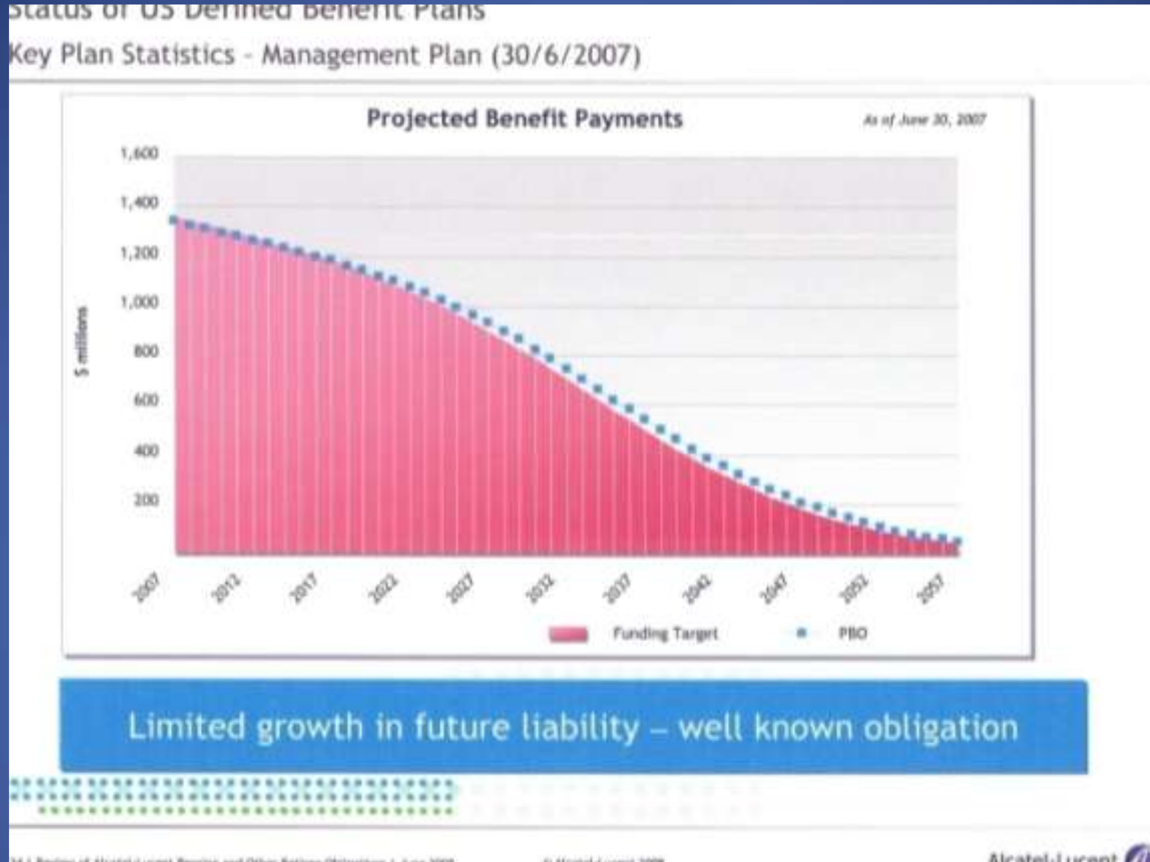
PENSION DE-RISKING & A LITTLE BIT OF MAP21



$29 Billion of payments over 50 years

$17 Billion of Assets

How does $17B now = $29B in future: Company contributions, benefit decreases, asset returns, transfers

Annual Funding Notice
Alcatel-Lucent Retirement Income Plan

Introduction

This notice contains important information about the funding status of your pension plan (the "Plan"). It also includes general information about the benefit payments guaranteed by the Pension Benefit Guaranty Corporation (the "PBGC"), a federal insurance agency. **You are not required to take any action in connection with this notice.** 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 to you for informational purposes. This notice is for the plan year (the "Plan Year") beginning on January 1, 2013 and ending on December 31, 2013.

NOTE: If your pension was transferred to the Plan from the Lucent Technologies Inc. Pension Plan ("LTPP") during 2013 (see below under "Plan Mergers/Consolidations During 2013"), this Notice applies to you. You will not receive a funding notice for the LTPP.

How Well Funded Is Your Plan?

Generally, a plan's funded status is determined by comparing the plan's assets (the assets that have been set aside in trust to pay the plan's benefits obligations and administrative costs) to its liabilities (the present value of all promised future benefits payments). Funded status is expressed as a percentage determined by dividing assets by liabilities. For example, a plan with $80 in assets and $100 in liabilities would be 80% funded (80 ÷ 100 = 0.8). A plan with $100 in assets and $80 in liabilities would be 125% funded (100 ÷ 80 = 1.25). The higher the percentage, the better funded the plan.

In accordance with federal law, this Notice reports on how well funded your Plan is 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. (The terms Net Plan Assets, Plan Liabilities and Valuation Date are defined below following the chart.) Your Plan's funding target attainment percentage for the 2013 Plan Year, and each of the two preceding Plan Years, is shown in the chart below. The value of the Plan's assets and liabilities for each of the same years is also shown.

