

2008

ANNUAL REPORT  
ON FORM 20-F



# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-11130

**Alcatel-Lucent** 

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

**Republic of France**

(Jurisdiction of incorporation or organization)

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(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

### Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, nominal value €2 per share*	New York Stock Exchange

\* Listed, not for trading or quotation purposes, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**2,318,041,761 ordinary shares, nominal value €2 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes

No

Note — checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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# 1 SELECTED FINANCIAL DATA

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Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. IFRS, as adopted by the European Union, differs in certain respects from the International Financial Reporting Standards issued by the International Accounting Standards Board. However, our consolidated financial statements presented in this document in accordance with IFRS would be no different if we had applied International Financial Reporting Standards issued by the International Accounting Standards Board. As permitted by U.S. securities laws, we no longer provide a reconciliation of our net income and shareholders' equity as reflected in our consolidated financial statements that are prepared in accordance with IFRS, as adopted by the European Union and that are also in conformity with IFRS as issued by the International Accounting Standards Board, to U.S. GAAP.

On November 30, 2006, historical Alcatel and Lucent Technologies Inc., since renamed Alcatel-Lucent USA Inc. ("Lucent"), completed a business combination pursuant to which Lucent became a wholly owned subsidiary of Alcatel. On December 1, 2006, we and Thales signed a definitive agreement for the acquisition by Thales of our ownership interests in two joint ventures in the space sector created with Finmeccanica and our railway signaling business and integration and services activities for mission-critical systems not dedicated to operators or suppliers of

telecommunications services. In January 2007, the transportation and security activities were contributed to Thales, and in April 2007, we completed the sale of our ownership interests in the two joint ventures in the space sector.

As a result of the Lucent transaction, our 2006 consolidated financial results include (i) 11 months of results of only historical Alcatel and (ii) one month of results of the combined company. As a result of the Thales transaction, our 2004, 2005 and 2006 financial results pertaining to the businesses transferred to Thales are treated as discontinued operations. Further, our 2005 and 2006 financial results take into account the effect of the change in accounting policies on employee benefits with retroactive effect from January 1, 2005 and our 2006 and 2007 financial results take into account the effect of the application of the interpretation IFRIC 14 with retroactive effect from January 1, 2006, as described in the section "Changes in accounting standards as of January 1, 2008" and in Note 4 of our consolidated financial statements included elsewhere in this document.

As a result of the purchase accounting treatment of the Lucent business combination required by IFRS, our results for 2008, 2007 and 2006 included several negative, non-cash impacts of purchase accounting entries.

## 1.1 CONDENSED CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET DATA

	For the year ended December 31,					
<i>(in millions, except per share data)</i>	2008 <sup>(1)</sup>	2008	2007	2006	2005	2004
<b>Income Statement Data</b>						
Revenues	23,640	€ 16,984	€ 17,792	€ 12,282	€ 11,219	€ 10,263
Income (loss) from operating activities before restructuring costs, impairment of assets, gain/ (loss) on disposal of consolidated entities and post-retirement plan amendments	(77)	(56)	(707)	687	1,016	1,003
Restructuring costs	(782)	(562)	(856)	(707)	(79)	(313)
Income (loss) from operating activities	(7,381)	(5,303)	(4,249)	(146)	1,066	602
Income (loss) from continuing operations	(7,246)	(5,206)	(4,087)	(219)	855	431
Net income (loss)	(7,200)	(5,173)	(3,477)	(61)	963	645
Net income (loss) attributable to equity holders of the parent	(7,259)	(5,215)	(3,518)	(106)	922	576
<b>Earnings per Ordinary Share</b>						
Net income (loss) (before discontinued operations) attributable to the equity holders of the parent per share						
• basic <sup>(2)</sup>	\$(3.23)	(2.32)	(1.83)	(0.18)	0.59	0.27
• diluted <sup>(3)</sup>	\$(3.23)	(2.32)	(1.83)	(0.18)	0.59	0.26
Dividend per ordinary share <sup>(4)</sup>	-	-	-	0.16	0.16	-
Dividend per ADS <sup>(4)</sup>	-	-	-	0.16	0.16	-

	At December 31,					
<i>(in millions)</i>	2008 <sup>(1)</sup>	2008	2007	2006	2005	2004
<b>Balance Sheet Data</b>						
Total assets	U.S. \$ 38,015	€ 27,311	€ 33,830	€ 41,890	€ 21,346	€ 20,629
Marketable securities and cash and cash equivalents	6,393	4,593	5,271	5,994	5,150	5,163
Bonds, notes issued and other debt – Long-term part	5,565	3,998	4,565	5,048	2,752	3,491
Current portion of long-term debt	1,527	1,097	483	1,161	1,046	1,115
Capital stock	6,453	4,636	4,635	4,619	2,857	2,852
Shareholders' equity attributable to the equity holders of the parent after appropriation <sup>(5)</sup>	6,448	4,633	11,187	15,467	5,911	4,913
Minority interests	823	591	515	495	475	373

(1) Translated solely for convenience into dollars at the noon buying rate of € 1.00 = U.S. \$ 1.3919 on December 31, 2008.

