointly co-authored a report on the development of the ICT infrastructure in Sub-Saharan Africa.

A new report entitled "Broadband for Development in the ESCWA Region" outlines the vast development potential as the ESCWA region moves towards the broadband revolution and highlights examples of concrete business cases in selected countries. The report also assesses factors that hinder the deployment and spread of broadband, while proposing practical actions to guide ESCWA member countries in their quest for enhanced infrastructure to build the knowledge society.



The report capitalizes on ESCWA and Alcatel-Lucent's complementary expertise to assist all stakeholders in the regional development of broadband, including governments, regulators, operators, service providers and civil society at large.

## TAKING UP CHALLENGES

### DIGITAL BRIDGE INITIATIVE: AN INNOVATIVE APPROACH FOR DEVELOPMENT

How can we offer solutions that are both innovative and economically viable, adapted to local needs and joining applications, technologies and financing?

To provide concrete answers to this issue, the company initiated in 2001 an original development approach, the "Digital Bridge Initiative", based on an innovative use of information and communication technologies in isolated regions of emerging countries.

The key points of this initiative: meet main development needs, provide customized services and work in close partnership with local actors to make sure that solutions are appropriate, lasting and reliable.

Following are a few examples of pilot projects launched this year in Africa. Each of them illustrates, in its own way, how broadband can concretely support the economic and social development of local communities.

*//*  
*The Alcatel-Lucent Digital Bridge Initiative contributes to the materialization of the "broadband for all" vision through a set of concrete actions aimed at providing win-win solutions to all stakeholders.*

Thierry Albrand, Vice President, Digital Bridge Initiative  
*//*

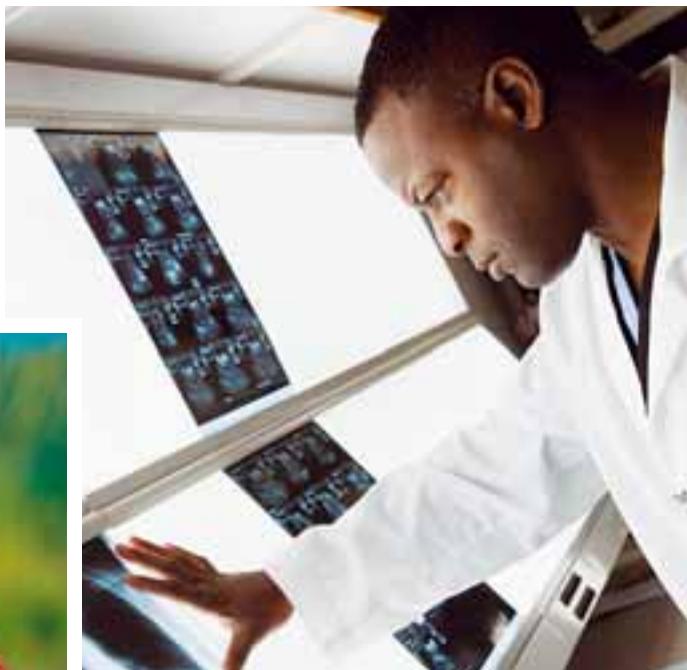


### DIGITAL RADIO IMAGING TO ENABLE REMOTE DIAGNOSIS

Dr. Cheikh Tidiane DIOUF is a radiologist at the "Hôpital principal" in Dakar, Senegal. The new digital imagery application deployed by Global Imaging Online in this hospital enables him, thanks to Alcatel-Lucent's broadband technologies, to interact with colleagues around the world, to exchange patient data and medical images, thus obtaining their feedback and advice.

Today, Dr. Cheikh Tidiane DIOUF needs to deal with a particularly complex case. He already has diagnosis but wants a second opinion. He is thinking of taking advice from his old friend and colleague who now works in France. What would have been almost impossible a few months ago has now become easy thanks to Alcatel-Lucent's broadband technologies and the system deployed by its partner Global Imaging Online, specialized in medical treatment and digital imagery in this hospital.

He can now instantaneously send all his patient's data and medical images to his colleague in France to get a remote diagnosis. Thanks to the same system, he will soon be able to receive data from small hospitals without radiologists situated all over the country. This new medical diagnosis imagery application, enabling a computerized patient record system, will significantly improve patient monitoring. Dr. Cheikh Tidiane DIOUF is well aware that this will enhance healthcare in Senegal, especially in isolated rural areas suffering from a lack of medical infrastructure and resources. Other west-African countries are already expressing their willingness to deploy similar systems.



## Antananarivo, Madagascar: broadband to broaden economic opportunities

Antananarivo is the economic, cultural and administrative center of Madagascar. But it is also home to thousands of deprived people for whom broadband access can create new opportunities.

In September 2006, Alcatel-Lucent signed a memorandum of understanding with the NGO ATD Fourth World and the local ISP Data Telecom Service to supply broadband Internet access to two projects that target groups in the poorest segment of the population.

One project will establish IT discovery and training programs for young people 16 to 25 years of age. To ensure the sustainable development of a knowledge-based society, the first 20 young people trained will take on the task of communicating their knowledge to other youth.

The second project will use the Internet to create a craft cooperative for adults who produce goods for the home market (peanut oil, wooden furniture, etc.) and to sell embroidery work and woven cloth to export markets. The objective, after two years, is to offer jobs to approximately 50 craftsmen and women, thereby improving the quality of life for the whole community.

Alcatel-Lucent is committed to offering the telecommunications equipment, a WiMAX station and associated terminals, and will help to set up and run the project, which should be operational in 2007.



## Tembisa, South Africa: Mzansi Café now serving high-speed Internet

Like many of the world's mega-cities, Johannesburg is characterized by distinctly different first and second economies – with a growing mega-gap between the rich and the poor. Bridging the digital divide by providing broadband Internet access to historically disadvantaged communities can help to create employment opportunities and promote a spirit of entrepreneurship.