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, 2013, January 1, 2012, etc.).

Funding Target Attainment Percentage

	2013	2012	2011
1. Valuation Date	1/1/2013	1/1/2012	1/1/2011
2. Plan Assets			
a. Total Plan Assets	$18,217,270,855	$17,888,185,252	$16,319,045,972
b. Funding Standard Carryover Balance	$58,806,669	$52,237,226	$22,199,981
c. Prefunding Balance	$0	$0	$0
d. Net Plan Assets: (a) - (b) - (c) = (d)	$18,158,464,186	$17,835,948,026	$16,296,845,991
3. Plan Liabilities	$15,216,756,591	$15,140,633,748	$16,131,392,991
4. At-Risk Liabilities	Not applicable	Not applicable	Not applicable
5. Funding Target Attainment Percentage: (2d)/(3)	119.3%	117.8%	101.0%

a) Net Plan Assets

Net Plan Assets (line 2d on the chart) are the Plan's Total Plan Assets (line 2a) minus its Funding Standard Carryover Balance (line 2b) and Prefunding Balance (line 2c). Total Plan Assets is the value of the Plan's assets on the Valuation Date. Credit balances are subtracted from Total Plan Assets to determine Net Plan Assets used in the calculation of the funding target attainment percentage shown in the chart (line 5). A plan might have a credit balance, for example, if in a prior year an employer made contributions to the plan above the minimum level required by law. Generally, the excess contributions are counted as "credits" and may be applied in future years toward the minimum level of contributions a plan sponsor is required to make by law. While pension plans are permitted to maintain credit balances (also called "Funding Standard Carryover Balance" or "Prefunding Balance" see lines 2b & c in the chart) for funding purposes, they may not be taken into account when calculating a plan's funding target attainment percentage.

The asset values shown in the chart (lines 2a-d) are "actuarial values" rather than market values. 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. For the 2012 and 2011 Plan Years, the Plan's sponsoring employer, Alcatel-Lucent USA Inc. (the "Company"), elected to use a two-year actuarial (smoothed) valuation method. The Company is generally required to use this same method for the 2013 Plan Year.

b) Plan Liabilities

Plan Liabilities shown in line 3 of the chart are the liabilities used to determine the Plan's funding target attainment percentage. This figure is an estimated present value, using certain actuarial and interest-rate assumptions, of all future benefits payments promised under the Plan. One way to think of this figure is as an estimate of the amount of assets the Plan needs on the Valuation Date to pay for promised benefits under the Plan.

The interest rates used to determine Plan liabilities are based on current corporate bond yields, as published by the US Department of Treasury. As a result of changes in the law effective beginning in 2012, those rates are adjusted, as necessary, to fall within specified ranges of rates averaged over a 25-year period. The change, part of the Moving Ahead for Progress in the 21st Century Act ("MAP-21"), had the effect of improving the Plan's funding target attainment percentage for the 2012 Plan Year by approximately 16.0 percentage points and for the 2013 Plan Year by approximately 15.4 percentage points. (Note: The Company has until October 2014 to select definitively the actuarial and interest rate assumptions that it will use for determining liabilities for the 2013 Plan Year.)

c) Valuation Date

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, 2013, January 1, 2012, etc.).

Year-End Assets and Liabilities

As noted, the asset and liability values in the chart are measured as of the first day of the Plan Year. As of the last day of the Plan Year (December 31, 2013), the fair market value of the Plan's assets was $19,407,425,022, and the actuarial (two-year smoothed) value was $19,708,233,048. On this same date, the Plan's liabilities (based on PBGC interest rates and not corporate bond yields adjusted under MAP-21) were $17,898,675,000. The foregoing year-end amounts reflect the impact of the merger/consolidation described below under "Plan Mergers/Consolidations During 2013."

Participant Information

The total number of participants in the Plan as of the Plan's 2013 Valuation Date was 100,261. Of this number, 9,455 were active participants, 70,237 were retired or separated from service and receiving benefits, and 20,569 were retired or separated from service and entitled to benefits in the future.

MAP-21

- Moving Ahead for Progress in the 21^{st} Century (MAP-21)-sold as revenue enhancer
- It is part of the Highway Bill of 2011
- Its purpose is to recalculate pension liabilities in a way that substantially reduces the need for sponsor contributions to the pension plan
- Additional AFN disclosures required. Excess assets can be transferred to group life. COLAs allow company to extract pension assets for business use.

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 reduces pension liabilities by 15 to 20% and raises the funding rate in an equivalent manner.
- This is a temporary fix and the effect is expected to disappear in 2016 unless extended.