(2) Based on the weighted average number of shares issued after deduction of the weighted average number of shares owned by our consolidated subsidiaries at December 31, without adjustment for any share equivalent:

– ordinary shares: 2,259,174,970 in 2008; 2,255,890,753 in 2007; 1,449,000,656 in 2006; 1,367,994,653 in 2005 and 1,349,528,158 in 2004 (including 120,780,519 shares related to bonds mandatorily redeemable for ordinary shares).

(3) Diluted earnings per share takes into account share equivalents having a dilutive effect after deduction of the weighted average number of share equivalents owned by our consolidated subsidiaries. Net income is adjusted for after-tax interest expense related to our convertible bonds. The dilutive effect of stock option plans is calculated using the treasury stock method. The number of shares taken into account is as follows:

– ordinary shares: 2,259,174,970 in 2008; 2,255,890,753 in 2007; 1,449,000,656 in 2006; 1,376,576,909 in 2005 and 1,362,377,441 in 2004.

(4) Under French company law, payment of annual dividends must be made within nine months following the end of the fiscal year to which they relate. Our Board of Directors has announced that it will propose to not pay a dividend for 2008 at our Annual Shareholders' Meeting to be held on May 29, 2009.

(5) Amounts presented are net of dividends distributed. Shareholders' equity attributable to holders of the parent before appropriation are € 4,633 million, € 11,187 million, € 15,828 million, € 6,130 million and € 4,913 million as of December 31, 2008, 2007, 2006, 2005 and 2004 respectively and dividends proposed or distributed amounted to € 0 million, € 0 million, € 370 million, € 219 million and € 0 million as of December 31, 2008, 2007, 2006, 2005 and 2004 respectively.



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## 1.2 EXCHANGE RATE INFORMATION

The table below shows the average noon buying rate of euro from 2004 to 2008. As used in this document, the term "noon buying rate" refers to the

rate of exchange for the euro, expressed in U.S. dollars per euro, as certified by the Federal Reserve Bank of New York for customs purposes.

Year	Average rate <sup>(1)</sup>
2008	\$ 1.4726
2007	\$ 1.3797
2006	\$ 1.2728
2005	\$ 1.2400
2004	\$ 1.2478

(1) The average of the noon buying rate for euro on the last business day of each month during the year.

The table below shows the high and low noon buying rates expressed in U.S. dollars per euro for the previous six months.

Period	High	Low
March 2009 (through March 27)	\$ 1.3730	\$ 1.2549
February 2009	\$ 1.3064	\$ 1.2547
January 2009	\$ 1.3946	\$ 1.2804
December 2008	\$ 1.4358	\$ 1.2634
November 2008	\$ 1.3039	\$ 1.2525
October 2008	\$ 1.4058	\$ 1.2446
September 2008	\$ 1.4737	\$ 1.3939

On March 27, 2009, the noon buying rate was € 1.00 = \$ 1.3306.

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# 2 ACTIVITY OVERVIEW

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The charts below set forth the three business segments that comprised our organization in 2008: Carrier, Enterprise and Services. In 2008, our Carrier segment was organized into seven business divisions: IP, Fixed Access, Optics, Mobile Access, CDMA Networks, Multicore and Applications.

Effective January 1, 2009, we reorganized our business into four groups: Carrier Product Group, Enterprise Product Group, Services Group, and Applications Software Group. The Carrier Product Group is now organized in four divisions: IP, Optics, Wireless and Wireline.

## 2.1 CARRIER SEGMENT

### IP, FIXED ACCESS AND OPTICS

Position	Activities	Market positions
A world leader and privileged partner of telecom operators, enterprises and governments in transforming wireline networks toward an all-IP (Internet Protocol) architecture – using broadband access, traffic aggregation to the optical transport network – with central focus on the IP intelligent router market. Our technology allows service providers to enrich the end-user experience which creates sustainable value.	Activities focus on the three main wireline market segments: access, optics and IP (internet Protocol). The portfolio of products we offer may be deployed anywhere in legacy and next-generation networks from the core to the access, facilitating the delivery of voice, data and video services (Triple Play) over broadband.	#1 in Broadband Access with 40.6% of DSL market share in 2008 (in revenues) <sup>(1)</sup> #1 in optics (Terrestrial and Submarine) with 22.2% of market share in 2008 (in revenues) <sup>(2)</sup> #2 in IP/MPLS Service Provider edge routers with 19% of market share in 2008 (in revenues) <sup>(3)</sup>

(1) Dell'Oro.  
(2) Ovum.  
(3) Ovum.

### MOBILE ACCESS AND CDMA NETWORKS

Position	Activities	Market positions
One of the world's leading suppliers of wireless communications product offerings across a variety of wireless technologies; designing and supplying mobile telecommunications infrastructure for telecommunications operators.	Activities focus on wireless product offerings for 2G (GSM/GPRS/EDGE, CDMA), 3G (UMTS/HSPA/EV-DO) and 4G networks (WiMAX, LTE) from access to core switching.	#3 in GSM/GPRS/EDGE Radio Access Networks with 10.8% of market share in 2008 (in revenues) <sup>(4)</sup> #3 in W-CDMA Radio Access Networks with 14.6% of market share in 2008 (in revenues) <sup>(5)</sup> #1 in CDMA with 42.4% of market share in 2008 (in revenues) <sup>(6)</sup> # 1 in WiMAX 802.16e with 30.2% of market share in 2008 (in base stations revenues) <sup>(7)</sup>

(4) Dell'Oro.  
(5) Dell'Oro.  
(6) Dell'Oro.  
(7) Infonetic Research.