Co-sponsored by Alcatel-Lucent and the local fixed incumbent operator Telkom, the Mzansi high-speed Internet Café opened in the township of Tembisa in March 2006. Alcatel-Lucent provided equipment for free and contributed to the OPEX funding for the first year. In addition to providing ICT service to the local community through the café, the sponsors requested free access for several hours a day for the children of the nearest school, Endulwini Primary School.

## Incubating local entrepreneurs

By developing incubation centers for local telecom developers, Alcatel-Lucent's objective is to help individual entrepreneurs or start-ups without sufficient technical expertise or financial means to develop value-added services and applications that can meet the needs of local users.

The company opened a first "Partnership Center" in Tunis in 2003 and a second one in Cairo in 2005. These incubation centers are located on the Alcatel-Lucent sites and open to local partners selected based on their projects. Alcatel-Lucent provides a platform for the developers to implement their applications and innovative services designed for the mobile networks. The developer remains the owner of his idea throughout the process.

Alcatel-Lucent, by being a strong supporter of local entrepreneurship, participates in the development of telecom access for all in the field, with the desire to now offer broadband for all.

# CORPORATE CITIZENSHIP

Alcatel-Lucent takes its corporate citizenship responsibility seriously and will continue to carry out programs that benefit the communities where employees live and work around the globe.

In 2006, activities included employee volunteerism and a carefully managed philanthropy effort through both Alcatel's corporate and local activities and through Lucent's Foundation.



## GERMANY

### Girls' Day, helping young women learn about information and communications technologies

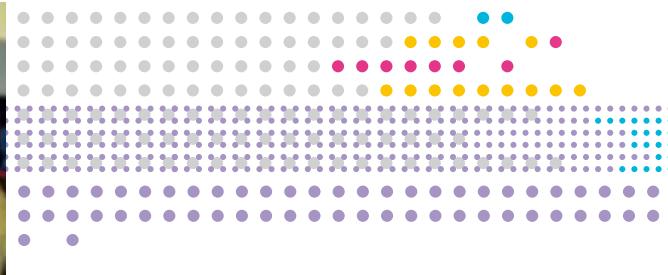
In April 2006, Alcatel participated for the sixth year in Germany's Girls'Day, a joint initiative of governmental and nongovernmental organizations. The program invites companies and organizations to organize a special day for girls to open up future prospects to the next generation of qualified young women. In 2006, nearly 300 young women aged 14 to 18 gained insight into the working world at Alcatel's Stuttgart, Arnstadt and Bonndorf locations. They participated in a variety of activities, including soldering components on printed circuit boards, using computer tools to make key fobs by machine, and building websites.



## UNITED STATES OF AMERICA AND CANADA

### Junior Achievement Efforts Pay Student Dividends

Junior Achievement (JA) is the world's largest nonprofit program dedicated to teaching elementary through high school students about the importance of economics, business and the free enterprise system. It aims to assist in the transition from school to the business world. As part of Lucent's 2006 Global Days of Caring event, employees supported several Junior Achievement programs in the United States and Canada, providing volunteers in schools and financial support for the program. These included : in Naperville, Illinois, 56 employees hosted a bowl-a-thon for the Illinois JA affiliate, more than 300 employees in Murray Hill, New Jersey, supported a used book sale to benefit JA New Jersey, and in Atlanta, Georgia, 20 employees also sponsored a bowl-a-thon. Throughout the year, as part of JA's "Economics of Staying in School" program, 24 employees in Ottawa, Canada, volunteered to help students study important economic concepts that enhanced their understanding of the world around them.



## RUSSIA

### Russian youth learn about new technologies

The mission of Lucent's long-standing education project in Russia, in partnership with the International Youth Foundation, is to increase the involvement of youth in information technology and telecommunications. In 2006, Lucent sponsored an open contest throughout the country to help young people submit scientific projects. The contest grant committee, made up of IT experts and scientists, selected 16 winners from more than 100 projects submitted. Authors of the winning ideas received monetary grants to transform their ideas into reality. During the realization phase, the winners were able to connect with scientists and experts through four technoparks that are being built in the Russian Federation. Lucent employees offered expertise as members of the grant committee and expert group, provided technical advice as youths developed their proposals, and assisted in judging the projects.

## EGYPT

### Educational Programs for Egyptian Youth

Alcatel continued in 2006 to fulfill its commitments with three Egyptian educational institutions. The company worked with Cairo University's Faculty of Engineering to deliver first-class technical education through its training center. The training program features numerous courses covering various aspects of wireless and telecommunication technologies. To date, Alcatel has trained more than 60 graduates. The company continued to partner with the National Telecom Institute of Egypt (NTI) to deliver a technical program to NTI students covering general telecommunication topics, as well as instruction on the company's specific products and solutions. Alcatel also worked with the Future Generation Foundation to deliver telecommunication training programs to Egyptian youth. For that program, the company trains 50 students a year on wireless products and solutions.

## TAKING UP CHALLENGES

### CANADA

#### Children's Festival

In 2006 Alcatel was the title sponsor of the Alcatel Ottawa International Children's Festival, a five-day celebration held on the grounds of the Science and Technology Museum. Featuring some of the best local and international performing artists for children of all ages, nearly 13,400 elementary school children attended in 2006, up from 5,000 in 2001. Alcatel received the honorary patronage award in 2006 from the Governor General of Canada. The Children's Festival has built a solid foundation in the community, supporting nearly 600 local schools in providing 110,000 students aged 4 to 15 with the opportunity to experience the highest quality arts programming. The festival focuses on enriching school curriculum and promoting the arts as an integral part of children's development.



