Competing in the Real World... the Lucent HR Perspective

September 15, 2000
Today’s Agenda

» Lucent Technologies Overview
  » Lucent’s global presence
  » Changing business environment

» Compensation & Benefits Strategies
  » Benefits
  » Compensation
  » Stock plans
    » Broad-Based Grants
  » e-Enabling Compensation & Benefits

» Major Challenges / Opportunities
  » The New Reality
  » What is a .corp?
  » .corp People Strategy

» Questions & Answers
Lucent Technologies Overview

- 530.1 Billion startup - spun off from AT&T in October 1996
- Network infrastructure market - 532.5 Billion in 2000 - doubling in 5 years
- 153,000 employees - 37,000 located outside of the United States
- Home of Bell Labs - WHERE 26,000 employees produce 4 patents per day
- Employees in more than 60 countries - operations in 90
- 41 acquisitions - adding more than 15,000 employees
- Spinning off: Avaya (53 Billion) & Microelectronics (54 Billion)
- To date Lucent has hired 33,000 employees - 11,000 outside of the US.

“We are redefining Lucent to be the leader in building a broadband and mobile Internet that will change the way people communicate.”

Lucent Chairman & CEO Rich McGinn
Lucent's Global Presence

Global Markets Are Our Most Important Growth Areas
Changing Business Environment

External Challenges
- Explosion of the internet & e-Commerce
- Impact of globalization
- Race for talent, compounded by the lure of the .com's
- Consolidation within and between industries
- Relentless pressure to optimize speed, cost and quality simultaneously

+ Internal Challenges
- Organization structure
- Loyalty to culture and hierarchy
- Internally-focused
- Rigid, inflexible systems
- US-centric

= HR Challenges
- Lead culture change
- Enhance organizational capability/speed
- Implement talent management systems
- Supportive rewards strategy
- Eliminate confusion around new work realities
Compensation & Benefits Strategies

» Appropriate benchmarks
» Align benefit plans with marketplace
  + Position oneself for the future
  + More choice
  + Reduce costs
» Short-term incentive plans that pay for performance
» Stock Plans
  + Create a culture of ownership
  + Align employees with shareholders
  + Secure the relationship with critical talent
» Total rewards strategy that reinforces new culture and behaviors
Benefits

- Aligning existing programs with the strategy
  - Cash Balance Plan
  - 401(k) Variable Match
  - Health Care Issues:
    - Actives
    - Retirees
    - Delivery system - real choice
- Balancing the needs of 3 diverse employee groups:
  - Heritage
  - Generation Xers
  - .com mercenaries
- Reduce complexity
Compensation

» Aligning pay practices with the strategy
  » Base Pay - competitive market rates
  » Short-term Awards - target payouts based upon financial goals
    - Corporate Performance
    - Business Unit Performance
    - Individual Performance
Stock Plans

- Aligning with the strategy
  - Grant size
  - Penetration rates
  - Vesting
- Ownership grants to all employees (broad-based grants)
- Employee Stock Ownership Plan
- Stock Option Grants
  - Non-qualified stock options
  - Incentive stock options
  - Reload options
  - Limited use of restricted stock grants
Stock Plans / Broad-Based Grants

- Global Founders Grant (1996)
  - 100 Options at spin-off to all employees
  - 113,000 employees in 55 countries
  - 42 million shares vested on October 1, 1999, at which time . . .
    - Appreciation of more than 600% and two splits
    - 400 options with pre-tax value of $23,000 plus at vesting

- Global Stock Ownership Program (1998)
  - September 1, 1998 option grant to 135,000 employees globally
  - 4-year cliff vesting - September 1, 2002
e-Enabling Compensation & Benefits

» Benefit administration
  + Personalized benefit plan status
  + Frequently asked questions
  + Well-indexed website
  + Reporting and disclosure (SPDs, SAR’s, etc.)

» e-Comp
  + Deployed to manager’s desktop
  + Reinforces the manager’s responsibility
  + Reduces cost and time

» Lucent People @ Work
  + Employee portal - A single, personalized “starting point”
Major Challenges / Opportunities

- Market information (U.S. and globally)
  - What really is the market?
  - Quality, quantity and timeliness
- Benefits
  - The employers role
  - The outlook on healthcare in the U.S.
  - Employee-pay-all alternatives
- Mass customization of compensation
- Rewards not linked to fiscal year cycle
- Paid time off - and underused "currency"
- Rationalization of stock options
.com vs .corp
What is a .corp?

› New economy products and services
› Hard assets, customer base and reputation
› Existing and sustainable revenue stream
› Financial discipline and management controls
› Profits
.corp People Strategies

▷ Management of Risk vs. Preference for Risk
▷ Thoroughness vs. Speed
▷ Respect for Tradition vs. Disregard for Tradition
▷ Acceptance of Failure vs. Fearless of Failure

(Precise shorthand: MacCooper)
Getting to .corp . . .
Without becoming a .corpse!