

Lucent Technologies
Bell Labs Innovations



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To all management employees

Re. 1997 compensation

Attached is a reprint of "NETWORK" issued June 24, 1997 which outlined the various components of the management compensation plan for 1997 and going forward. There have been questions concerning the unit award and how it will be applied. These areas have been highlighted.

Please bear in mind that the percentages refer to the method used to create the funding pool for the respective levels, similar to previous years for the merit award funding and should not be interpreted as a fixed percentage on an individual basis.

A handwritten signature in cursive script, appearing to read "Jim".

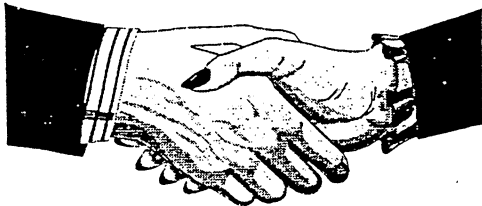
NETWORK!

FOR PEOPLE IN THE NETWORK SYSTEMS BUSINESS OF LUCENT TECHNOLOGIES

Lucent Announces

Lucent, Philips Merge Phone Units

Lucent Technologies and the European-based Philips Electronics N.V. have agreed to merge their consumer communications products businesses into a new company called Philips Consumer Communications, a jointly owned venture of Philips and Lucent. The transaction is scheduled to be completed October 1, 1997, with 60 percent of the venture owned by Philips and 40 percent by Lucent. The new \$2.5 billion company will be the world's leading provider of corded and cordless phones and answering machines and will have the broadest set of capabilities in wireless terminals in the industry.



Partnering with Philips is a strategic choice to assure the profitability and growth of Lucent's Consumer Products unit as well as its ability to become a major player in the global market. The joint venture will be headquartered in New Jersey with regional offices around the world and will be established in the United States. □

Look for NETWORK!
on the Web
<http://infoview.lucent.com/pubs/network>

Compensation Update

Compensation Plan Links Business Goals, Employee Reward



Lucent has a new Short-Term Incentive Plan framework that will be used as a guideline for all countries for future plan changes. These changes to the Short-Term Incentive Plan are currently being rolled out in the United States.

Lucent is a "pay-for-performance" company and the 1997 Short-Term Incentive Plan supports that philosophy. The plan is directly tied to meeting our financial

business imperatives—most specifically earnings and operating income. The better we do as a company and as a business unit, the more we will have to share with our employees.

Shortly, Network Systems' U.S.-paid employees in the Management Pay Plan (MPP, Bands A to D) and Technical Personnel Plan (TPP) will receive a brochure explaining changes in the 1997 Short-Term Incentive Plan.

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Feature

Thirty Months in Saudi Arabia: An Expat's Story

Eight time zones, one ocean, and two seas separate Columbus, Ohio, from Riyadh, Saudi Arabia. The living and working conditions are vastly different, but for Ohio native Larry Cross, the last 30 months in the Kingdom of Saudi Arabia have been a rewarding and enriching experience. After 28 years with AT&T and later Lucent—in assignments that took him from Columbus to New Jersey to Chicago and back to Columbus—Cross accepted an international assignment in 1995 as director of information technology (IT) supporting the Tele-

phone Expansion Project (TEP6) in Saudi Arabia. From both a career and personal perspective, the last two and a half years have been the experience of a lifetime.

"It's been an extraordinary assignment," said Cross. "We have

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Compensation Plan Continued from previous page

“Over the past year, significant work has been done to align our worldwide compensation programs with Lucent’s compensation philosophy and design intent, and create a ‘pay-for-performance’ environment that recognizes high performance and significant year-over-year growth,” says Network Systems President Dan Stanzione.

The compensation plan is comprised of two components: the Lucent Award and the Unit Award. Our Lucent Award is funded by our Earning-Per-Share (EPS) performance and will be paid out as a team award. The funding for the award will increase as Lucent’s earning-per-share performance increases, which means that as the company performs at higher levels, we have the ability to earn greater compensation. (See Chart A.)

The Network Systems Unit Award will be funded by our achievement of Operating Income results. The funding for the awards will also increase as we perform and bring in results above our Operating Income commitment level. The payout for this award will vary by individual * and is based on individual achievements linked to our policy deployment broad actions. At the end of the year, employees will be evaluated based on their individual achievement of results and contributions to the business. Rewards will be provided to individuals for exceptional performance in meeting objectives. (See Chart B.)

Throughout Network Systems, meetings will take place with employees to discuss the 1997 Short-Term Incentive Plan and its emphasis on meeting performance objectives.