### BRAZIL

#### Supporting São Paulo's Committee for Democracy in Information Technology "Multimedia Lab"

In October 2006, Alcatel announced its support for the "Multimedia Lab" project of the Committee for Democracy in Information (CDI) Technology in São Paulo. The objective is to provide the Information Technology and Citizenship Schools with photographic, audio and video equipment, thus promoting the use of new technologies, and reinforcing social and digital inclusion. CDI is a nongovernmental organization whose mission is to foster social inclusion of less fortunate populations. CDI works at low-income communities and includes 859 schools. With the "Multimedia Lab", approximately 100 educators of the Information Technology and Citizenship network will have access to new technologies to enhance their teaching methods.

### FRANCE

#### A TUTORING PROGRAM TO HELP STUDENTS FROM DISADVANTAGED SUBURBS

Alcatel partnered in 2006 with five other telecom companies and French public institutions to launch "Cercle Passeport Promotions Télécoms", a tutoring program to help students from disadvantaged suburbs. Alcatel is the largest contributor in France with a network of 150 employee tutors representing half the total number of 'Cercle' tutors spread across the 12 participating companies and organizations. It also provides financial support to the students for the duration of their studies, and, through moral support and mentoring, the tutors bring out the potential of each student. The aim of the program is to provide tutoring to students from disadvantaged suburbs to help them succeed and to build a professional network.



### UNITED STATES OF AMERICA

#### High School Students Conquer the Hill

In March 2006, Lucent sponsored 22 New Jersey high schools, 40 teams and 118 students to take part in "Conqueror of the Hill", a statewide applied physics/technology competition for New Jersey high school students. Since 1991, teams of New Jersey students have designed and built projects from a standard list of common supplies. The projects compete on a plywood hill battleground to achieve a goal. Each year the goal changes, with winners receiving U.S. Savings Bonds as prizes.

### UNITED STATES OF AMERICA

#### Bell Labs Graduate Research Fellowship Program

Lucent's Bell Labs Graduate Research Fellowship Program was designed to increase the number of women and currently under-represented minorities who have Ph.D. degrees in science and math. Currently there are 36 students in the program, and more than 450 have participated since it began at AT&T in 1972.

## CHINA

### Alcatel Shanghai Bell continues support for "Ninglang Hope School" project

In 2006, Alcatel Shanghai Bell (ASB) continued for the fourth year in a row its support of an educational initiative in Ninglang, an isolated region of China approximately 2,000 kilometers southwest of Shanghai. ASB granted scholarships to 80 students and 10 teachers. In all, ASB employees have sponsored more than 200 Ninglang children to help them complete their elementary school education. Last year, ASB employees, local government officials and students planted trees in an environmental protection garden at the school.

ASB provided a speaker who made a presentation to students and teachers about the environment. ASB also designed, produced and distributed 10,000 exercise books, 300 posters and 2,000 stickers to promote environmental protection. Thirty students won cash prizes in a writing contest on an environmental protection theme.



## INTERNATIONAL

### INTEL INTERNATIONAL SCIENCE AND ENGINEERING FAIR FOR STUDENTS

Lucent partnered with Intel Corporation in 2006 on the 57th edition of the Intel International Science and Engineering Fair, the only worldwide science project competition for students aged 14-18. Held in Indianapolis, Indiana, U.S.A. in May, the fair brought together more than 10,000 people, including 1,500 of the brightest young national and international winners of science fairs, as well as their teachers, science fair directors, and other interested parties.

## THAILAND

### Raising money for a primary school

In honor of the 60th anniversary celebration of the King of Thailand's accession to the throne, Alcatel held a fundraising initiative in 2006 to raise money for a primary school in Mae Hong Don province, a remote province in the north of Thailand, near the border with Myanmar. The school, which has just three teachers for grades from kindergarten to sixth, receives limited government funding. Alcatel employees donated money to build a library and purchase a freshwater tank. Alcatel in Thailand also donated books and computers for students at the school.

## INDIA

### Working with Four Nonprofits to Improve Quality of Life in Bangalore

In May 2006, for the Global Days of Caring (GDOC) event, more than 200 Lucent employees in Bangalore, India, volunteered with four nonprofit organizations, including a shelter for homeless children, a facility for mentally at-risk students, the Prerana Resource Centre, and the Dream School Foundation, which works to improve the standard of education in government schools. As a result of their GDOC experience, employees continued as year-round volunteers with these organizations.

## ARGENTINA

### Teaming with Fundacion Leer for Youth Development

In 1999, the Lucent Technologies Foundation and the International Youth Foundation entered into a global partnership to promote positive youth development through education and learning. The partnership has been extended to a total of 14 countries, including Argentina. For the 2006 Global Days of Caring program, in partnership with nonprofit partner Fundacion Leer for the fourth year, Lucent employees volunteered at a safe haven for abandoned, battered women and their children. Lucent volunteers created a reading corner, which included shelves filled with children's books, and chairs and tables for the children to do their homework. Volunteers also return regularly to serve as tutors for the students who need help with their studies, and provide job counseling and other work-preparedness support for the students' mothers.

# PHOTOGRAPHY

As a company focused on innovation, Alcatel-Lucent supports contemporary photography and its spirit of discovery, as part of its citizenship objective of promoting cultural diversity and exchange between the different communities in the various countries in which the company operates. Since 2001, the company has been a prominent sponsor of a number of cross-cultural initiatives using photography as an expression of its diverse cultural heritage.

"Euro Visions", Bulgaria by Bruno Barbey, © Magnum Photos.

