

ALCATEL-LUCENT RESPONSIBLE PURCHASING PROGRAM

June 2013

ALCATEL-LUCENT

VISION: to realize the potential of a connected world

OUR MISSION: to deliver the innovation our customers need to stay ahead, to evolve, to become more efficient, and to move at the speed of ideas.

CORPORATE SIGNATURE: AT THE SPEED OF IDEAS.

FAST FACTS 2011

- Headquarters: Paris, France
- Annual Revenues: approx. €16 billion
- Employees: 79,000 +
- 130 countries

- R&D Budget: €2.5 billion
- Active Patents Held: 27,900
- Patents Awarded in 2010: 2,400
- Nobel Prizes Won: 7



SERVICE PROVIDERS



A leader in mobile, fixed, IP and optics technologies, and a pioneer in applications and services, we offer complete solutions that help service providers and their customers realize the potential of a connected world.

STRATEGIC INDUSTRIES



We provide end-to-end turnkey communications integration that improve quality of life through better energy management, efficient transportation and improved government services.

ENTERPRISES



We help our enterprise and government customers worldwide interconnect their networks, people, processes and knowledge to make money and save money.

ALCATEL-LUCENT CORPORATE RESPONSIBILITY PRIORITIES



ECO-SUSTAINABILITY

Continue to lead the industry in developing and deploying globally recognized innovation in eco-sustainable communications technologies.



OUR PEOPLE

Invest in our people & talents while reflecting the diversity of the markets we serve.

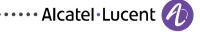


DIGITAL INCLUSION

Realize the potential of a connected world by developing and deploying affordable communication solutions.

OUR SUSTAINABILITY VALUES

- Zero-tolerance stance on compliance violations
- Collaborate and do business only with partners, including suppliers, contractors and sub-contractors, who share and support our values
- Fully engage as citizens of the communities where we do business



WHY DOING IT? SUSTAINABILITY IN CUSTOMERS RFX

- Interest in Opex savings but ROI still relatively small
- Supplier sustainable practices mandated in RFI/RFPs
 - ✓ But currently NOT as important as features & price
- However a shift may be occurring

AT THE SPEED OF IDEAS™

- ✓ BT: 5% weight for suppliers' sustainability in RFPs, 10% in 2012
- ✓ Sprint: 90% suppliers complying with its environmental standards by 2017

OPERATORS	SUPPLY PRINCIPLES	PROCUREMENT ACTION
Vodafone	Medium	Low
BT	High	Medium
Telefonica	High	Low
DT	High	Low
FT/ Orange	Medium	Low
Sprint	High	Low
AT&T	Medium	Medium
Verizon	High	Medium
China Mob.	Medium	Medium
Singtel	Medium	Low



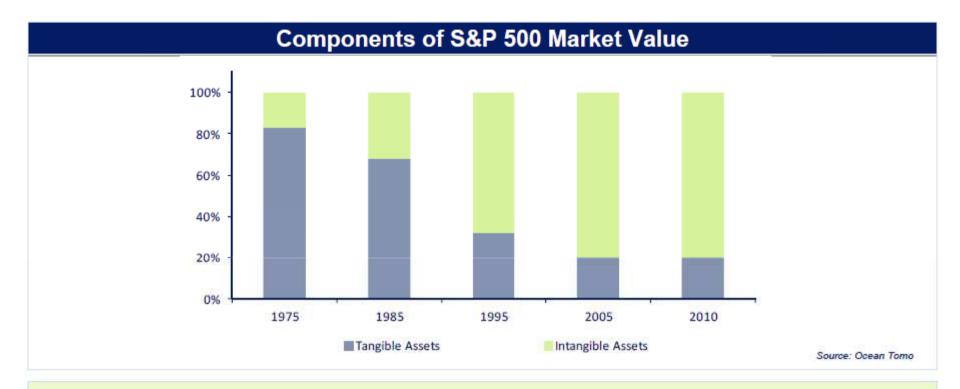
WHY DOING IT? AVOID CUSTOMERS IN-DEPTH INVESTIGATIONS