HISTORY OF MANAGEMENT PARTICIPANTS(ALRIP) ALU 5500 FILINGS

DATA FROM QUESTION #6 OF 5500	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
ACTIVE	9,455	10,127	10,792	11,574	13,304
RETIRED OR SEPARATED RECEIVING BENEFITS	52,725	53,591	54,402	49,829	50,242
OTHER RETIRED OR SEPARATED ENTITLED TO FUTURE BENEFTITS	20,418	26,225	26,812	26,530	26,989
BENEFICIARIES RECIVING BENEFITS OF DECEASED PARTICIPANTS	17,663	18,005	7,671	7,050	6,677
TOTAL	100,261	107,948	99,677	94,983	97,212

COMMENTS:

1. CAN SEE THE EFFECT OF TRANSFER IN 2010 OF NON-CWA TO THE MGMT. IN THE 6000 DECREASE BETWEEN 12/31/10 AND 12/31/09
2. CAN SEE THE EFFECT OF TRANSFER IN 2011 OF BENEFICIARIES TO THE MGMT PLAN IN 10,000 DECREASE BETWEEN 12/31/11 & 12/31/10
3. WHY ARE BENEFICIARIES BUILDING BACK UP IN OCCUPATIONAL PLAN?
4. WHERE ARE THE 31,000 PARTICIPANTS COMING FROM THAT WERE TRANSFERRED IN DECEMBER 2013?

DATA FROM SCHEDULE SB OF 5500	1/1/2013	1/1/2012	1/1/2011	1/1/2010	1/1/2009
ACTIVE	9,455	10,127	10,792	11,574	13,304
RETIRED PARTICIPANTS&BENEFICIARIES RECEIVING BENEFITS	70,237	71,501	62,073	56,879	56,915
TERMINATED VESTED PARTICIPANTS	20,569	26,320	26,812	26,530	26,993
TOTAL	100,261	107,948	99,677	94,983	97,212

COMMENTS:

1. DATES ARE AT THE BEGINNING OF THE NEXT YEAR VERSUS END OF YEAR IN QUESTION #6 TABLE AT TOP. IDENTICAL NUMBERS & SHOULD BE.
2. TERMINATED VESTED IN SB TABLE EQUAL THE "OTHER RETIRED OR SEPARATED ENTITLED O FUTURE BENEFTITS" TABLE. SLIGHT DIFFERENCE 2011/ 2012.

PLAN PARTICIPANT TRANSFERS

2010

- 6200 NON-CWA/IBEW UNION RETIREES WERE TRANSFERRED FROM THE OCCUPATIONAL PLAN TO THE MANAGEMENT PLAN WITH $ 790 MILLION IN ASSETS AND $ 530 MILLION IN LIABILITY
- 2011
- 10,400 SURVIVING BENEFICIARIES WERE TRANSFERRED FROM THE OCCUPATIONAL PLAN TO THE MANAGEMENT PLAN WITH $ 886 MILLION IN ASSETS AND $ 560 MILLION IN LIABILITY
- 2013
- 31,000 OCCUPATIONAL BENEFICIARY/ DEFERRED VESTED WERE TRANSFERRED FROM THE OCCUPATIONAL PLAN TO THE MANAGEMENT PLAN WITH $ 1.7 BILLION IN ASSETS AND $ 1.1 BILLION IN OBLIGATIONS

HOW WELL FUNDED?

119% with MAP21 on 1/1/2013

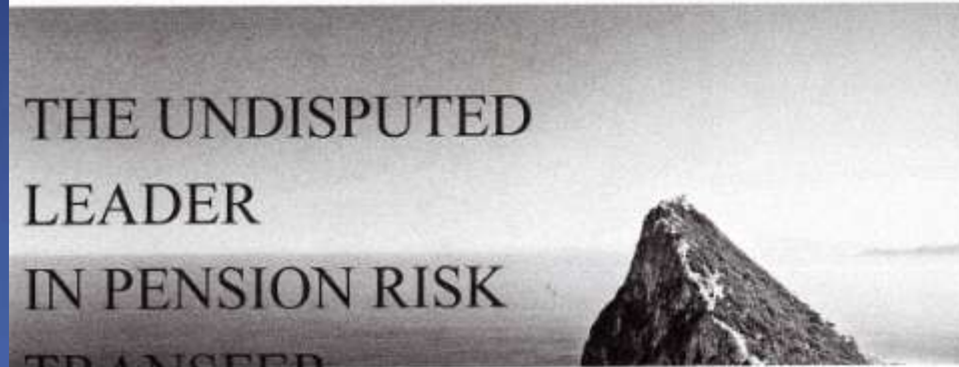
- 103% without MAP21

- 12/31/13 Accounting/Economic = 105%

- How full funding achieved: primarily thru multiple changes in calculations and the transfer of retirees from the occupational plan

ALU'S TRACK RECORD & POTENTIAL FUTURE PLAN ACTIONS

- ERISA AND DOL ESTABLISHES FIDUCIARY RESPONSIBILITY TO PARTICIPANTS AND PROTECTION OF TRUST ASSETS
- BUT FOR ALU: HISTORY OF EXTRACTING ASSETS FROM THE TRUST, LIMITING BENEFITS, AND INTRODUCING 401K LIABILITY TO REDUCE ALU CASH NEEDS. ALU HAS NEVER MADE A PENSION CONTRIBUTION.
- ALL DEFINED BENEFIT PLANS ARE DINOSAURS
- GLOBAL ENVIRONMENT AGAINST THESE PLANS LEADS TO THE CURRENT "PENSION DE-RISKING STRATEGY"



THE UNDISPUTED LEADER IN PENSION RISK TRANSFER

SOLVING YOUR PENSION RISK CHALLENGES

Pension Risk Transfer

Over the last decade, market volatility has reshaped the defined benefit (DB) pension plan landscape. Many corporations hold a disproportionate amount of risk in their pension plan, and are re-thinking how best to align those risks toward the core business.