**MULTICORE AND APPLICATIONS**

Position	Activities	Market positions
A leading supplier of communications product offerings that enable the delivery of innovative voice and multimedia services across a variety of devices and converged networks to serve some of the world's largest fixed and mobile service providers.	Develop IP multimedia subsystems (IMS), and create advanced multimedia applications, including TV over IP, fixed and mobile video, music services, IP communication applications, and billable end-user services (charging and billing with converged payment, subscriber data management).	We have deployed IP/NGN products in more than 275 fixed and mobile networks, and we are involved in (various stages of deployment, trials and commercial roll out) more than 30 full IMS network transformation projects. In addition, there are more than 60 customers using our IMS application servers and services, and more than 190 networks using our subscriber data management applications.

**2.2 ENTERPRISE SEGMENT**

Position	Activities	Market positions
A world leader in the delivery of secure, dynamic communication product offerings for enterprises and government agencies, with emphasis on the education, finance, healthcare and hospitality industries and the public sector.	Supply end to end IP communication product offerings that interconnect networks, people, business processes and knowledge with real time communications (secure networking, telephony, unified communications, Genesys contact center and mobile applications) for small, medium, large and extra-large companies and public agencies.	#1 in Western Europe Enterprise Telephony with 17% of market share (in revenues) <sup>(8)</sup> #1 in Contact Center agent revenue, Western Europe 2007 (Alcatel & Genesys combined) <sup>(9)</sup>

(8) Gartner Dataquest, Market Share Enterprise Telephony Western Europe July 2008.

(9) Gartner Market Share: Contact Centers, Western Europe, 2007, 27 June 2008.

**2.3 SERVICES SEGMENT**

Position	Activities	Market positions
A world leader in supplying services for telecom service providers and companies in selected verticals, with particular expertise in integrating complete telecommunication end-to-end product offerings.	Activities focus on supplying complete offerings for networks' entire life cycle – consultation and conception, integration and deployment, exploitation and maintenance, as well as various partnership models to facilitate a total or partial outsourcing of operations.	#1 in worldwide Service Delivery Platform integration services <sup>(10)</sup> Since many of our competitors define the overall services market differently, we are unable to provide overall services market positions.

(10) Infonetics Research.

# 3 RISK FACTORS

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Our business, financial condition or results of operations could suffer material adverse effects due to any of the following risks. We have described the specific risks that we consider material to our business but the risks described below are not the only ones we face. We do not discuss

risks that would generally be equally applicable to companies in other industries, due to the general state of the economy or the markets, or other factors. Additional risks not known to us or that we now consider immaterial may also impair our business operations.

## 3.1 RISKS RELATING TO THE BUSINESS

**We have adopted a new strategic focus and we are shifting our resources to support that new focus. If our new strategic plan is not aligned with the direction our customers take as they invest in the evolution of their networks, customers may not buy our products or use our services.**

We have adopted a new strategic plan as of January 1, 2009, and we are undergoing a strategic transformation and realignment of our operations in support of that new plan. The transformation we are undergoing includes reduced spending on research and development as we accelerate the shift in our investments from mature technologies that previously generated significant revenue for us toward certain next-generation technologies. Our choices of specific technologies to pursue and those to de-emphasize may prove to be inconsistent with our customers' investment spending.

**The telecommunications industry fluctuates and is affected by many factors, including the economic environment, decisions by service providers regarding their deployment of technology and their timing of purchases, as well as demand and spending for communications services by businesses and consumers.**

Spending trends in the global telecommunications industry were negatively impacted by the deteriorating global macroeconomic environment in 2008, and we expect the global economy to deteriorate further in 2009. We expect the global telecommunications equipment and related services market to decline between 8% and 12% at constant currency in 2009, but in the context of the global economic environment, the degree of volatility and subsequent lack of visibility is at a historically high level and actual market conditions could be very different from what we expect and are planning for. Moreover, market conditions could vary geographically and across different technologies, and are subject to substantial fluctuations. Conditions in the specific industry segments in which we participate may be weaker than in other segments. In that case, the results of our operations may be adversely affected.

If capital investment by service providers is weaker than the 8% to 12% decline at constant currency rates that we anticipate, our revenues and profitability may be adversely affected. The level of demand by service providers can change quickly and can vary over short periods of time, including from month to month. As a result of the uncertainty and variations in the telecommunications industry, accurately forecasting revenues, results and cash flow remains difficult.

In addition, our sales volume and product mix will affect our gross margin. Therefore, if reduced demand for our products results in lower than expected sales volume, or if we have an unfavorable product mix, we may not achieve the expected gross margin rate, resulting in lower than expected profitability. These factors may fluctuate from quarter to quarter.