- Demonstrating high sustainability performance avoids being deeply assessed / audited by customers
- Sustainability performance is demonstrated with:
 - Leadership in DJSI
 - High scoring in EcoVadis and e-Tasc Sustainability ratings
 - Participation in the United Nations Global Compact
 - Reporting on Sustainability following the Global Reporting Initiative standard (in our Sustainability report)



AT THE SPEED OF IDEAS™

WHY DOING IT? IMPORTANCE OF INTANGIBLE ASSETS



The past quarter century has seen a huge macroeconomic value inversion. In 1975, more than eighty percent of corporate value reflected in the S&P® 500 resided in tangible assets while intangible assets accounted for less than twenty percent of the value. By 2010, these values have replaces each another with intangible assets now accounting for eighty percent and tangible assets accounting for the remaining twenty percent of the corporate value.



WHY DOING IT? **GROWTH OF RESPONSIBLE INVESTMENT**



Source: PRI Secretariat April 2011

WHY DOING IT? REGULATORY PRESSURE FOR SUSTAINABILITY REPORTING



PURCHASING DOMAINS

















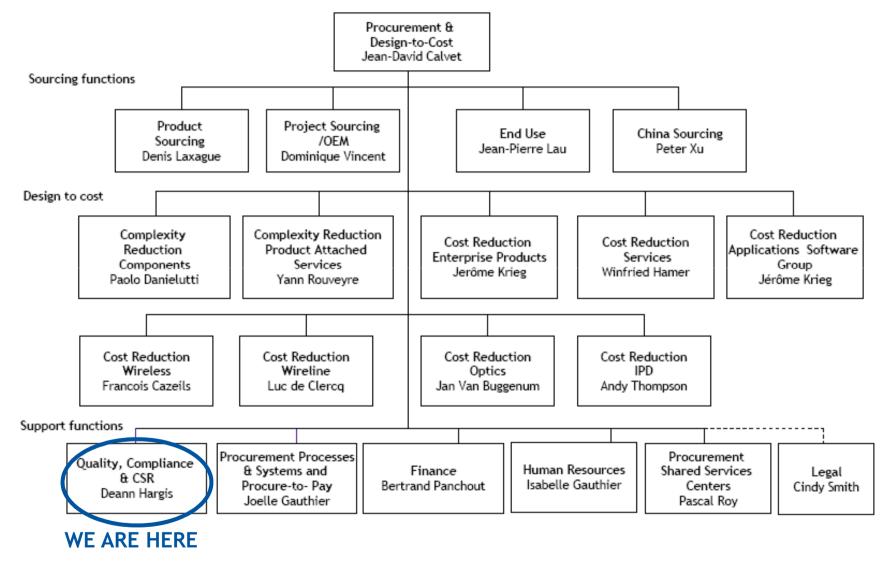








PURCHASING ORGANIZATION



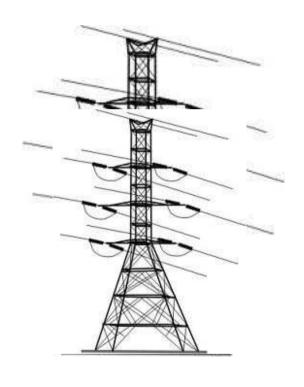


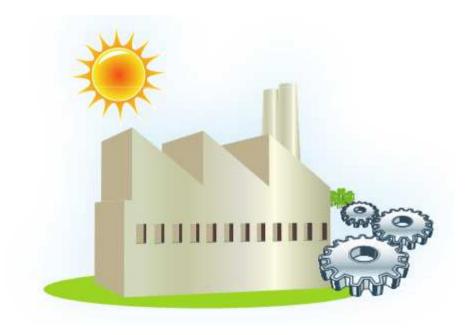
BENEFITS OF RESPONSIBLE PURCHASING PRACTICES