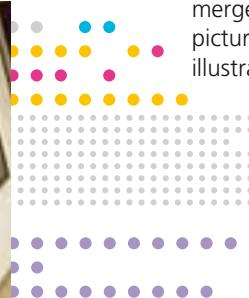


## THE ALCATEL-LUENT PRIZE

### FOR THE EUROPEAN MONTH OF PHOTOGRAPHY

Launched in November 2004, the European Month of Photography now brings together the seven photography festivals of Berlin, Bratislava, Luxembourg, Moscow, Paris, Rome and Vienna, with the primary objective of promoting international recognition for European artists. Mutations 1 is the first joint project of the European Month of Photography. By means of a selection of work by seven artists - one drawn from each festival - Mutations 1 seeks to provide an insight into the creative universe of young European photographers, with particular emphasis on the technological and artistic transformations which are today galvanising the world of photography. As a founding partner of the European Month of Photography, Alcatel-Lucent has created the "Alcatel-Lucent Prize for the European Month of Photography". Philippe Ramette, chosen by an international jury from among the seven "Mutations 1" photographers, is the first winner of this prize awarded every two years.

*Philippe Ramette,  
winner of the Alcatel-Lucent Prize of the European Month of Photography.*



### "EURO-VISIONS":

#### THE EXHIBITION CLOSED ITS TOUR IN BRUSSELS

Since September 2005, Alcatel-Lucent has supported "Euro Visions, the new European by twelve Magnum Photographers", a traveling photo exhibition that initially brought together the personal vision of ten photographers on ten European countries integrated in the European Union on May 1st, 2004. Photos from the two new countries of the EU, Bulgaria and Romania, have recently enriched this exhibition. After presentations in the Pompidou Centre in Paris, the Triennale in Milan, the Ludwig museum in Budapest, the Zamek center in Warsaw, "Euro Visions" closed its tour in March 2007 in Brussels, at the Royal Museums of Fine Arts, during the celebrations of the 50th anniversary of the Treaty of Rome.

*Atrium Alcatel-Lucent, Portraits of Peace.*



### THE ATRIUM: A PLACE FOR EMPLOYEES AND CUSTOMERS TO DISCOVER PHOTOGRAPHY

This year, the Atrium, at the heart of Alcatel-Lucent's headquarters, hosted several exhibitions. "Portraits of Peace" presented the photographic reportage on the laureates of the Nobel Peace Prizes by Micheline Pelletier. "Bridging Cultures to Share Our Vision" exhibited the work of three young photographers from different nationalities, Alexandre Guirkinger, Lauren Lancaster and Shen Hao. On the occasion of the Alcatel-Lucent's merger, they visited eight Alcatel and Lucent locations to capture pictures of employees around the world. Some of them are illustrating this report.

### ALCATEL-LUENT HONORED FOR CONTRIBUTION TO FRENCH CULTURE

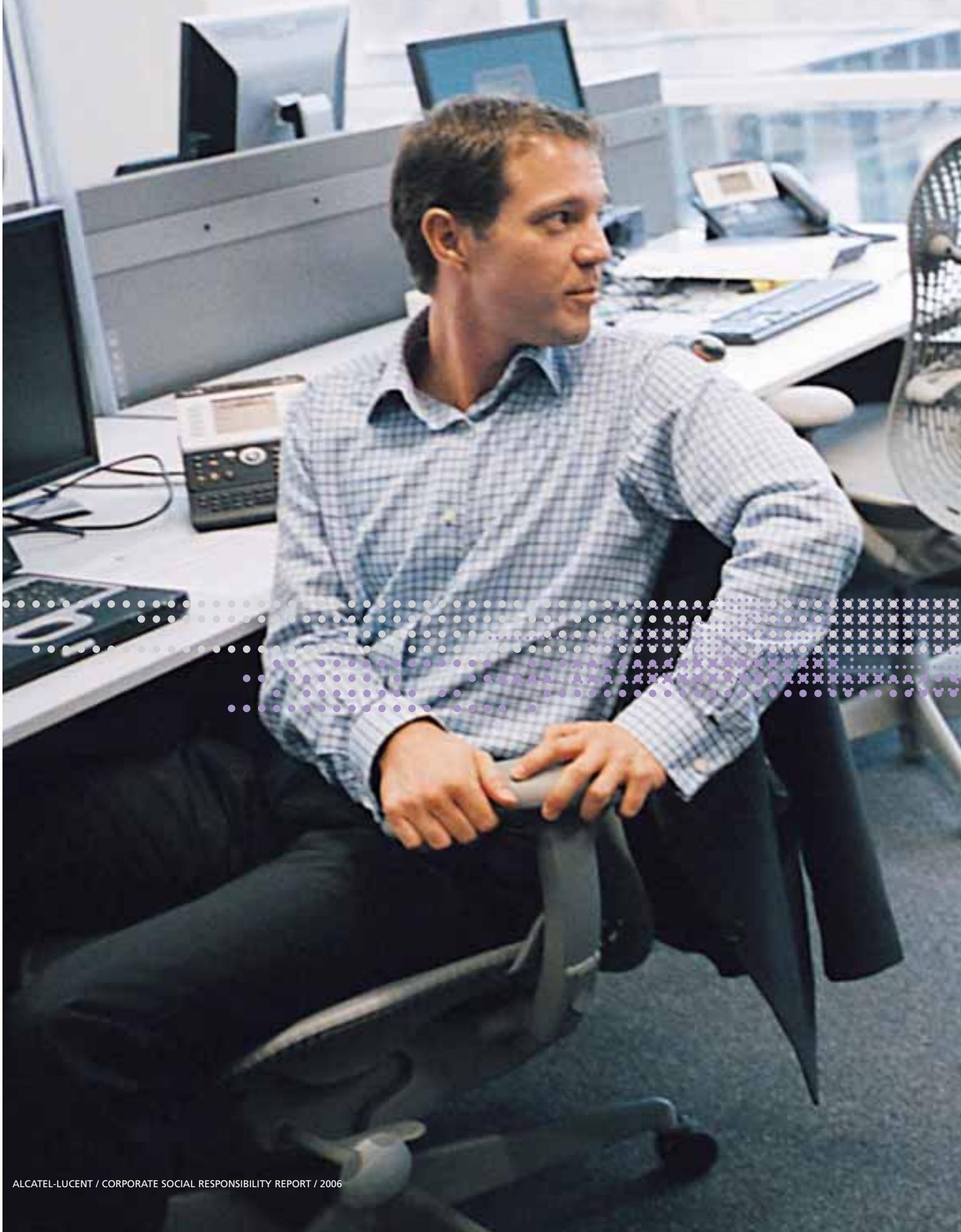
Serge Tchuruk, chairman of Alcatel-Lucent's board, received the prize of "Cultures France/Créateurs sans Frontières 2007", which awarded the company for promoting French culture around the world through the "France-China years", the French speaking culture Festival, and the Year of Armenia in France.