**Our business requires a significant amount of cash, and we may require additional sources of funds if our sources of liquidity are unavailable or insufficient to fund our operations.**

Our working capital requirements and cash flows have historically been, and they are expected to continue to be, subject to quarterly and yearly fluctuations, depending on a number of factors. If we are unable to manage fluctuations in cash flow, our business, operating results and financial condition may be materially adversely affected. Factors which could lead us to suffer cash flow fluctuations include:

- the level of sales;
- the collection of receivables;
- the timing and size of capital expenditures;
- costs associated with potential restructuring actions; and
- customer financing obligations.

We derive our capital resources from a variety of sources, including the generation of positive cash flow from on-going operations, the issuance of debt and equity in various forms, and banking facilities, including our revolving credit facility of € 1.4 billion maturing in April 2012 (with an extension until April 5, 2013 for an amount of € 837 million) and on which we have not drawn. Our ability to draw upon these resources is dependent upon a variety of factors, including our customers' ability to make payments on outstanding accounts receivable, the perception of our credit quality by lenders and investors, our ability to meet the financial covenant for our revolving facility and debt and equity market conditions generally. Given current conditions, access to the debt and equity markets may not be relied upon at this time. Based on our current view of our business and capital resources and the overall market environment, we believe we have sufficient resources to fund our operations. If, however, the business environment were to materially worsen, the credit markets were to limit our access to bid and performance bonds, or our customers were to dramatically pull back on their spending plans, our liquidity situation could deteriorate. If we cannot generate sufficient cash from operations to meet cash requirements in excess of our current expectations, we might be required to obtain supplemental funds through additional operating improvements or through external sources, such as capital market proceeds, assets sales or financing from third parties. We cannot provide any assurance that such funding will be available on terms satisfactory to us. If we were to incur high levels of debt, this would require a larger portion of our operating cash flow to be used to pay principal and interest on our indebtedness. The increased use of cash to pay indebtedness could leave us with insufficient funds to finance our operating activities, such as Research and Development expenses and capital expenditures, which could have a material adverse effect on our business.

Our ability to have access to the capital markets and our financing costs will be, in part, dependent on Standard & Poor's, Moody's or similar agencies' ratings with respect to our debt and corporate credit and their outlook with respect to our business. Our current short-term and long-term credit ratings, as well as any possible future lowering of our ratings, may result in higher financing costs and reduced access to the capital markets. We cannot provide any assurance that our credit ratings will be sufficient to give us access to the capital markets on acceptable terms, or that once obtained, such credit ratings will not be reduced by Standard & Poor's, Moody's or similar rating agencies.

**Credit and commercial risks and exposures could increase if the financial condition of our customers declines.**

A substantial portion of our sales are to customers in the telecommunications industry. These customers may require their suppliers to provide extended payment terms, direct loans or other forms of financial support as a condition to obtaining commercial contracts. We expect that we may provide or commit to financing where appropriate for our business. Our ability to arrange or provide financing for our customers will depend on a number of factors, including our credit rating, our level of available credit, and our ability to sell off commitments on acceptable terms. More generally, we expect to routinely enter into long-term contracts involving significant amounts to be paid by our customers over time. Pursuant to these contracts, we may deliver products and services representing an important portion of the contract price before receiving any significant payment from the customer. As a result of the financing that may be provided to customers

and our commercial risk exposure under long-term contracts, our business could be adversely affected if the financial condition of our customers erodes. Over the past few years, certain of our customers have filed with the courts seeking protection under the bankruptcy or reorganization laws of the applicable jurisdiction, or have experienced financial difficulties. As a result of the more challenging economic environment, we saw some increase in the number of our customers experiencing such difficulties in 2008, and we expect that trend to intensify as the global economy deteriorates further in 2009. That trend may be exacerbated in many emerging markets, where our customers are being affected not only by recession, but by deteriorating local currencies and a lack of credit. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure, and the loss of the customer's ongoing business. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

**The Group's U.S. pension and post-retirement benefit plans are large and have funding requirements that fluctuate based on how their assets are invested, the performance of the financial markets world-wide, the level of interest rates, and changes in legal requirements. These plans are also costly, and our efforts to fund or control those costs may be ineffective.**

In particular, many former and current employees and retirees of the Group in the U.S. participate in one or more of the following benefit plans:

- management pension plan;
- occupational pension plans;
- post-retirement health care benefit plan for former management employees; and
- post-retirement health care benefit plan for formerly represented employees.

The performance of the financial markets and the level of interest rates impact the funding obligations for the Group's U.S. pension plans. Both of those factors contributed to a deterioration in the funded status of our pension plans in 2008. Specifically, the deterioration in equity markets contributed to a large decline in pension plan assets late in the year, while lower interest rates were reflected in lower discount rates that contributed to an increase in our pension obligations. A continuation of those trends could have a negative impact on the funded status and funding obligations of our pension plans.

As of January 1, 2009, we estimate that all of our U.S. pension plans meet the current funding requirements of the Internal Revenue Code of 1986 (the "Code"), as amended, and the Employee Retirement Income Security Act of 1974, as amended, each as further amended by the Pension Protection Act of 2006 (the "PPA") and the Worker, Retiree, and Employer Recovery Act of 2008 (the "WRERA"), and we believe it is unlikely that the Group will make any material contributions to these plans through 2010. We are unable to provide an estimate of future funding requirements beyond fiscal year 2010 for the Group's U.S. pension plans.