TYPE	DESCRIPTION	AVERAGE RESULTS	PROCUREMENT PROGRAMME COSTS	IMPLEMENTATION PROBABILITY
), Cost reduction	Reduction in total cost of ownership linked to reduced energy costs, reduced over-specification, reduced consumption and reduced social and environmental compliance costs	0.05% of total revenue per project ¹	Up to 6 times payback	High
2. Risk reduction	Financial impact on brand value from bad supplier practices (e.g., child labour,	Additional direct costs as a 0.7% of total revenue	Up to 85 times payback	Low
	local pollution); economic cost of supply chain disruptions (e.g., noncompliance with environmental regulations)	Decrease of 12% in market cap	NA	Low
. Revenue rowth	Additional revenue through innovation of eco-friendly products/services, price premium or income from recycling programmes	0.5% of total revenue	Up to 58 times payback	Medium

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EXAMPLE OF COST REDUCTION IN PURCHASING





EXAMPLE OF SUSTAINABILITY RISK IN THE

SUPPLY CHAIN





Reg Company Name		Supplier Violator Cares		Conduced Checks on Supplier Violation Careta		Use Public Information to Enturous Supply Christ Management		Pub Se Supplers to	Further Excursion of Environmental Management constitution of Supply Chain	
in the	Checked Study Purpose Replied to NGO Larses	Replied to NGO Late	Initial Chocks	Indepth Checks	Considered Exectishing Search Medianism	Deadelto Esphish Search Mechanism	Corective Assico & Explanation	Regular Dischours of Discharge Data	Directly Extended Management to Main Mareria's Suppliers	Suppliers to Screen Level Two Suppliers
BT	V	1	¥	V	*	4	X	X	X	4
HP	٧	4	4	V	4	x	· 4	x	x	X
Зашэнав	4	V	V	¥	4	x	٧.	x	x	x
Sanyo	V	٧	٧	х	4	х	٧	х	X	X
Sony	√	4	4	4	4	4	X	х	X	X
Siemens	√	4	٧.	4	4	V	x	x	x	х
Alcatel	4	4	4	4	4	4	х	х	X	X
Ehrep	4	4	4	ж	4	4	к	х	x	X
Lanovo	٧	¥	4	х	4	٧	х	х	х	х
Teshiba	√	N	4	4	4	х	X	х	X	X
Vodafone	√	V	٧.	4	X	X	4	Х	X	X
Parasonic	√	4	4	4	4	х	X	х	X	X
Seikn	√.	Y	4	V	4	x	x	x	Y	Y
Intel	4	4	4	х	4	х	N	ж	x	x
RAD	V	V	٧	х	4	х	х	х	х	х
Htacki	√	4	4	4	X	X	X	X	X	X
Camon	√	Х	-√	4	x	X	X	х	X	X
Philips	√	х	4	¥	x	х	х	х	x	х
Meterela	-J	4	4	x	x	x	x	x	x	х
Major	√	4	٧	x	x	x	x	x	x	х
TCL	٧.	٧	٧.	х	х	х	х	х	х	х
Foscom	√	4	-√	х	X	X	X	х	X	X
SingTel	4	4	4	х	x	X	X	X	X	X
Cisco	4	Х	4	х	x	X	X	х	X	X
BM	4	x	4	x	x	x	x	x	x	x
Nokia	√	x	4	x	x	x	х	x	x	х
LG	√	X	4	х	x	X	X	x	X	X
Ercsson	√	X	4	х	x	x	X	x	X	X
Apple	4	х	4	х	x	х	x	х	х	x



EXAMPLE OF BUSINESS OPPORTUNITY IN THE SUPPLY CHAIN







THE 3 PILLARS OF SUSTAINABILITY IN SUPPLY CHAIN

REQUIRE Sustainability commitments Contractual requirements based on our supplier code of conduct (EICC) and Environment, Health and Safety clauses

Product or service-specific sustainability requirements integrated into specifications, requests for purchase...