### ITALY TO THE FORE

Alcatel-Lucent in Italy continued to be very active in promoting photography and cross-cultural artistic events: it supported in particular the fifth edition of FotoGrafia-the European Month of Photography in Rome; "Italian Summer", an exhibition of the most important Italian photographers at the European House of Photography in Paris and "Off Broadway", a collective from Magnum photographers at the Pavillon of Contemporary Art in Milan.



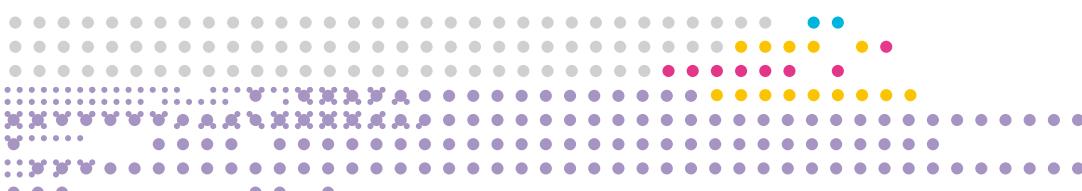
*Milan, Gabriele Basilico  
"Italian Summer" in Paris.*





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## EVALUATING PROGRESS



Corporate social responsibility at Alcatel-Lucent is managed through a cross-departmental structure that brings together, once a month, representatives from all departments involved in CSR. This committee, headed by the CSR and Foundation organization, follows up on corporate initiatives. It monitors the company's progress towards its CSR objectives thanks to a dedicated reporting tool and performance indicators.

## CSR ORGANIZATION AND INDEXES

### CORPORATE SOCIAL RESPONSIBILITY MANAGEMENT

At a corporate level, the Corporate Social Responsibility and Foundation Department of the new company is part of Corporate Communications. A central team works in close collaboration with a Corporate Social Responsibility Steering Committee and a network of correspondents from around the world, which includes members of both former companies.

The Steering Committee meets on a monthly basis and is made up of representatives from all the departments involved in the following areas: CSR and Philanthropy, Environment Health and Safety, Digital Inclusion, Public Affairs, Human Resources, Global Diversity and Compliance, Office of Business Conduct, Investor Relations, Marketing, Purchasing, Audit, Risk Management and Legal.

The first Alcatel-Lucent CSR Steering Committee meeting was held in early 2007. The committee defines priorities, follows-up on action plans, and discusses current CSR issues.



### SUSTAINABILITY INDEXES

#### Recognition for good CSR practices

The company's commitment to reconciling its economic development with its social and environmental responsibilities was rewarded in 2006 by the most prestigious and demanding sustainability indexes.

End of 2006, the company was listed in the Dow Jones Sustainability World Index, the Dow Jones Sustainability STOXX Index that gathers the best performing companies with respect to corporate social responsibility in Europe and the Eurozone, the FTSE4Good World Index Series, as well as the ASPI Eurozone and Ethibel indexes.

Inclusion in these indexes is a consequence of the reinforcement of CSR policies and recognition of the company's significant progress in terms of social responsibility.

The **Dow Jones Sustainability World Index (DJSI World)** covers the top 10% of the largest 2,500 companies in the Dow Jones World Index in terms of economic, environmental and social criteria.

The **FTSE4Good Index** Series is designed to identify companies that are working towards environmental sustainability, developing positive relationships with stakeholders and upholding and supporting universal human rights.

The **ASPI Eurozone®** index rates the 120 leading sustainability performers among the companies listed in the Eurozone stock exchange.

The **Ethibel Excellence** index contains both the pioneer companies and the best-in-class companies in terms of sustainability across sectors and regions.



# CSR REPORTING: TOOLS AND GUIDELINES

## A COMMON CSR REPORTING TOOL

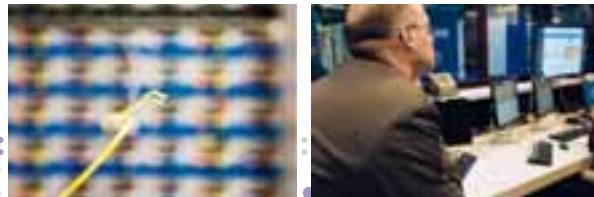
In 2004, Alcatel set up a reporting tool designed for collecting and interpreting CSR indicators. It reinforces the efficiency of data collection and processing; and formalizes intermediate controls.

It also keeps track of the reporting process and checks on the progress of data-entry so that reminder messages can be sent to contributors if necessary.

This tool will be extended to include former Lucent sites. A dedicated workgroup has been created to harmonize the definitions and perimeters of indicators to be reported in the tool; define and train the network of contributors responsible for reporting data; and investigate ways of improving reporting procedures.