Although we estimate that all of our material U.S. pension plans are overfunded under the requirements of ERISA and the Code (each as amended by PPA and WRERA), based on IFRS accounting standards to which the Group is subject, the management pension plan was underfunded by € 551 million as of December 31, 2008. For more details regarding this underfunding, see Note 25g to our consolidated financial statements included elsewhere in this annual report.

Section 420 of the Code, as amended by PPA and the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, provides for the "qualified" transfer of pension plan assets--either for a single year or for two or more years--whereby pension plan assets in excess of 125% (for a "single-year" transfer) or 120% (for a "multi-year" transfer) of a pension plan's funding obligations would be available to fund retiree health care costs.

As of the January 1, 2009 valuation date, the occupational pension plan had approximately € 2.1 billion of pension plan assets that would be eligible for transfer to fund retiree health care costs for a single year for Lucent's formerly represented retirees. As of the same valuation date, € 2.5 billion would be available to fund such retiree health care costs for multiple years.

In December 2008 we made a multi-year "collectively bargained" Section 420 transfer of excess pension assets from the occupational pension plan for former Lucent employees in the amount of \$ 653 million to fund healthcare benefits for Lucent's formerly represented retirees for the period beginning January 1, 2008 through about September 30, 2009. We expect to make another multi-year "collectively bargained transfer" during 2009 to cover Lucent's formerly represented retiree health care costs for the remainder of 2009 through the first nine months of 2010. Based on current actuarial assumptions we believe it is likely that all of the healthcare funding required for Lucent's formerly represented retirees (assuming the present level and structure of benefits) could be addressed through Section 420 transfers. However, a deterioration in the funded status of our occupational pension plan could negatively impact our ability to make future Section 420 transfers.

The Group has also taken some steps, and we may take additional actions over time, to reduce the overall cost of our U.S. retiree health care benefit plans and the share of these costs borne by us, consistent with legal requirements and any collective bargaining obligations.

However, the cost increases may exceed our ability to reduce these costs. In addition, the reduction or elimination of U.S. retiree health care benefits by the Group has led to lawsuits against us. Any other initiatives that we undertake to control or reduce costs may lead to additional claims against us.

**Our financial condition and results of operations may be harmed if we do not successfully reduce market risks through the use of derivative financial instruments.**

Since we conduct operations throughout the world, a substantial portion of our assets, liabilities, revenues and expenses are denominated in various currencies other than the euro and the U.S. dollar. Because our financial statements are denominated in euros, fluctuations in currency exchange rates, especially the U.S. dollar against the euro, could have a material impact on our reported results.

We also experience other market risks, including changes in interest rates and in prices of marketable equity securities that we own. We may use derivative financial instruments to reduce certain of these risks. If our strategies to reduce market risks are not successful, our financial condition and operating results may be harmed.

**An impairment of other intangible assets or goodwill would adversely affect our financial condition or results of operations.**

We have a significant amount of goodwill and intangible assets, including acquired intangibles, development costs for software to be sold, leased or otherwise marketed and internal use software development costs as of December 31, 2008. In connection with the combination between Alcatel and Lucent, a significant amount of additional goodwill and acquired intangible assets were recorded as a result of the purchase price allocation.

Goodwill and intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, or more often, if an event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets are amortized on a straight-line basis over their estimated useful lives and reviewed for impairment whenever events such as product discontinuances, plant closures, product dispositions or other changes in circumstances indicate that the carrying amount may not be wholly recoverable.

Historically, we have recognized significant impairment charges due to various reasons, including some of those noted above as well as potential restructuring actions or adverse market conditions that are either specific to us or the broader telecommunications industry or more general in nature. For instance, we accounted for an impairment loss of € 4.7 billion in 2008 related to a re-assessment of our near-term outlook, our decision to streamline our portfolio and our weaker than expected CDMA business. Additional impairment charges may be incurred in the future that could be significant and that could have an adverse effect on our results of operations or financial condition.

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**We operate in a highly competitive industry with many participants. Our failure to compete effectively would harm our business.**

We operate in a highly competitive environment in each of our businesses, competing on the basis of product offerings, technical capabilities, quality, service and pricing. Competition for new service provider and enterprise customers as well as for new infrastructure deployments is particularly intense and increasingly focused on price. We offer customers and prospective customers many benefits in addition to competitive pricing, including strong support and integrated services for quality, technologically-advanced products; however, in some situations, we may not be able to compete effectively if purchasing decisions are based solely on the lowest price.

We have a number of competitors, many of which currently compete with us and some of which are very large, with substantial technological and financial resources and established relationships with global service providers. Some of these competitors have very low cost structures. In addition, new competitors may enter the industry as a result of acquisitions or shifts in technology. These new competitors, as well as existing competitors, may include entrants from the telecommunications, computer software, computer services and data networking industries. We cannot assure you that we will be able to compete successfully with these companies. Competitors may be able to offer lower prices, additional products or services or a more attractive mix of products or services, or services or other incentives that we cannot or will not match or offer. These competitors may be in a stronger position to respond quickly to new or emerging technologies and may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to customers, prospective customers, employees and strategic partners.