ASSESS Supplier Sustainability practices

Sustainability integrated as an element of supplier risk analysis and as a selection criteria

Assess supplier Sustainability management systems

Audit Sustainability practices to ensure they correspond to sayings

IMPROVE Sustainability performance Minimum level of expectation of assessed suppliers

Require Improvement plans further to unsatisfactory Sustainability ratings and audits

Support and communicate through workshops and exchanges

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REQUIRE: OBJECTIVES AND WHERE TO USE?



 Corporate Responsibility Commitment from all suppliers in purchasing agreements or when creating an account in the system

		Purchase Order terms & conditions	Sustainability commitment when creating supplier account	Contractual templates
Generic requirements	United Nations Global Compact	√	√	
	EICC Code of Conduct Rev 3			√
Activity-specific requirements	EHS Clauses			✓



REQUIRE: SUPPLIER CODE OF CONDUCT

Freely Chosen Employment Child Labor Avoidance Working Hours Wages and Benefits Humane Treatment Non-Discrimination Freedom of Association

Health and Safety

Occupational Safety **Emergency Preparedness** Occupational Injury and Illness Industrial Hygiene Physically Demanding Work Machine Safeguarding Sanitation, Food, and Housing

Management System Requirements for CR

Global References

Environment

Environmental Permits and Reporting Pollution Prevention and Resource Reduction

Hazardous Substances

Wastewater and Solid Waste

Air Emissions

Product Content Restrictions

Ethics

Business Integrity

No Improper Advantage

Disclosure of Information

Intellectual Property

Fair Business, Advertising, Competition

Protection of Identity

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REQUIRE: SUPPLIER CODE OF CONDUCT

Freely Chosen Employment

Forced, bonded or indentured labor or involuntary prison labor shall not to be used. All work will be voluntary, and workers shall be free to leave upon reasonable notice. Workers shall not be required to hand over government-issued identification, passports or work permits to the Participant or Labor Agent as a condition of employment.

Child Labor Avoidance

Child labor is not to be used in any stage of manufacturing. The term "child" refers to any person under the age of 15 (or 14 where the law of the country permits), or under the age for completing compulsory education, or under the minimum age for employment in the country, whichever is greatest. The use of legitimate workplace apprenticeship programs. which comply with all laws and regulations, is supported. Workers under the age of 18 shall not perform work that is likely to jeopardize the health or safety of young workers.

Working Hours

Studies of business practices clearly link worker strain to reduced productivity, increased turnover and increased injury and illness. Workweeks are not to exceed the maximum set by local law. Further, a workweek should not be more than 60 hours per week, including overtime, except in emergency or unusual situations. Workers shall be allowed at least one day off per seven-day week.

Wages and Benefits

Compensation paid to workers shall comply with all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits. In compliance with local laws, workers shall be compensated for overtime at pay rates greater than regular hourly rates. Deductions from wages as a disciplinary measure shall not be permitted. The basis on which workers are being paid is to be provided in a timely manner via pay stub or similar documentation.

Humane Treatment

The Participant's disciplinary policies and procedures shall be clearly defined and communicated to workers. There is to be no harsh and inhumane treatment, including any sexual harassment, sexual abuse, corporal punishment, mental or physical coercion or verbal abuse of workers: nor is there to be the threat of any such treatment.



ASSESS: BUILDING BLOCKS

- Risk mapping
- Overall Risk / Performance Assessment
- Sustainability management systems ratings
- Suppliers Scorecards