“We have set very aggressive goals for Lucent and Network Systems and employees need to know and understand the financial implications,” says Stanzione. “Every employee should have set individual objectives that are linked to his or her organizational objectives. This is a good opportunity to connect corporate goals and opportunity, individual and organizational objectives and compensation and satisfaction in doing a job well. The compensation plan is a tool to reinforce our business imperatives and reward employees for their contribution.”

Current Results—Network Systems Operating Income

Cumulative results for May indicate that we are currently performing ahead of our plan. We have set aggressive targets for ourselves this year and continued focus is required to achieve our goals for fiscal 1997.

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Chart A

Lucent Award Funding (As a percentage of Earned Base Salary#)

EPS Performance Level*	A & B Band TPP-IC	C Band Technical Mgr.	D Band
100%	5.3%	8.5%	11.0%
105%	5.9%	9.4%	12.6%
110%	6.5%	10.4%	14.2%
115%	7.1%	11.3%	16.0%

* There is no guarantee of award funding if performance is below 100 percent; however, the funding is uncapped and continues to grow with performance. Funding will be calculated to the nearest .01 percent based on actual performance.

This chart reflects a 12-month earnings opportunity. For fiscal year 1997, we will have a nine-month earnings opportunity (10/1/96 through 9/30/97) amounting to three-quarters of the award.

Chart B

Unit Award Funding** (As a percentage of Earned Base Salary#)

EPS Performance Level*	A & B Band TPP-IC	C Band Technical Mgr.	D Band
100%	5.3%	8.5%	11.0%

* There is no guarantee of award funding if performance is below 100 percent; however, the funding is uncapped and continues to grow with performance. Funding will be calculated to the nearest .01 percent based on actual performance.

** This chart represents funding levels for the Network Systems Unit Award. Payout of the award will vary by individual, based on achievement of individual objectives linked to policy deployment. *

This chart reflects a 12-month earnings opportunity. For fiscal year 1997, we will have a nine-month earnings opportunity (10/1/96 through 9/30/97) amounting to three-quarters of the award.

Compensation Questions and Answers

Following are questions and answers that address the changes.

Question: *How does Lucent's Short-Term Incentive Plan work?*

Answer: The plan has two components: the Lucent Award and the Unit Award. The Lucent Award will be based on Lucent's meeting the Earnings-Per-Share growth commitment. It will be distributed as a team award to all management and technical employees as a percentage of their earned base salary. The Unit Award funding will be based on the operating units meeting Operating Income commitments. This award will be distributed as an individual award or a combination individual/team award, depending on what the business unit decides.

Q: *How does this plan differ from previous years?*

A: This plan is linked to investor expectations because our measure of success is now tied to earnings growth. In addition, there are no guaranteed incentives until the company meets its earnings objectives. There is also more flexibility for the operating units. Each unit now can decide how its Unit Award should be distributed: individually, or as a combination individual and team award. Finally, in the past, awards were capped at a certain level of performance. Our award payouts are still tied to performance, but are now uncapped.

Q: *Why was the Merit Award eliminated?*

A: In the past, Merit Award funding was fixed, regardless of company or unit performance. Awards were granted even when the business did not meet its commitments. The Unit Award, which is funded based on unit financial performance, is now the component that will reward individual performance. Most organizations plan to use part or all of their Unit Award funding to reward individual and small team performance.

Q: *Why are the targeted award percentages higher for D-band managers?*

A: Lucent's mix of salary and variable (incentive) pay has been changed to better reflect market practice. D-band managers bear a great deal of responsibility in the success of the business and now have a greater portion of their total cash compensation linked to business results.

Q: *Will our December 1997 awards be reduced because we're getting them sooner than usual?*

A: Yes. Although these awards will be based on full fiscal 1997 performance (Oct. 1, 1996 - Sept. 30, 1997), payouts will be a percentage of earned base salary from Jan. 1 - Sept. 30, 1997. After that, awards will be based on full 12-month salary and paid in December.

Q: *What is the difference between "earned base salary" and "base salary"?*

A: Earned base salary takes into account any changes to your salary during the performance year. Base salary refers to your salary at a given time, such as year-end.

Q: *I am in a Corporate Center and support a business unit 100 percent of my time. Will I participate in the Unit Award program of my Corporate Center or the Operating Unit I support?*

A: With the concurrence of both the Operating Unit and Corporate Center leadership, you will be eligible for the Unit Award of the Operating Unit you support, rather than the Corporate Center's award.

Q: *Will the Unit Award be funded if our business unit hits its Operating Income commitment but Lucent misses its EPS growth commitment?*

A: Yes. Any unit that meets its earnings commitment will receive Unit Award funding.