## INTERNATIONAL GUIDELINES

This report has been written in accordance with the general guidelines and indicators published by the Global Reporting Initiative (GRI) in terms of reporting on economic, environmental and social performance. The GRI has formalized international standards for Corporate Social Responsibility 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.



## GLOSSARY

● **CDMA2000 1X** technology supports both voice and data services by standard 1x CDMA channel, which capacity is twice of previous IS-95 CDMA system to better adapt to growing demands from voice and wireless Internet services. Its upload rate can reach to 153 Kbit/s and up to 2.4 Mbit/s in future, without losing voice services due to data requirements.

● The **CUSTOMER PREMISES EQUIPMENT (CPE)** is a generic term used to describe all customer devices, including modems, Integrated Access Devices (IAD), Residential Gateways (RGW) and terminals.

● **DENSE WAVELENGTH DIVISION MULTIPLEXING (DWDM)** is a high-speed version of WDM, which is a means of increasing the capacity of fiber-optic transmission systems.

● **GSM (GLOBAL SYSTEM FOR MOBILE COMMUNICATIONS)** GSM is the world's most widely used digital mobile telephony system. It supports circuit mode mobile communications services such as SMS.

● **HIGH SPEED DOWNLINK PACKET ACCESS (HSDPA)** makes life easy for Third Generation (3G) customers with data delivered at speeds comparable to, or better than fixed-line broadband access systems. HSDPA is a packet-base data service with data transmission up to 14 Mbit/s over a 5 MHz bandwidth in WCDMA downlink. It was designed to increase packet data throughput and traffic by means of "smarter radio management" and the introduction of shared channels for different users.

● **INTEGRATED MANAGEMENT SOLUTION (IMS)** refers to the possibility to integrate several network management products into a single solution. This can help to optimize operator processes and to reduce operational expenses.

● The **INTELLIGENT SERVICES ACCESS MANAGER (ISAM)** is a wire-speed IP DSLAM, tailored for non-blocking Triple Play services delivery. It is a DSL access multiplexer that operates into an IP/Ethernet aggregation network. It is a product family that provides a next generation access network ready for massive triple play deployments, in term of scalability, bandwidth, service intelligence and IP/Ethernet features.

● **ISO 14001** The ISO 14001 standard is an international standard that identifies those 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.

● **MULTIPROTOCOL LABEL SWITCHING (MPLS)** MultiProtocol Label Switching delivers a routing/forwarding technology that seamlessly integrates the control of IP routing with the simplicity of the label switching mechanism (borrowed from Layer 2 technologies such as ATM). It provides a standards-based solution for the supports of advanced core routing capabilities (including Traffic Engineering and CoS/DiffServ).

● **NEXT GENERATION NETWORK (NGN)** Behind the Next Generation Network term, there are 2 concepts: the first relating to multimedia service evolution for public networks, the second to the separation of control plane signalization and transport plane signalization. Next generation networks are designed to provide the advanced services that are needed by the convergence of voice, video and data applications over a single unifying network model.

● **OHSAS 18001** The Occupational Health and Safety Assessment Series (OHSAS) 18001 specification is an international occupational health and safety management system specification that identifies the elements 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.

● **TIME DIVISION SYNCHRONOUS CODE DIVISION MULTIPLE ACCESS (TD-SCDMA)**, the youngest of the three major 3G standards (WCDMA, CDMA2000 and TD-SCDMA) based on TDD and SCDMA technologies.

● **UNIVERSAL MOBILE TELECOMMUNICATIONS SYSTEM (UMTS)** Technology for 3G mobile services next generation of GSM (Global System of Mobile communications). In addition to voice and video telephony services, UMTS supports data transfer rates up to 144 Kbit/s in rural environments and 2 Mbit/s in indoor environments.

# SOCIAL INDICATORS

	2004 <sup>(5)</sup>	2005	2006	2006 Perimeter <sup>(5)</sup>
<b>HEADCOUNT</b>				
Total headcount as of Dec. 31 2006	55,718	57,699	<b>89,370</b>	
Total non Alcatel-Lucent workforce	2,102	1,568	<b>3,015</b>	100% of Alcatel
Number of recruits	3,634	5,880	<b>6,070</b>	
Headcount inflow following Lucent merger			<b>29,861</b>	Mainly Nortel UMTS
Headcount increase due to acquisitions and in sourcing	2,083	3,544	<b>1,903</b>	100% of Alcatel
Headcount reduction due to outsourcing and transfers	-3,841	-622	<b>-246</b>	100% of Alcatel
Headcount reduction due to redundancies	-2,325	-2,137	<b>-906</b>	100% of Alcatel
Headcount reduction due to natural departures (retirements, end of temporary work contracts, resignations, deaths)	-3,004	-3,349	<b>-5,010</b>	100% of Alcatel
<b>DIVERSITY</b>				
Percentage of women/headcount	23.6%	23.1%	<b>24.2%</b>	100% of Alcatel
- Asia Pacific	27.8%	26.6%	<b>26.6%</b>	100% of Alcatel
- Europe, South America, Middle-East, Africa and India	22.3%	21.4%	<b>23.2%</b>	100% of Alcatel
- North America	25.2%	25.5%	<b>26.5%</b>	100% of Alcatel
Percentage of women amongst the Leadership Pipeline	17.1%	17.3%	<b>17.2%</b>	100% of Alcatel
Number of disabled employees	615 <sup>(1)</sup>	689	<b>644</b>	90% of Alcatel
<b>TRAINING</b>				
Training budget (as a percentage of payroll)	1.6% <sup>(4)</sup>	1.8%	<b>1.8%</b>	85% of Alcatel
Total hours of training per employee	21 <sup>(4)</sup>	25	<b>28</b>	85% of Alcatel
Percentage of training time via e-learning technologies	13.0% <sup>(4)</sup>	22%	<b>22%</b>	85% of Alcatel
<b>MOBILITY</b>				
Number of expatriates worldwide	2,113	1,532	<b>894*</b>	100% of Alcatel
Expatriates by host region Europe	748	583	<b>422</b>	100% of Alcatel
- North America	122	119	<b>16</b>	100% of Alcatel
- South America	92	45	<b>30</b>	100% of Alcatel
- Middle East, Africa and India	767	441	<b>187</b>	100% of Alcatel
- Asia Pacific	384	344	<b>239</b>	100% of Alcatel
<b>HEALTH AND SAFETY</b>				
Number of days of absence due to work related accidents per employee	0.11 <sup>(2)</sup>	0.07	<b>0.07</b>	90% of Alcatel
Rate of frequency (number of accidents per year per 1 million hours worked)	3.98 <sup>(2)</sup>	2.44	<b>2.42</b>	90% of Alcatel
<b>PERFORMANCE MANAGEMENT</b>				
Percentage of managers and professionals who had an annual performance review	81% <sup>(3)</sup>	85%	<b>85%</b>	100% of Alcatel
Percentage of managers and professionals who had learning and development activities agreed upon (NEW).	Not Reported	Not Reported	<b>61%</b>	100% of Alcatel