- Onsite audits
 - Quality Audits
 - Corporate Responsibility audits

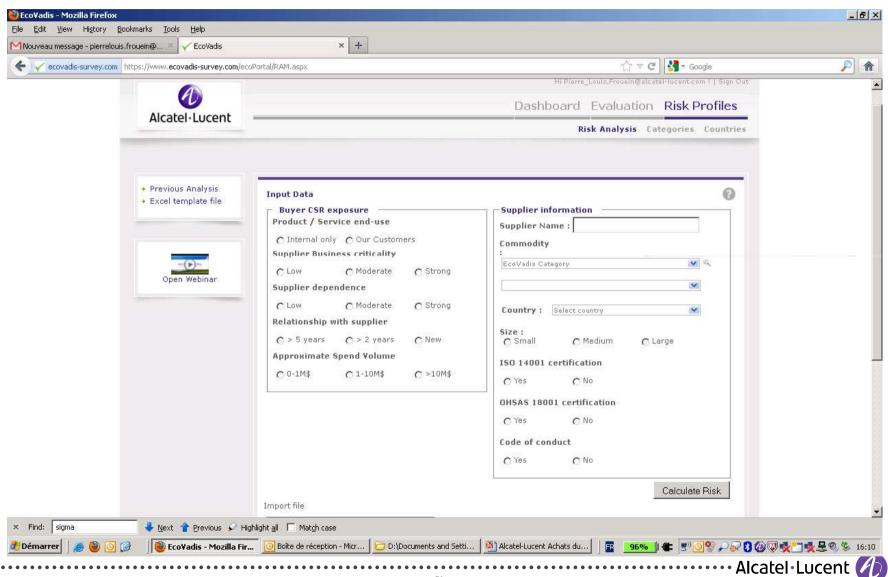


ASSESS: RISK MAPPING

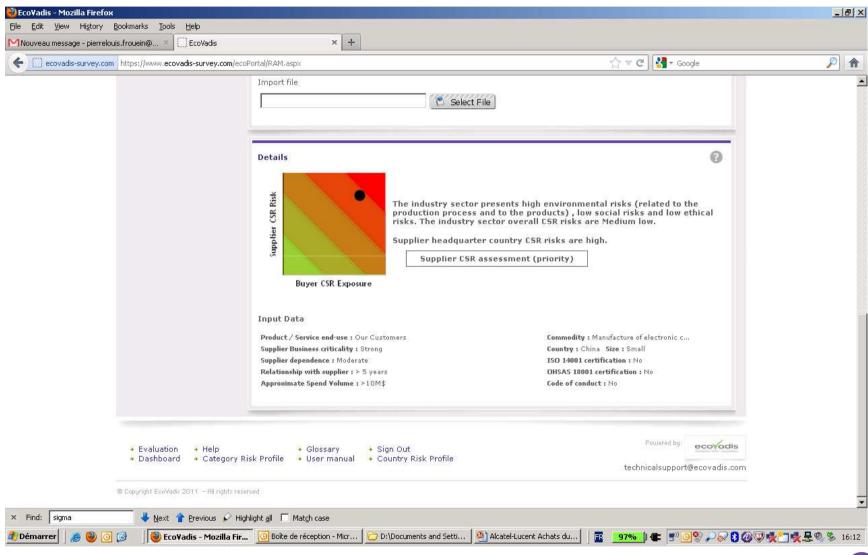
Domain	Council	Subcouncil	Risk level			
		OEM IT				
	OEM	OEM Software				
OEM		OEM Telecom				
		Strategic industries & Civil Works				
		Maintenance				
		Network Design				
		Installation & commissioning				
	Services	Turnkey Civils Works				
Project coursing		Marine services				
Project sourcing		Technical Assistance & Project Management				
	Maintenance	Maintenance & aftersales				
		Repair services				
		Consulting & integration				
	Specific Components					
	Standard Components					
		Interconnect				
		Enclosures, Mechanical Parts & Sub-Assemblies				
	Electromecanical components	Energy Systems				
Product sourcing		Installation Material				
		Repair				
	Electronic Manufacturing Services					
	Radio frequency and microwave					
	Optical components					
	RFS					