**Technology drives our products and services. If we fail to keep pace with technological advances in the industry, or if we pursue technologies that do not become commercially accepted, customers may not buy our products or use our services.**

The telecommunications industry uses numerous and varied technologies and large service providers often invest in several and, sometimes, incompatible technologies. The industry also demands frequent and, at times, significant technology upgrades. Furthermore, enhancing our services revenues requires that we develop and maintain leading tools. We will not have the resources to invest in all of these existing and potential technologies. As a result, we concentrate our resources on those technologies that we believe have or will achieve substantial customer acceptance and in which we will have appropriate technical expertise. However, existing products often have short product life cycles characterized by declining prices over their lives. In addition, our choices for developing technologies may prove incorrect if customers do not adopt the products that we develop or if those

technologies ultimately prove to be unviable. Our revenues and operating results will depend to a significant extent on our ability to maintain a product portfolio and service capability that is attractive to our customers, to enhance our existing products, to continue to introduce new products successfully and on a timely basis and to develop new or enhance existing tools for our services offerings.

The development of new technologies remains a significant risk to us, due to the efforts that we still need to make to achieve technological feasibility; due – as mentioned above – to rapidly changing customer markets; and due to significant competitive threats.

Our failure to bring these products to market in a timely manner could result in a loss of market share or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on our business and operating results.

**Many of our current and planned products are highly complex and may contain defects or errors that are detected only after deployment in telecommunications networks. If that occurs, our reputation may be harmed.**

Our products are highly complex, and there is no assurance that our extensive product development, manufacturing and integration testing is, or will be, adequate to detect all defects, errors, failures and quality issues that could affect customer satisfaction or result in claims against us. As a result, we might have to replace certain components and/or provide remediation in response to the discovery of defects in products that have been shipped.

The occurrence of any defects, errors, failures or quality issues could result in cancellation of orders, product returns, diversion of our resources, legal actions by customers or customers' end users and other losses to us or to our customers or end users. These occurrences could also result in the loss of or delay in market acceptance of our products and loss of sales, which would harm our business and adversely affect our revenues and profitability.

**Rapid changes to existing regulations or technical standards or the implementation of new ones for products and services not previously regulated could be disruptive, time-consuming and costly to us.**

We develop many of our products and services based on existing regulations and technical standards, our interpretation of unfinished technical standards or the lack of such regulations and standards. Changes to existing regulations and technical standards, or the implementation of new regulations and technical standards relating to products and services not previously regulated, could adversely affect our development efforts by increasing compliance costs and causing delay. Demand for those products and services could also decline.



**Our ten largest customers accounted for 40% of our revenues in 2008, and most of our revenues come from telecommunications service providers. The loss of one or more key customers or reduced spending of these service providers could significantly reduce our revenues, profitability and cash flow.**

Our ten largest customers accounted for 40% of our revenues in 2008. As service providers increase in size, it is possible that an even greater portion of our revenues will be attributable to a smaller number of large service providers going forward. Our existing customers are typically not obligated to purchase a certain amount of products or services over any period of time from us and may have the right to reduce, delay or even cancel previous orders. We, therefore, have difficulty projecting future revenues from existing customers with certainty. Although historically our customers have not made sudden supplier changes, our customers could vary their purchases from period to period, even significantly. Combined with our reliance on a small number of large customers, this could have an adverse effect on our revenues, profitability and cash flow. In addition, our concentration of business in the telecommunications service provider industry makes us extremely vulnerable to a downturn in spending in that industry, like the one that is developing in today's increasingly challenging economic environment. Service providers are planning cuts in their 2009 capital expenditure budgets, and their reduced spending will have adverse effects on our results of operations.

**We have long-term sales agreements with a number of our customers. Some of these agreements may prove unprofitable as our costs and product mix shift over the lives of the agreements.**

We have entered into long-term sales agreements with a number of our large customers, and we expect that we will continue to enter into long-term sales agreements in the future. Some of these existing sales

agreements require us to sell products and services at fixed prices over the lives of the agreements, and some require, or may in the future require, us to sell products and services that we would otherwise discontinue, thereby diverting our resources from developing more profitable or strategically important products. Since our new strategic plan entails a streamlined set of product offerings, it may increase the likelihood that we may have to sell products that we would otherwise discontinue. The costs incurred in fulfilling some of these sales agreements may vary substantially from our initial cost estimates. Any cost overruns that cannot be passed on to customers could adversely affect our results of operations.

**We have significant international operations and a significant amount of our revenues are made in emerging markets and regions.**

In addition to the currency risks described elsewhere in this section, our international operations are subject to a variety of risks arising out of the economy, the political outlook and the language and cultural barriers in countries where we have operations or do business. We expect to continue to focus on expanding business in emerging markets in Asia, Africa and Latin America. In many of these emerging markets, we may be faced with several risks that are more significant than in other countries. These risks include economies that may be dependent on only a few products and are therefore subject to significant fluctuations, weak legal systems which may affect our ability to enforce contractual rights, possible exchange controls, unstable governments, privatization actions or other government actions affecting the flow of goods and currency. We are required to move products from one country to another and provide services in one country from a base in another. Accordingly, we are vulnerable to abrupt changes in customs and tax regimes that may have significant negative impacts on our financial condition and operating results.