Q: *What is the compensation philosophy underlying the new Short-Term Incentive Plan?*

A: Lucent is a pay-for-performance company. That means those who make significant contributions to the company's success will receive significant financial rewards.

Q: *How is the Network Systems Unit Award structured?*

A: The Network Systems Unit Award is funded by the achievement of Network Systems' Operating Income results. Our Operating Income commitment number is the performance gate we have to achieve to receive funding for payout. The payout for the award will vary by individual based on the achievement of individual, specific objectives linked to the Network Systems Policy Deployment Broad Actions.

Q: *Are Network Systems employees on sales compensation plans eligible for the Network Systems Unit Award component?*

A: Yes. For fiscal year 1997, employees on sales compensation plans are eligible for the Network Systems Unit Award funding.

Q: *Why will we receive short-term incentive award payouts for fiscal 1997 in December?*

A: We have a legal obligation to pay out short-term incentives based on the company's financial performance within 75 days of the close of the fiscal year. Lucent's fiscal performance period ends September 30 and 75 days takes us to mid-December. Failure to comply results in significant tax liability for the company.

Q: *Exactly what is the Lucent goal for earnings per share growth?*

A: For competitive and legal reasons, we are not able to disclose our annual EPS goal. Lucent's earnings per share results of \$1.45 for the first six months indicate strong financial results. By continuing our hard work we can attain or exceed our goal for funding the Lucent Award. □

Expat in Saudi Arabia

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the best information technology of any Lucent facility in the world in terms of the telecommunications network, the computing infrastructure and the business systems." Cross participated in the design, construction and installation of the information technology from the sand up, and says the Saudi operation has the highest performance and reliability of any IT organization in Lucent.

He feels a sense of satisfaction and pride in having played a major part in the facilities that now serve over 2,000 employees. "I was able to make things happen quickly and it was largely because I was empowered more so than in any other assignment I have had."

He also noted that working with the people representing 18 countries on his IT team and 39 countries on the Lucent TEP6 team has broadened his vistas of what it takes to communicate across multiple nationalities. "It has been a major challenge to keep the project on track; however, working with people from such varied backgrounds and nationalities has been stimulating."

Cross' wife, Sharon, had some apprehensions about living in Saudi Arabia when the opportunity was first presented. "Compared to the United States, women are a bit restricted in Saudi Arabia," she noted. "Women are not permitted to drive. When I go off the employee compound I wear an *abayah* [the native dress] and carry a head scarf. But, in a short time, I learned to respect the

Islamic religion and laws, and found the people to be warm and friendly."

Life on the compound (a walled-in, private mini-city) is shared with 600 families and contains all the amenities of a small "western" city that might well be in Arizona. Twenty shops provide a variety of services ranging from videos to groceries and hair styling. Swimming pools, tennis courts and a bowling alley avail families with year-round recreation. The compound is managed by an independent company and the employees of several international corporations doing business in Saudi Arabia live there



with the Lucent families. The compound population has a good mix of nationalities.

"Compound life has been outstanding," said Sharon Cross. "You form a camaraderie with all the spouses almost immediately."

In the evenings the couple visited Riyadh's varied restaurants and shops. "If you are the least bit inquisitive or inventive, there are many things to do. Riyadh is a beautiful, totally modern

city built in the last 15 years. And we feel very safe on its streets, every bit as safe as in the United States." Cross describes the Riyadh airport as one of the most modern he's seen, with a security system second to none.

On weekends Larry and Sharon Cross drove to a country club in the desert. "It's amazing," said Cross. "A 30-minute drive in the desert from our home, all of a sudden you pull into a valley lined with a fully grassed golf course, green fairways and palm trees."

You might think that a desert kingdom would not have enough water to go around for the normal household needs of 18.5 million people, never mind watering the ninth hole on a par five, but this isn't the case. Saudi Arabia has the most modern desalination technology that turns the Red Sea's unlimited supply of salty water into potable water for baths, kitchens and industry across the country.

Given Saudi Arabia's huge oil reserves and desert climate, it comes as no surprise that water is more expensive than gasoline, but fortunately for expats like Cross, the water bill is covered by the housing package.

"This was a super career move for me and it has opened the door to other career opportunities," Cross concluded. Earlier this month Cross moved to Belgium to become Business Communications Systems director of global information infrastructure for Europe, Middle East and Africa region. "We're moving from Saudi Arabia with a trace of sadness, reluctantly leaving behind the friends we have made inside and outside of Lucent," he said. □

—Alessandro Cornella