ASSESS: RISK ASSESSMENT



ASSESS: RISK ASSESSMENT



ASSESS: CR RATINGS EVALUATION CRITERIA



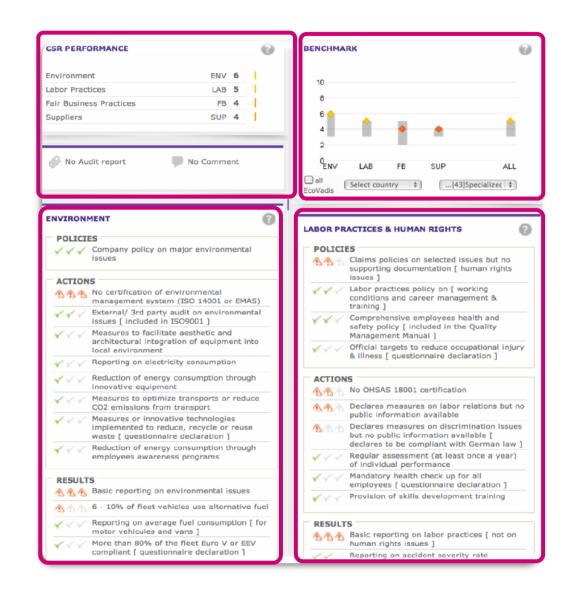




ECOVOCIS SUSTAINABLE SUPPLY MANAGEMENT	Environment	Social	Ethics
Supplier's own supply chain Supplier's practices	 Operations Energy consumption & CO₂ Water management Local Pollutions (e.g. noise, odor, dust, etc) Raw & Hazardous materials, Chemicals, Air emissions (except CO₂), Waste management Product Eco-design: use and end of life Customer Health & Safety Sustainable Consumption 	 Child Labor Forced Labor Non-Discrimination Freedom of association Working conditions (wages & benefits) Career management & training Structured labor relations (i.e. with employee representatives) Employee Health & Safety (e.g. Injury & illness/ Emergency) 	 Business integrity Corruption Bribery Anti-competitive practices Intellectual property / Confidentiality of data POLICIES ACTION RESULTS Alcatel-Lucent

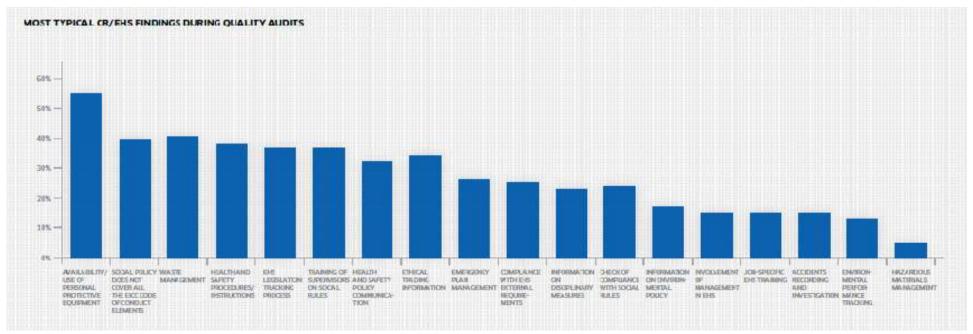
ASSESS: SUSTAINABILITY RATINGS PROCESS







ASSESS: AUDITS



Some 2011 sustainability audit findings:

- Violation of local laws and regulations on working hours;
- Lack of systematic and extensive health and safety risk assessments;
- Lack of GHG emissions inventories and reduction plans;
- Insufficient numbers of employees trained in first aid;
- Lack of policies and/or communication to employees on compensation and benefits;
- Forced labor suspicion (passport withholding)
- Discrimination when hiring workers (pregnancy test)



ASSESS: OBJECTIVES AND WHERE TO USE?