(1) Perimeter: 83%, all Alcatel main units excluding Canada (due to local privacy law)

(2) Perimeter: 89%, all Alcatel main units

(3) Perimeter: 55%, Alcatel units in the scope of the 2004 performance survey

(global pilot program and local systems)

(4) Perimeter: 80% of Alcatel

(5) Perimeter: 100% of Alcatel only, except when mentioned

\* The significant drop in number of expatriates overall is because the consolidated figures only include assignments on 31st December 2006 and not from throughout the year.

## DEFINITIONS AND METHODOLOGY

The perimeter of 2006 social reporting, specified for each indicator, is measured in terms of total percentage of employees of former Alcatel covered by the indicator. Data on employees of former Lucent has been included in "Total headcount as of 31 December 2006" and also mentioned as "Headcount inflow following Lucent merger".

Data on former Nortel UMTS has been included in "Total headcount as of 31 December 2006" and has been reflected under "Headcount increase due to acquisitions and in sourcing". The rest of the indicators are based on former Alcatel data only.

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 and mobility).

• 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.

## 2006/2005 EVOLUTION

A new indicator: "Percentage of managers and professionals who had learning and development activities agreed upon" has been added. Consolidated data on all the social indicators of both former companies will appear in 2007 reporting when the HR information systems have been fully integrated.

The extension of scope from 80% to 85% for the training indicators is due to an improvement in the measurement of training.

# ENVIRONMENTAL INDICATORS

	Units	2004	2005	2006	2006 Perimeter
<b>CONSUMED ENERGY AND CO<sub>2</sub> EMISSION</b>					
Consumed electricity					
Consumed electricity	GWh	740	781	<b>796</b>	100% <sup>(4)</sup>
Consumed electricity per employee	MWh	13.3	13.5	<b>13.8</b>	100%
Consumed fossil energy	GWh	251	272	<b>255</b>	100%
Consumed fossil energy per employee	MWh	4.5	4.7	<b>4.4</b>	100%
Total consumed energy, including hot and chilled water	GWh	991	1,081	<b>1,082</b>	100%
Total consumed energy per employee	MWh	17.8	18.3	<b>18.2</b>	100%
Indirect emissions of CO <sub>2</sub> , linked to consumed electricity	t CO <sub>2</sub> <sup>(1)</sup>	236,397	241,648	<b>244,729</b>	100%
Indirect emissions of CO <sub>2</sub> per employee	t CO <sub>2</sub> <sup>(1)</sup>	4.2	4.2	<b>4.2</b>	100%
Direct emissions of CO <sub>2</sub> , linked to consumed fossil energy	t CO <sub>2</sub> <sup>(1)</sup>	56,149	50,866	<b>46,800</b>	100%
Direct emissions of CO <sub>2</sub> per employee	t CO <sub>2</sub> <sup>(1)</sup>	1.0	0.9	<b>0.9</b>	100%
Total emissions of CO <sub>2</sub> <sup>(2)</sup>	t CO <sub>2</sub> <sup>(1)</sup>	292,546	292,514	<b>291,529</b>	100%
Total emissions of CO <sub>2</sub> per employee <sup>(2)</sup>	t CO <sub>2</sub> <sup>(1)</sup>	5.2	5.1	<b>5.1</b>	100%
<b>WATER AND WASTES</b>					
Consumed water	m <sup>3</sup>	2,320,382	2,334,541	<b>2,261,933</b>	100%
Consumed water per employee	m <sup>3</sup>	42	40	<b>39</b>	100%
Production of hazardous waste	t	2,313	1,747	<b>1,050</b>	100%
Production of hazardous waste per employee	kg	42	30	<b>18</b>	100%
Percentage of hazardous waste recycled <sup>(3)</sup>	%	64	55	<b>70</b>	100%
Production of non-hazardous waste	t	24,289	21,242	<b>21,012</b>	100%
Production of non-hazardous waste per employee	kg	436	368	<b>364</b>	100%
Percentage of non-hazardous waste recycled <sup>(3)</sup>	%	67	66	<b>63</b>	100%
<b>OTHER EMISSIONS</b>					
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			
<b>MISCELLANEOUS</b>					
Production sites, ISO 14001 certified	%	65	60	<b>60</b>	100%
New products covered by ecodeclarations	%	91	> 95	<b>&gt; 95</b>	100%

(1) tCO<sub>2</sub> : CO<sub>2</sub> metric tons.