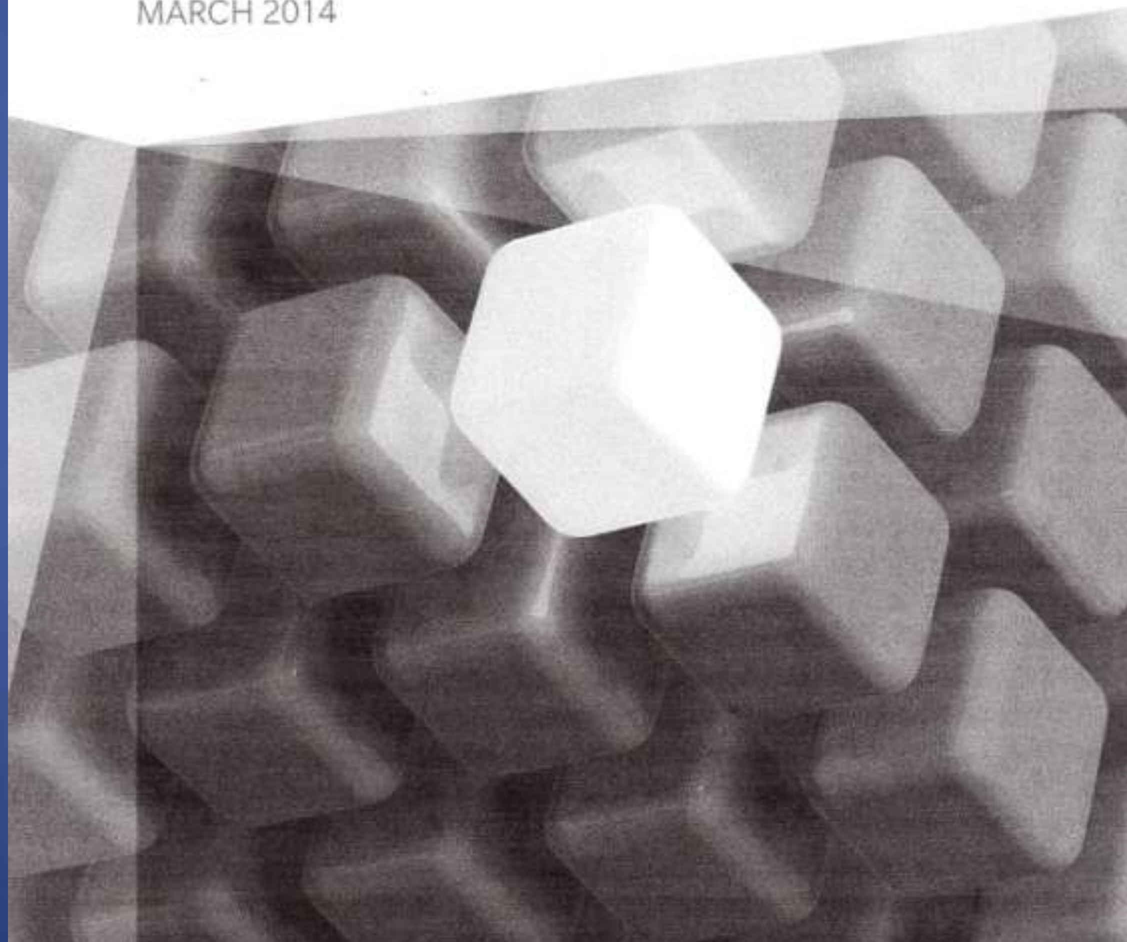
MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