ASSESS

Assess suppliers with significant business level (key, preferred, high spend)
or high sustainability risk (supplier activity and / or location)

		Pre- selectio n	Supplier selection (strategic / key / preferred/)	Request for XXX	Specific Sustainability Investigation
Remote analysis	Supplier Risk Assessment	√	(√)	✓	
On-line assessment	EcoVadis Sustainability rating		✓	√	✓
	Quality Audit (SCA)		√		✓
On-site audit	SGS Sustainability audit				√
Assessment and audit remediation	Improvement Plan		V		· Alcatel·Lucent

IMPROVE: OBJECTIVES



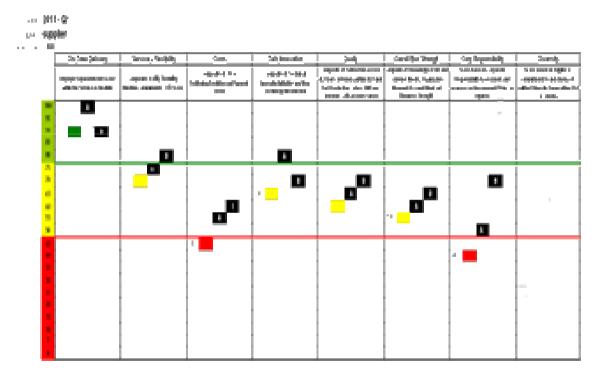
Ensure 80% of assessed suppliers are satisfactory by end of 2014 (versus 53% by mid 2011) by:

- Ensuring new / selected suppliers are satisfactory
- Pushing current unsatisfactory suppliers to work on improvement plans



IMPROVE: SUPPLIER MONITORING

- Integration of sustainability considerations in the supplier relationship: managed by Commodity Managers in business reviews



- Supplier scorecards integrate sustainability performance:
- Sustainability rating result
- Combined with specific elements in some instances (e.g. Diversity un the US)

IMPROVEMENT PLANS FOR SUPPLIERS

Improvement plans for unsatisfactory suppliers

Address management systems weaknesses identified in Sustainability

Ratings scorecards



Usually long process



HELP SUPPLIERS IMPROVE THEIR PERFORMANCES

Supplier Sustainability toolkit



Useful resources Glossary, FAQ, Help

Suppliers workshops





Trainings





REQUIREMENTS IN PRODUCT / SERVICE SPECIFICATIONS





REQUIREMENTS FOR COMPANIES IN REQUESTS FOR PURCHASE / REFERENCING















A SECTOR-SPECIFIC ISSUE: **CONFLICT MINERALS**



Conflict minerals and the DRC

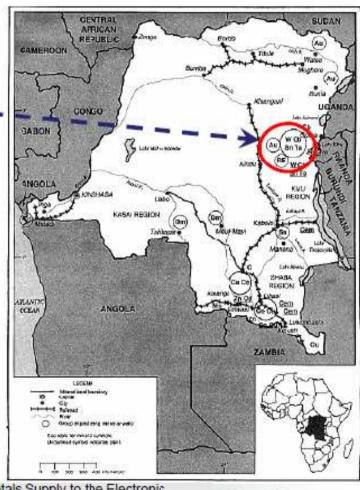
Exploitation and trade of conflict minerals originating in the Democratic Republic of the Congo (DRC) is helping to finance conflict characterized by extreme levels of violence in the eastern DRC. This ongoing conflict, located in the provinces where minerals used in ——— electronics are mined, has claimed more than 5.4 million lives since it began in the late 1990's.

Mining activity is crucial to the DRC economy.

However, some mines are controlled by militant groups causing serious social and environmental issues in the region:

- Serious human rights abuses, theft, extortion
- Violence over control and taxation of mineral resources
- Forced and child labor
- Limited development options ->artisanal and small-scale mining
- Conservation impact, deforestation, etc.

CONGO KINSHASA





- GHGm report "Social and Environmental Responsibility in Metals Supply to the Electronic Industry." http://www.gesi.org/LinkClick.aspx?fileticket=anlAuBauWU8%3d&tabid=60
- DR Congo Mineral Map source; http://minerals.usqs.gov/minerals/pubs/country/maps/92449.gif





The minerals supply chain is complex

The number of sources for metals used in a given product can vary over the life of a product. This is a simplistic view of a supply chain where material flows downstream to the retailer. More entities typically exist from mine to retailer.







