Alcatel-Lucent

10 New England Avenue
Piscataway, NJ 08854

RETIRED/TERMINATED EMPLOYEES

Annual Funding Notice

FOR PLAN YEAR JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

Alcatel-Lucent
Retirement Income Plan

PENSION PROTECTION ACT OF 2006

- “NOTICE” TO BE PROVIDED
- “PROVIDED NOT LATER THAN 120 DAYS AFTER END OF PLAN YEAR TO WHICH NOTICE RELATES”
- FOR BEGINNING OF 2013 INFORMATION THIS MEANS IT IS TO BE RECEIVED BY 4/30/2014

NOTICE TO WHOM

- PLAN ADMINISTRATOR SHALL FOR EACH PLAN YEAR PROVIDE A FUNDING NOTICE TO:
  - PENSION BENEFIT GUARANTY CORPORATION (PBGC)
  - EACH PLAN PARTICIPANT AND BENEFICIARY

2011
Annual Funding Notice
for
Alcatel-Lucent Retirement Income Plan

Introduction

This notice includes important information about the funding status of your pension plan (the "Plan") and general information about the benefit payments guaranteed by the Pension Benefit Guaranty Corporation (the "PBGC"), a federal insurance agency. All traditional pension plans (called "defined benefit pension plans") must provide this notice every year regardless of their funding status. This notice does not mean that the Plan is terminating. It is provided for informational purposes and you are not required to respond in any way. This notice is for the plan year (the "Plan Year") beginning January 1, 2011 and ending December 31, 2011.

How Well Funded Is Your Plan

Under federal law, the Plan must report how well it is funded by using a measure called the "funding target attainment percentage." This percentage is obtained by dividing the Plan's Net Plan Assets by Plan Liabilities on the Valuation Date for the Plan Year. In general, the higher the percentage, the better funded the plan. Your Plan's funding target attainment percentage for the Plan Year, and each of the two preceding Plan Years, is shown in the chart below, along with a statement of the value of the Plan's assets and liabilities for the same period.

NOTE: A plan's funding target attainment percentage is measured as of the plan's "Valuation Date," which is the first day of the Plan Year at issue. Thus, in the chart, the funded status of your Plan is shown as of the beginning of each Plan Year (e.g., as of January 1, 2011, January 1, 2010, etc.).

Funding Target Attainment Percentage

($thousands)

	2011	2010	2009
1. Valuation Date	1/1/2011	1/1/2010	1/1/2009
2. Plan Assets			
a. Total Plan Assets	$16,319,046	$16,427,281	$15,104,485
b. Funding Standard Carryover Balance	$22,200	$11	$0
c. Prefunding Balance	$0	$0	$0
d. Net Plan Assets: (a) - (b) - (c) = (d)	$16,296,846	$16,427,270	$15,104,485
3. Plan Liabilities	$16,131,393	$15,256,075	$13,452,925
4. At-Risk Liabilities	not applicable	not applicable	not applicable
5. Funding Target Attainment Percentage: (2d)/(3)	101%	108%	112%

a) Plan Assets and Credit Balances

In the chart, Plan Asset values are either market values or actuarial values, depending on the year at issue. Because market values can fluctuate daily based on factors in the marketplace (such as in the stock market), pension law allows plans to use actuarial values that are designed to smooth out those fluctuations for funding purposes. Market values tend to show a clearer picture of a plan's funded status as of a given point in time. Actuarial (smoothed) values tend to show a clearer picture of a

PLAN PARTICIPANTS
As of January 1 of each year

	2010	2011	2012	2013
ACTIVE PARTICIPANTS	11574	10792	10127	9455
RETIRED & RECEIVING BENEFITS	56879	62073	71501	70388
ENTITLED TO FUTURE BENEFITS	26530	26812	26320	20418
TOTALS (2009 TOTAL 97212)	94983	99677	107948	100261

2011 Totals include 6200 transferred into the plan in 2010

2012 Totals include 10,400 surviving beneficiaries of formerly represented employees transferred into the plan

2013 Deferred vested pension numbers include those who took the buyout offer in 2012

PLAN PARTICIPANTS

- 2008
- 7000 ALCATEL EMPLOYEES IN US WERE ADDED TO THE MANAGEMENT PLAN WITH ABOUT $ 300 MILLION IN EXCESS ASSETS
- 2010
- 6200 RETIREES WERE TRANSFERRED FROM THE REPRESENTED PLAN TO THE MANAGEMENT PLAN WITH $ 790 MILLION IN ASSETS AND $ 530 MILLION IN OBLIGATIONS
- 2011
- 10,400 SURVIVING BENEFICIARIES WERE TRANSFERRED FROM THEE REPRRESENTED PLAN TO THE MANAGEMENT PLAN WITH $ 886 MILLION IN ASSETS AND $ 560 MILLION IN OBLIGATIONS
- 2013
- 30,000 DEFERRED VESTED RETIREES WERE TRANSFERRED FROM THE REPRESENTED PLAN TO THE MANAGEMENT PLAN WITH $ 1.7 BILLION IN ASSETS AND $ 1.1 BILLION IN OBLIGATIONS