SECURING
RETIREMENT
OUTCOMES

TIME TO ACT ON PENSION RISK

MARCH 2014



MARSH & McLENNAN COMPANIES

P&I | CONFERENCES

Pension Settlements Strategies Conference

San Fran: Sept 9 | Chicago: Sept 16 | New York: Sept 18

SPEAKERS

Ari Jacob (Chair)
Global Retirement Solutions Leader, Senior Partner
Aon Hewitt

William E. Ryan III, Esq.
Chief Fiduciary Officer
Evercore Trust Company

Rohit Mathur
Senior Vice President
Prudential

Glenn K. O'Brien
Managing Director
Prudential

CONFERENCE SPONSORS

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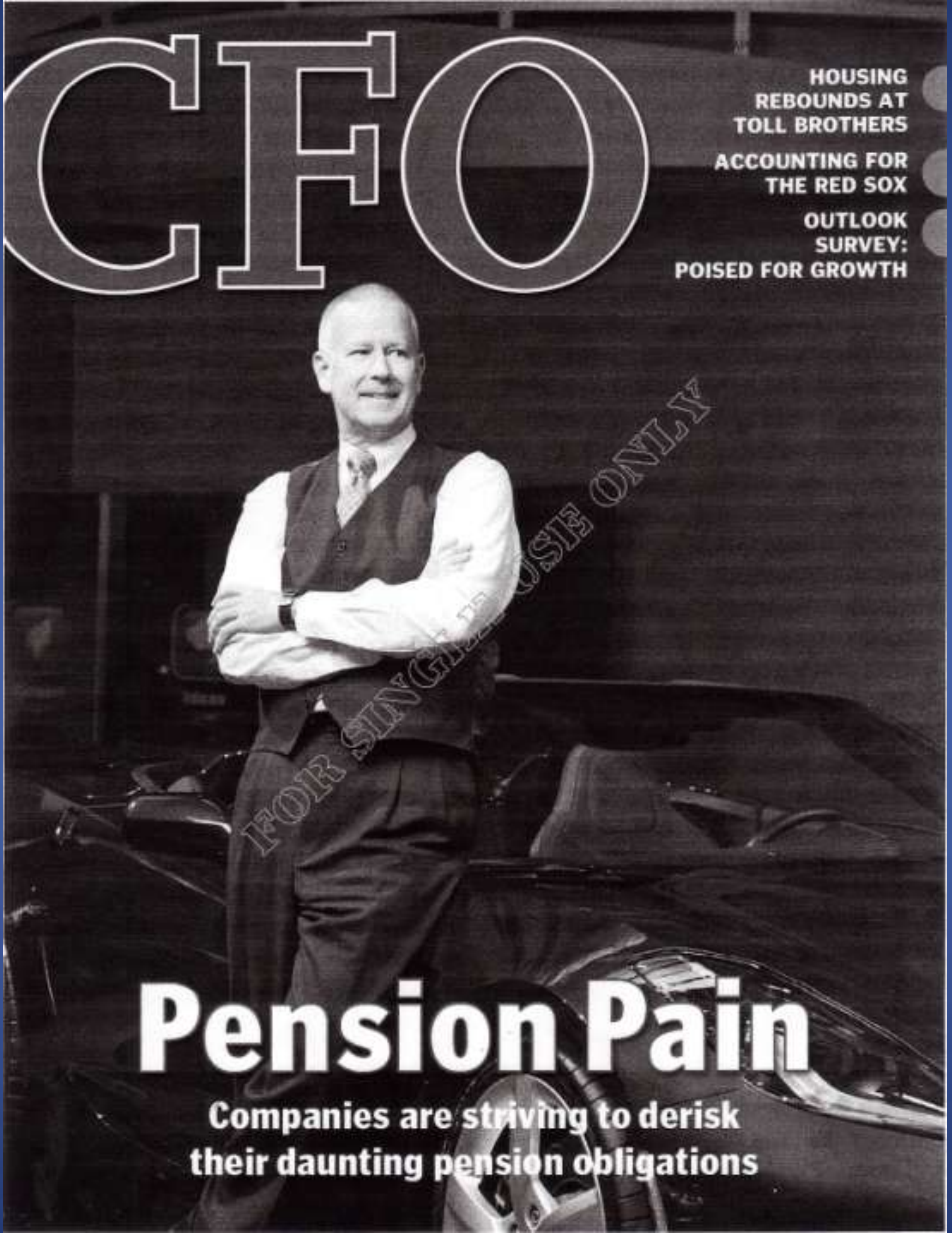
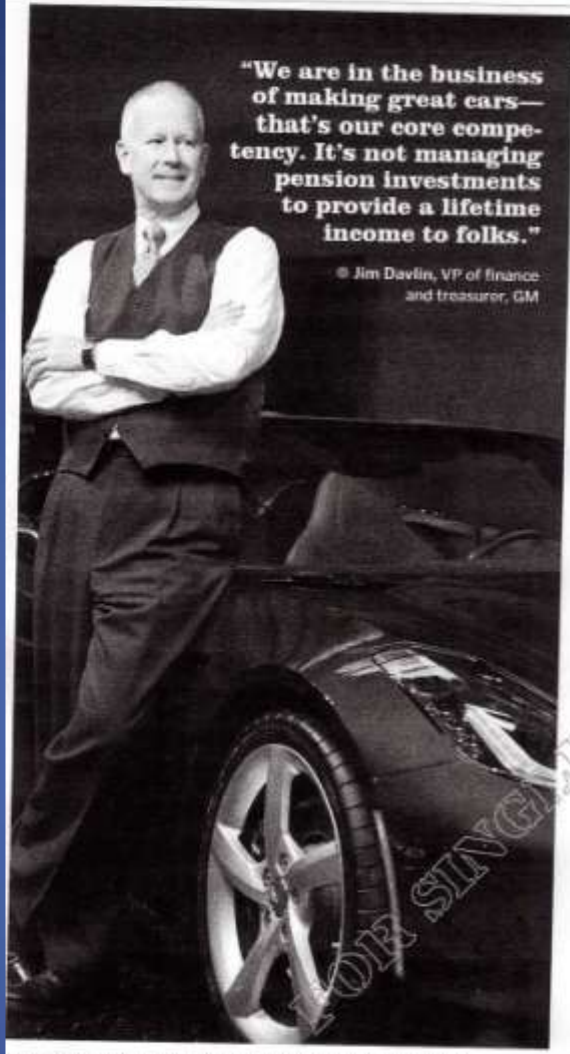
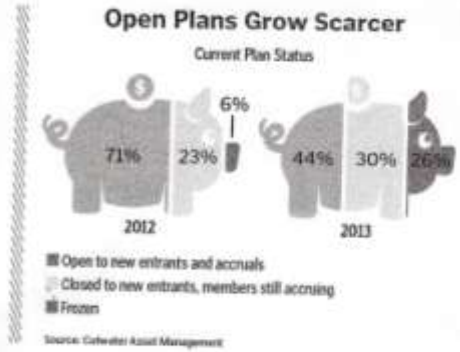
Prudential Bring Your Challenges