Finished Product

Upstream² - Mineral supply chain from Mine to Smelter

Downstream² - Mineral supply chain from Smelter to Retailer





CONCENTRATE PROCESSORS/ **SMELTERS**

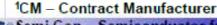








Downstream entities mitigate risk through controls to verify 'upstream' supplier DRC Conflict Free policies and processes.



Semi Con - Semiconductor fabricator Upstream and downstream as defined by the OECD guidance.

PCB – Printed Circuit board assembler

ODD - optical disk drive





EICC-GeSI approach to responsible sourcing: Due diligence mechanisms







Finished Product





CONCENTRATE PROCESSORS/ SMELTERS









Upstream Due Diligence

Multi-Stakeholder collaboration to verify DRC conflict-free smelters

- Conflict Free Smelter (CFS)
 assessment
 In-Region Sourcing program
 - ICGLR's mineral tracking & certification BGR's certification & mineral fingerprinting

Downstream Due Diligence

Companies can ensure CFS smelters are used in their supply chain

Company Due Diligence:

- Establish Management System
- Conduct supply chain risk assessment
- Report results







SECTOR-SPECIFIC ISSUES: MATERIALS DECLARATION

Location Name	Homogenous Material	Substance Name	CAS Number	Substance Mass	Total MASS (g)	Total MASS Summation (g)	PPM
Internal Leadhame Plating	Internal Leadframe Plating	ža.	7440-22-4	0.000243	0.0742	0.07417812	1000000
Die Attach	Die Attach	AgEillet	7440-22-4	0.000904	0.0742	0.07417812	799292.6613616269
Bond Wires	Bond Wires	ėu.	7440-57-5	0.0003	0.0742	0.07417812	1000000
Molding Compound	Molding Compound	Brominated resin	68928-70-1	0.000222	0.0742	0.07417812	4996.511444712025
Molding Compound	Molding Compound	Carbon Black	1333-86-4	0.000133	0.0742	0.07417812	2993.405505165312
Leadrame	Lead Frame	Qu	7440-50-8	0.0234	0.0742	0.07417812	975650.433622415
Die Altach	Die Attach	Curing Agent & hardener	N/A	0.000057	0.0742	0.07417812	50397.87798408488
Molding Compound	Molding Compound	Epon Resin	61788-97-4	0.00333	0.0742	0.07417812	74947.67167068039
Leadrame	Lead Frame	<u>Fe</u>	7439-89-6	0.000547	0.0742	0.07417812	22805.87124749833
Leadrame	Lead Frame	2	7723-14-0	0.000006	0.0742	0.07417812	250.1667778519012
Molding Compound	Molding Compound	Phenol Novolas	9003-35-4	0.00178	0.0742	0.07417812	40052.11879093425
Die Attach	Die Attach	Resin	NA	0.00017	0.0742	0.07417812	150309.4606542882
Molding Compound	Molding Compound	\$5203	1309-64-4	0.000666	0.0742	0.07417812	14989.53433413607
Chip	Chip	2	7440-21-3	0.00263	0.0742	0.07417812	1000000
Molding Compound	Molding Compound	SiO2 Filter	60675-86-0	0.0383	0.0742	0.07417812	852010.7582543719
External Leadframe Plating	External Leadframe Plating	50	7440-31-5	0.00146	0.0742	0.07417812	1000000
Leadframe	Lead Frame	26	7440-66-6	0.000031	0.0742	0.07417812	1292 5283522348232

A SECTOR-SPECIFIC ISSUE: PVC PHASE OUT

REALISATION 2011

Nous travaillens avec des lournisseurs, comités techniques de normalisation, universités et consort à afin de préparer les solutions alternatives au PVC. En 2011, nous avons procédé à une enquête auprès des fournisseurs représentant plus de 90 % de nos volumes c'achats dans le but de ueter univer la viaulité technique et économique des alternatives au PVC que 100s proposons.



INTERNAL PURCHASING PRACTICES



Working hours

> Delivery leadtime

Flexibility level

Openness

Management style

Mediation

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