(2) Emissions of CO<sub>2</sub>, linked to consumed hot and chilled water are not taken into account.

(3) Recycled: not released in a landfill and not burned without energy recovery.

## DEFINITION AND METHODOLOGY

The 2006 environmental reporting perimeter includes only Alcatel-Lucent sites, owned or leased, housing former Alcatel employees on December 31st.

For the 2006 exercise, 51 sites (52 in 2005) housing more than 300 employees were reported on, representing a total of 80% of former Alcatel employees (81% in 2005).

Annual data received from entities representing 78% of this total was consolidated.

(4) To cover 100% of the former Alcatel, extrapolation hypotheses are used, based on ratios per employee.

Figures are cross-checked and compared with historical data collected since 2003.

## 2006/2005 EVOLUTION

Reported waste quantity does not include WEEE (Waste Electrical & Electronic Equipment). The latter is the subject of a specific action plan described herein.

The significant and continuous decrease in the production of hazardous wastes is the result of an overall reduction in the industrial production activities of the company.

# INDEPENDENT VERIFICATION STATEMENT

## ALCATEL LUCENT – YEAR ENDED DECEMBER 31, 2006



### AUDITORS' REPORT ON THE REPORTING PROCEDURES FOR SOCIAL AND ENVIRONMENTAL INFORMATION

At the request of Alcatel Lucent, we have reviewed the reporting procedures related to the social and environmental information collected through Alcatel's Corporate Social Responsibility (CSR) reporting network and published in the 2006 CSR report.

We have also reviewed the qualitative statements:

- A CSR Steering Committee meets once a month to define strategies and objectives for CSR and philanthropy for Alcatel Lucent (p. 48).
- From 2004 to 2006, Alcatel's Global Procurement and Sourcing conducted a survey on the CSR performance of 300 of its suppliers worldwide, accounting for around 60% of Alcatel's total purchase volume (p. 34).
- Six suppliers audits were conducted on-site in 2005 and three in 2006 (p. 34).
- The frame agreement on waste management of electrical and electronic equipments between Veolia and Alcatel was extended to Alcatel Lucent in Europe and Lucent membership of the European Recycling Platform for WEEE was extended to Alcatel Lucent (p. 28).
- A task force on energy efficiency has been launched. It is made up of representatives from Alcatel Lucent's Business Divisions and the Chief Technology Office (p. 27).

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 procedures within Alcatel and conducting interviews at the head office with the Human Resources Manager responsible for CSR issues and Alcatel Environmental Director for sites.
- Conducting interviews with the Human Resources and Environment correspondents from Alcatel España in Madrid, Alcatel Business Systems France in Illkirch and Compagnie Financière Alcatel Lucent in Paris, in order to assess the application of the procedures and the use of the dedicated computer-based reporting tool. These three entities represent 6% of Alcatel's total workforce in 2006. From fiscal year 2004 to fiscal year 2006, the work we performed in Western Europe covered 45% of Alcatel's total workforce for occupational accidents and disabled people employment reporting, and 37% for site environmental impacts reporting.
- Performing random tests on the indicators reported by these sites.
- Together with the CSR Director, 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's CSR reporting of occupational accidents and disabled people employment as well as site environmental impacts reporting.

#### Findings

With regards to the CSR reporting procedures:

- The social and environmental reporting procedures give an appropriate description of the reporting scope, the reporting network and the indicators to be reported. These procedures have been disclosed to the various contributors.
- The dedicated computer-based reporting tool used to report on social and environmental data has been deployed at the company's significant entities. It is properly mastered by all the social reporting network and by a majority of the environmental reporting network, accounting for 63% of the Alcatel workforce.
- Within the frame of an ongoing improvement process, the internal controls performed both during data collection and data consolidation should be formalized and more systematized. In addition, the rules for including disabled employees or counting days of absence due to previous year occupational accident need to be applied in a more homogeneous way by all the contributors.

We would also like to draw your attention to the methodology presented on pages 50 and 51 of the report and to the company's scope presented on the inside front cover.

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 6, 2007

ERNST & YOUNG  
& autres

Jean-Yves Jégourel

ERNST & YOUNG  
Environment and Sustainability Services

Éric Duvaud

# CSR OBJECTIVES

## ENVIRONMENTAL OBJECTIVES

- By the end of 2007, develop an environmentally conscious design program for Alcatel-Lucent products that addresses environmental criteria throughout the product lifecycle.
- Provide eco-declarations for 95% of the Alcatel-Lucent product portfolio by the end of 2008.
- By the end of 2008, define metrics to measure product energy efficiency based on functionality for our key product families.
- In line with business needs, expand the scope of the third party certified EH&S Multi-Site Management Systems to include new and existing certified ISO14001/OHSAS 18001 management systems by the end of 2009.
- Define a set of common environmental indicators to be reported in the dedicated CSR tool on a yearly basis and harmonize reporting procedures across the organization by the end of 2007.

## SOCIAL OBJECTIVES

- Create Global Diversity and Inclusion Standards that guide the development of regional diversity strategies in 2007.
- Define a set of common social indicators to be reported in the dedicated CSR tool on a yearly basis and harmonize reporting procedures across the organization by the end of 2007.

## CSR IN THE SUPPLY CHAIN OBJECTIVES

- Create a global CSR Purchasing Charter by the end of 2007.
- Check, by the end of 2008, the performance in terms of Corporate Social Responsibility of suppliers representing 65% of Alcatel-Lucent's total purchased volume.

## DIGITAL INCLUSION OBJECTIVE

- Set up, through Alcatel-Lucent's Digital Bridge Initiative, three new "Partnership Centers" to incubate local projects by the end of 2008.

## ECONOMIC OBJECTIVE

- Realize a pre-tax cost savings of at least Euro 600 million for 2007.

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