CFO
HOUSING REBOUNDS AT TOLL BROTHERS
ACCOUNTING FOR THE RED SOX
OUTLOOK SURVEY: POISED FOR GROWTH
FOR SINGLE USE ONLY
Pension Pain
Companies are striving to derisk their daunting pension obligations





their business at financial risk to another market downturn or drop in interest rates," says Fidelity's Beck. Inglis agrees: "Sponsors had not learned from the two previous debacles how to manage their pension risks. These lessons now learned, finance is in charge."

ANNUITIZATION: GM AND VERIZON

Leading the effort at GM is Davlin and his team, as part of his role under CFO Daniel Ammann. The giant automaker has pursued several actions to get its pension funding in order, including closing the plan to new participants to limit the growth in these liabilities and transitioning active employees to its defined-contribution plan, "all of which we will continue to pursue," Davlin says.

Other steps were "bigger," he acknowledges. "We needed to do more than just limit the growth in our liability; we wanted to transfer some of it to get it off the balance sheet." For its 118,000 U.S. salaried retirees, GM first offered

of the reaction."

The third time was different. Thanks to the financial crisis and a one-two regulatory punch—the PPA and new pension accounting rules issued by the Financial Accounting Standards Board in 2007 (FAS 158)—plan sponsors now had to recognize their funding shortfalls on their balance sheets on an annual basis. The response to the rules, by and large, has been pension derisking—getting the liabilities off the balance sheet or reducing the investment risk. The solutions comprise lump-sum offers, annuitizations, and LDI schemes.

"Many of the clients I'm working with recognize the need for a more permanent derisking solution that does not put

Brad Ziegler

DIRECTION: PENSION DE-RISKING

- PLAN SPONSORS TAKE A RANGE OF ACTIONS IN ORDER TO REDUCE ITS RISK AND VOLATILITY FOR THE:
  - NEED TO MAKE CASH CONTRIBUTIONS
  - IMPROVE COMPANY CREDIT RATING
  - ELIMINATE LONGEVITY RISK (PEOPLE LIVING LONGER)

PENSION DE-RISKING ACTIONS

- RANGE OF POSSIBLE SPONSOR ACTIONS:
  - Redesign plan – **DONE BY ALU**
  - Freeze the plan – **DONE BY ALU**
  - Change asset allocations – **DONE BY ALU**
  - Liability driven investing – **DONE BY ALU**
  - Lump sums – **DONE BY ALU/UNDERWAY**
  - Plan buy-out (pension risk transfer) – **IS IT UNDERWAY?? PARTICIPANT TRANSFERS & DATA CLEANUP**