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## 3.2 LEGAL RISKS

### **We are involved in lawsuits and investigations which, if determined against us, could require us to pay substantial damages, fines and/or penalties.**

We are defendants in various lawsuits. These lawsuits against us include such matters as commercial disputes, claims regarding intellectual property, customer financing, product discontinuance, asbestos claims, labor, employment and benefit claims and others. We are also involved in certain investigations by government authorities. For a discussion of some of these legal proceedings and investigations, you should read "Legal Matters" in Section 6.10 of this annual report and Note 34 to our consolidated financial statements included elsewhere in this document. We cannot predict the extent to which any of the pending or future actions will be resolved in our favor, or whether significant monetary judgments will be rendered against us. Any material losses resulting from these claims and investigations could adversely affect our profitability and cash flow.

### **If we fail to protect our intellectual property rights, our business and prospects may be harmed.**

Intellectual property rights, such as patents, are vital to our business and developing new products and technologies that are unique is critical to our success.

We have numerous French, U.S. and foreign patents and numerous pending patents.

However, we cannot predict whether any patents, issued or pending, will provide us with any competitive advantage or whether such patents will be challenged by third parties.

Moreover, our competitors may already have applied for patents that, once issued, could prevail over our patent rights or otherwise limit our ability to sell our products.

Our competitors also may attempt to design around our patents or copy or otherwise obtain and use our proprietary technology.

In addition, patent applications currently pending may not be granted.

If we do not receive the patents that we seek or if other problems arise with our intellectual property, our competitiveness could be significantly impaired, which would limit our future revenues and harm our prospects.

### **We are subject to intellectual property litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling certain products.**

From time to time, we receive notices or claims from third parties of potential infringement in connection with products or services.

We also may receive such notices or claims when we attempt to license our intellectual property to others. Intellectual property litigation can be costly and time-consuming and can divert the attention of management and key personnel from other business issues.

The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks.

A successful claim by a third party of patent or other intellectual property infringement by us could compel us to enter into costly royalty or license agreements or force us to pay significant damages and could even require us to stop selling certain products.

Further, if one of our important patents or other intellectual property rights is invalidated, we may suffer losses of licensing revenues and be prevented from attempting to block others, including competitors, from using the related technology.

### **We are involved in significant joint ventures and are exposed to problems inherent to companies under joint management.**

We are involved in significant joint venture companies. The related joint venture agreements may require unanimous consent or the affirmative vote of a qualified majority of the shareholders to take certain actions, thereby possibly slowing down the decision-making process.

Our largest joint venture, Alcatel-Lucent Shanghai Bell, has this type of requirement.

We own 50% plus one share of Alcatel-Lucent Shanghai Bell, the remainder being owned by the Chinese government.

### **We are subject to environmental, health and safety laws that restrict our operations.**

Our operations are subject to a wide range of environmental, health and safety laws, including laws relating to the use, disposal and clean up of, and human exposure to, hazardous substances. In the United States, these laws often require parties to fund remedial action regardless of fault. Although we believe our aggregate reserves are adequate to cover our environmental liabilities, factors such as the discovery of additional contaminants, the extent of required remediation and the imposition of additional cleanup obligations could cause our capital expenditures and other expenses relating to remediation activities to exceed the amount reflected in our environmental reserves and adversely affect our results of operations and cash flows. Compliance with existing or future environmental, health and safety laws could subject us to future liabilities, cause the suspension of production, restrict our ability to utilize facilities or require us to acquire costly pollution control equipment or incur other significant expenses.

### 3.3 RISKS RELATING TO OWNERSHIP OF OUR ADSs

#### **The trading price of our ADSs may be affected by fluctuations in the exchange rate for converting euro into U.S. dollars.**

Fluctuations in the exchange rate for converting euro into U.S. dollars may affect the market price of our ADSs.

If a holder of our ADSs fails to comply with the legal notification requirements upon reaching certain ownership thresholds under French law or our governing documents, the holder could be deprived of some or all of the holder's voting rights and be subject to a fine.

French law and our governing documents require any person who owns our outstanding shares or voting rights in excess of certain amounts specified in the law or our governing documents to file a report with us upon crossing this threshold percentage and, in certain circumstances, with the French stock exchange regulator (*Autorité des Marchés Financiers*).

If any shareholder fails to comply with the notification requirements:

- the shares or voting rights in excess of the relevant notification threshold may be deprived of voting power on the demand of any shareholder;
- all or part of the shareholder's voting rights may be suspended for up to five years by the relevant French commercial court; and
- the shareholder may be subject to a fine.

#### **Holders of our ADSs will have limited recourse if we or the depositary fail to meet obligations under the deposit agreement between us and the depositary.**

The deposit agreement expressly limits our obligations and liability and the obligations and liability of the depositary.

Neither we nor the depositary will be liable despite the fact that an ADS holder may have incurred losses if the depositary:

- is prevented or hindered in performing any obligation by circumstances beyond our control;
- exercises or fails to exercise discretion under the deposit agreement;
- performs its obligations without negligence or bad faith;
- takes any action based upon advice from legal counsel, accountants, any person presenting our ordinary shares for deposit, any holder or any other qualified person; or
- relies on any documents it believes in good faith to be genuine and properly executed.