PLAN PARTICIPANTS

- SUMMARY OF EXCESS ASSETS TRANSFERRED WITH THE PRECEDING MOVEMENTS

• 2008	$ 300 MILLION
• 2010	$260 MILLION
• 2011	$ 326 MILLION
• 2013	$ 600 MILLION
• TOTAL	$ 1,486 MILLION

FAIR MARKET VALUE OF ASSETS

NOTICE	12/31/10	12/31/11	12/31/12	12/31/13
• PLAN ASSETS	$17,231.2	$18,805.5	$19,119.9	$19,407.4
• PLAN LIABILITIES	$17,159.1	$18,541.2	$18,932.0	$17,898.7
• FUNDING STATUS	100%	101%	101%	108.4%

FORM 20F (SEC)				
• PLAN ASSETS	$17,104.	$ 18,689	$ 19,006	$ 19,287
• PLAN LIABILITIES	$ 17,858.	$ 19,613	$ 19,600	$ 18,296
• FUNDING STATUS	96%	95%	96.8%	105.4%

ASSET ALLOCATIONS

	2009	2010	2011	2012	2013
Equity Securities	15%	16%	9%	11%	9%
Fixed Income	68%	67%	74%	74%	74%
Real Estate	6%	6%	6%	6%	7%
Private Equity & Other	11%	11%	11%	9%	10%
Totals	100%	100%	100%	100%	100%

SUMMARY OF RULES GOVERNING TERMINATION OF SINGLE EMPLOYER PLANS

- DISCUSSION REQUIRED BY PENSION PROTECTION ACT OF 2006 (BOILER PLATE)

  LUCENT HAS STATED THEY HAVE NO PLANS TO TERMINATE (PENSION PLANS CONTRIBUTED $ 531 MILLION TO ALU INCOME IN 2009, 683 MILLION IN 2010, and 863 MILLION in 2011

BENEFIT PAYMENTS BY PBGC

- IF EMPLOYER PLAN TERMINATES PBGC WILL TAKE OVER AND PAY BENEFITS
- MAXIMUM BENEFIT IF PLAN TERMINATES IN 2013

  $ 57,477 ANNUALLY AT AGE 65(IN NO CASE LARGER THAN FORMER PENSION)

  LARGER OR SMALLER AMOUNTS FOR AGES ABOVE OR BELOW 65.

  PBGC ADJUSTS FOR ADDITIVES SUCH AS AGE OR SERVICE

PENSION PLAN FROZEN FOR ACTIVE EMPLOYEES

4^{TH} QUARTER 2009

RECORDED 216 MILLION EURO REDUCTION IN PENSION OBLIGATION DUE TO NO FURTHER EARNING OF BENEFITS FOR ADDITIONAL SERVICE

REDUCED PENSION EXPENSE BY ABOUT $ 100 MILLION

REINSTATED IN 2014 AS A 401K FOR ALL ACTIVE EMPLOYEES

PENSION PLAN FOR ACTIVE EMPLOYEES REINSTATED IN 2014

- ALU announced that it will begin to provide active management employees pension credits by allocating pension assets equal to 6% of salary.
- This announcement stated that it replaces the $ 75 million cash contribution to match employee’s contribution to their 401K plan
- This will now be provided to every employee regardless of personal contribution to their 401K
- It is similar to a cash balance pension plan

ACCOUNTING FOR CAP PLAN

- For accounting purposes, the CAP plan in considered as new plan. So the accounting is starting from scratch, meaning that for determination of the Benefit Obligation, the seniority (numbers of years worked for ALU) is 0 for all participants at 12/31/13.
- At 12/31/14, the benefit obligation will be determined as the (NPV of the accumulated CAP balance at retirement) * 1 year / Numbers of expected years until retirement.
- It should be close to the 2014 service cost + some interest cost. Therefore, No effect on the Benefit Obligation at 12/31/13.

ALCATEL-LUCENT OFFER 2012

- Made to both management and represented former employees entitled to a deferred vested pension at age 65
- Options include taking a lump-sum , taking a discounted monthly annuity, or do nothing
- If total pension is less then $ 5000 must take lump-sum

2012 HIGHWAY BILL

- Included in the Highway bill are several provisions which modify the PPA of 2006
- The discount rate used to calculate liabilities and funding level is now based on a 25 year average of corporate bond rates rather than a two year average
- This average will be higher than rates currently in use and will therefore reduce pension liabilities and improve the funded ratio
- Bill increases payments made to the PBGC

CALCULATION OF MAP-21 DISCOUNT RATES

- Under this law, companies can choose to use a discount rate based on the last 25 year average of interest rates on AA Corporate Bonds rather than the usual most recent two years.

- This has the effect of raising the discount rate (from about 4% to about 6%) which substantially reduces pension liabilities (estimated to be a 10% reduction in liability for each 1% increase in **discount rate) and raises the funding rate**

- **This is a temporary fix and the effect is expec**ted to disappear in 2016

2012 HIGHWAY BILL

- Treasury Rates for Corporate Pensions
  - 2012 Average rate will be 7.37% rather than 5.3%

1% change in rate is estimated to have 10% effect on calculation of pension liabilities

Bill also allows use of excess pension assets (more than 125% funded) to be used for healthcare expenses or group life insurance benefits

CONCLUDING THOUGHTS

- Pension Funding Relief in Highway Bill is temporary fix.
- By 2015 this temporary relief to underfunded plans will likely reverse and require higher contributions than would have been required absent this legislation
- Are plan participants better off ?