LUMP SUMS

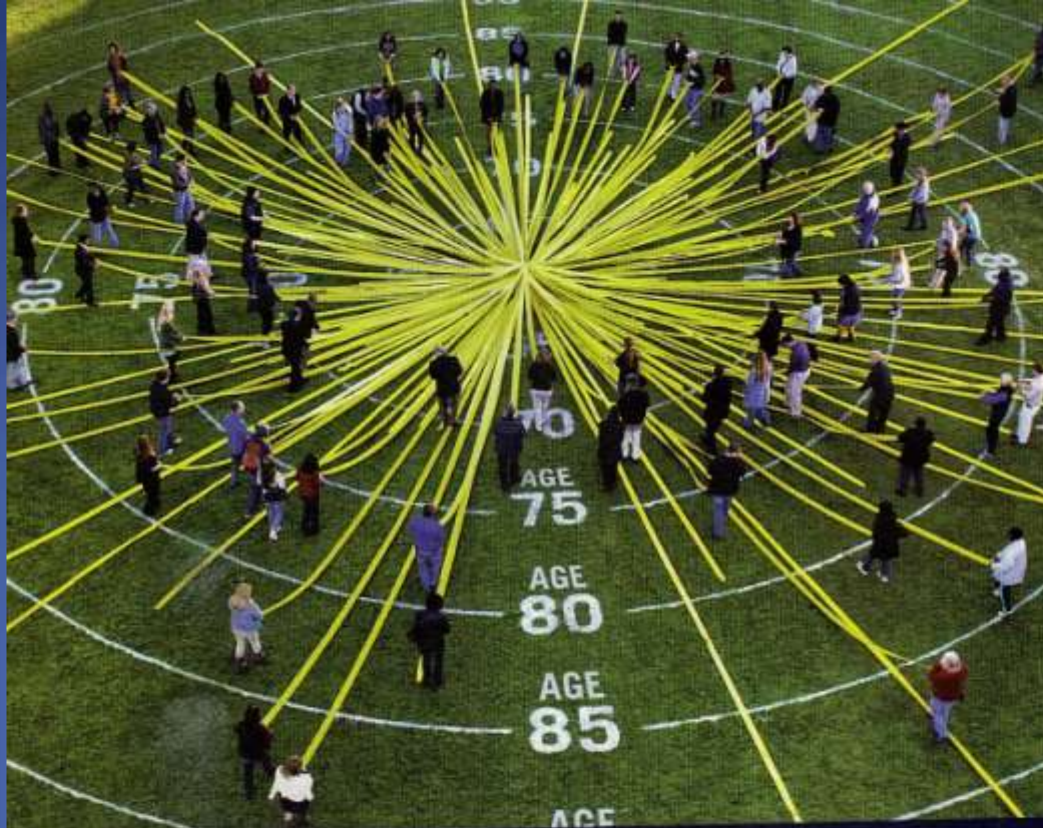
- IN 2012, OFFER MADE TO 26,000 DEFERRED VESTED, 5,800 ACCEPTED
- ALU RECENTLY ANNOUNCED AN INTENDED OFFER IN 2015 TO 45,000 RETIREES OUT OF 131,000
- IN ORDER TO MAKE THE OFFER TO IN-PAY RETIREES A FAVORABLE IRS PRIVATE LETTER RULING IS REQUIRED
- IT TOOK 11 MONTHS FOR GM AND FORD TO RECEIVE APPROVAL FOR THEIR 2012 OFFERINGS
- SINCE THEN MANY COMPANIES HAVE REQUESTED IRS RULINGS, BUT IT APPEARS THAT APPROVAL IS BEING DELAYED BECAUSE OF TREASURY DEPT & IRS ANALYSIS
- YOU CAN SAY NO

LUMP SUMS

- LUMP SUM IS CONCEPTUALLY SIMILAR TO THE LIABILITY CALCULATION IN THE AFN TABLE EXCEPT IT IS DONE ON AN INDIVIDUAL BASIS:
- AFN PLAN LIABILITY IS “AMOUNT OF ASSETS NEEDED TO PAY PROMISED RETIREE BENEFITS” USING INVESTMENT RETURN RATES AND MORTALITY RATES
- GM PRIVATE LETTER RULING ESTABLISHED A NEW ANNUITY START DATE
- PRIVATE LETTER RULING APPLIES ONLY TO THE COMPANY WHO REQUESTED IT

LUMP SUM DOL&IRS REQUIREMENTS

- LUMP SUM OFFERING MUST BE AT LEAST EQUAL TO THAT CALCULATED WITH IRS PRESCRIBED INTEREST RATE AND MORTALITY RATE
- NO LUMP SUM CAN BE OFFERED UNLESS A LIFE OR JOINT LIFE ANNUITY IS OFFERED AT THE SAME TIME. RELATIVE VALUES MUST BE DISCLOSED
- PARTICIPANT CANNOT ELECT LUMP SUM WITHOUT SPOUSAL CONSENT
- MINIMUM OF 30 DAYS TO MAKE DECISION, IRS HAS ALLOWED A MAXIMUM 0F 90 DAYS



WE ASKED PEOPLE HOW MUCH MONEY THEY WOULD NEED TO RETIRE.

THEN SHOWED HOW LONG IT MIGHT LAST.

Recently we conducted an intriguing experiment. We asked 200 people to think about how muc money they'll need in retirement, then had them stretch out a length of ribbon representing that amount to see how long it might last. What we learned is that most of us significantly underestimate how much we'll need. The fact is, with people living longer, retirement could last up to 30 years or more. How can you make sure the money is there for you, year after year? Talk to your financial professional about our guaranteed retirement income solutions that can help provide annual income for each year of retirement from Day One.

SHOULD YOU TAKE A LUMP OFFER

- IT IS YOUR PERSONAL DECISION BASED ON YOUR OWN FACTS AND CIRCUMSTANCES
- ALU WILL BE TRANSFERRING RISKS TO YOU.
- THE RISKS ARE LONGEVITY (LIVING LONGER THAN WHAT WAS ASSUMED IN THE LUMP SUM CALCULATION) & INVESTMENT
- 65 YEAR OLD ON AVERAGE EXPECTED TO LIVE T0 83
- 70 YEAR OLD TO 84
- 75 YEAR OLD TO 86
- 80 YEAR OLD TO 88
- 85 YEAR OLD TO 90
- IRS UPDATES LIFE EXPECTANCY EVERY 10 YEARS

WHAT DOES AVERAGE LIFE EXPECTANCY MEAN?

LONGEVITY EXAMPLE

- IN 2014, 20 PEOPLE AGED 65 WITH PENSION OF $50,000, EXPECTED TOLIVE UNTIL 83, LUMP SUM CALCULATED ON THIS
- 10 PEOPLE ARE STILL ALIVE IN 2031, NOW HAVE AVERAGE LIFE EXPECTANCY OF 89
- 10 PEOPLE HAVE 6 YEARS WHERE $50,000 IS NOT AVAILABLE PER YEAR OR A $300,000 DEFICIT
- HOW MUCH LUMP SUM NEEDED FOR $50000 FOR 18 YEARS AT 4% RETURN = $632,000
- FOR THOSE WHO LIVE TO 89: LUMP SUM $762,000

BUYOUT: THE SELLING OF A PENSION PLAN OR A PART

- THREE PARTIES EFFECTED: SPONSOR, BUYER, AND PARTICIPANT
- NORMALLY PRICED AT 110% OF ACCOUNTING OBLIGATION BOUGHT OUT (COMPENSATES BUYER FOR RISK)
- BOTH GM AND VERIZON WERE BOUGHT OUT AT 110%
- LUMP SUM OFFER, PARTICIPANT TRANSFERS, AND DATA CLEAN-UP MAY BE INDICATORS OF A BUYOUT OF OUR PLAN
- BUYOUT IS THROUGH A GROUP ANNUITY OFFERED BY INSURANCE COMPANY
- PARTICIPANT HAS NO ROLE AND RECEIVES LITTLE WARNING

Buyout: Buyer Perspective

- Obtain massive amount of $ at a low interest rate (2.5%) to trade and invest for profit
- For insurance companies (PRU, MET, AIG): Supplements individual annuities. Hedges life insurance risk.
- Possible buyers: U.S. & foreign insurance companies, consortiums, and private equity.

PARTICIPANT BUYOUT PERSPECTIVE

- PARTICIPANT IS A MEMBER OF GROUP ANNUITY CONTRACT
- NO PBGC GUARANTY, VARIABLE GUARANTEES FROM STATES
  - OKLAHOMA = $300,000
  - ARIZONA = $100,000
  - LOUISIANA = $250,000
  - NEW JERSEY = $500,000
  - NORTH CAROLINA = $300,000*

NO DOL REGULATION, FRAGMENTED STATE REGULATION

NO PLAN SPECIFIC DISCLOSURES – ONLY 10K'S

FIDUCIARY RELATIONSHIP VS BUSINESS MOTIVATION (PROFIT)

PRUDENTIAL VIEW TO BUYOUTS

- “THESE ARE THE SORT OF TRANSACTIONS PRUDENTIAL EXISTS FOR”: DYLAN THOMAS- SVP PENSION TRANSFERS; FROM AARP ISSUE
- HOWEVER, THOMAS AT RECENT NCOIL CONFERENCE: “DISCLOSURES ARE UNNECESSARY AND MEANINGLESS TO RETIREES”
- “ANYONE IS BETTER SUITED TO MAKE FINANCIAL DECISIONS FOR RETIREES THAN RETIREES THEMSELVES”

NCOIL PENSION DERISKING MODEL ACT

- INSURANCE COMMISSIONER APPROVAL REQUIRED IN STATES WHERE RETIREE RESIDES
- 3RD PARTY REINSURANCE GUARANTY MIRRORING THE PBGC
- EXTENSIVE DISCLOSURES TO PARTICIPANTS
- LUMP SUM BASED ON 10 YEAR TREASURY
- INSURANCE COMMISSSIONER APPROVAL REQUIRED FOR ANY SUBSEQUENT TRANSFER TO ANOTHER PARTY

- ERISA ADVISORY COUNCIL ALSO INVOLVED


BRING YOUR CHALLENGES
Prudential
APPROX. ODDS
RESULTS
$2 TOTE TICKETS PAY
OFFICIAL
RACE 6
DD EX TRIFECTA
9 & 3 PAYS
63.40

POSSIBLE OUTCOME: HOW LIKELY A BUYOUT FOR US? (ALU BUYOUT FACTORS)

- ALU HAS IMPLEMENTED THE FULL RANGE OF CURRENTLY ADVOCATED DE-RISKING ACTIONS EXCEPT FOR BUYOUT.
- ALU CANNOT AFFORD PLAN CASH CONTRIBUTIONS.
- THE PLAN’S ECONOMIC FUNDING OF 105% IS APPROACHING THE 110% BUYOUT THRESHOLD.
- FINANCIAL COMMUNITY WOULD VIEW A BUYOUT AS POSITIVE.