This means that there could be instances where you would not be able to recover losses that you may have suffered by reason of our actions or inactions or the actions or inactions of the depositary pursuant to the deposit agreement.

In addition, the depositary has no obligation to participate in any action, suit or other proceeding in respect of our ADSs unless we provide the depositary with indemnification that it determines to be satisfactory.

#### **We are subject to different corporate disclosure standards that may limit the information available to holders of our ADSs.**

As a foreign private issuer, we are not required to comply with the notice and disclosure requirements under the Securities Exchange Act of 1934, as amended, relating to the solicitation of proxies for shareholder meetings. Although we are subject to the periodic reporting requirements of the Exchange Act, the periodic disclosure required of non-U.S. issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Therefore, there may be less publicly available information about us than is regularly published by or about most other public companies in the United States.

#### **Judgments of U.S. courts, including those predicated on the civil liability provisions of the federal securities laws of the United States in French courts, may not be enforceable against us.**

An investor located in the United States may find it difficult to:

- effect service of process within the United States against us and our non-U.S. resident directors and officers;
- enforce U.S. court judgments based upon the civil liability provisions of the U.S. federal securities laws against us and our non-U.S. resident directors and officers in both the United States and France; and
- bring an original action in a French court to enforce liabilities based upon the U.S. federal securities laws against us and our non-U.S. resident directors and officers.

#### **Preemptive rights may not be available for U.S. persons.**

Under French law, shareholders have preemptive rights to subscribe for cash issuances of new shares or other securities giving rights to acquire additional shares on a pro rata basis. U.S. holders of our ADSs or ordinary shares may not be able to exercise preemptive rights for their shares unless a registration statement under the Securities Act of 1933 is effective with respect to such rights or an exemption from the registration requirements imposed by the Securities Act is available.

We may, from time to time, issue new shares or other securities giving rights to acquire additional shares at a time when no registration statement is in effect and no Securities Act exemption is available. If so, U.S. holders of our ADSs or ordinary shares will be unable to exercise their preemptive rights.

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# 4 INFORMATION ABOUT THE GROUP

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## 4.1 GENERAL

We provide product offerings that enable service providers, enterprises and governments worldwide, to deliver voice, data and video communication services to end-users. As a leader in fixed, mobile and converged broadband networking, IP technologies, applications and services, we leverage the technical and scientific expertise of Bell Labs, one of the largest innovation powerhouses in the communications industry. With operations in more than 130 countries, we are a local partner with global reach. We also have one of the most experienced global services teams in the industry.

Alcatel-Lucent is a French *société anonyme*, established in 1898, originally as a listed company named Compagnie Générale d'Électricité. Our corporate existence will continue until June 30, 2086, which date may

be extended by shareholder vote. We are subject to all laws governing business corporations in France, specifically the provisions of the commercial code and the financial and monetary code.

Our registered office and principal place of business is 54, rue La Boétie, 75008 Paris, France, our telephone number is 33 (1) 40 76 10 10 and our website address is [www.alcatel-lucent.com](http://www.alcatel-lucent.com). The contents of our website are not incorporated into this document.

The address for Stephen R. Reynolds, our authorized representative in the United States, is Alcatel-Lucent USA Inc., 600 Mountain Avenue, Murray Hill, New Jersey 07974.

## 4.2 HISTORY AND DEVELOPMENT

Set forth below is an outline of certain significant events of Alcatel-Lucent from formation until 2005:

May 31, 1898	French engineer Pierre Azaria forms the Compagnie Générale d'Électricité (CGE) with the aim of taking on the likes of AEG, Siemens and General Electric
1925	Acquisition by CGE of Compagnie Générale des Câbles de Lyon
1928	Formation of Alsthom by Société Alsacienne de Constructions Mécaniques and Compagnie Française Thomson-Houston
1946	Formation of Compagnie Industrielle des Téléphones (CIT)
1966	Acquisition by CGE of the Société Alsacienne de Constructions Atomiques, de Télécommunications et d'Électronique (Alcatel)
1970	Ambroise Roux becomes CGE's Chairman. At the end of his term (1982), he remains Honorary Chairman until his death in 1999
1982	Jean-Pierre Brunet becomes CGE's Chairman Georges Pebereau becomes CGE's Chairman
1984	Thomson CSF's public telecommunication and business communication operations are merged into a holding company Thomson Télécommunications, which is acquired by the CGE group
1985	Alsthom Atlantique changes its name to Alsthom Merger between CIT-Alcatel and Thomson Télécommunications. The new entity adopts the name Alcatel
1986	Formation of Alcatel NV following an agreement with ITT Corporation, which sells its European telecommunications activities to CGE Pierre Suard becomes CGE's Chairman. CGE acquires an interest in Framatome (40%). Câbles de Lyon becomes a subsidiary of Alcatel NV
1987	Privatization of CGE Alsthom wins an order to supply equipment for the TGV Atlantique network and leads the consortium of French, Belgian and British companies involved in the building of the northern TGV network
1988	Alliance of Alsthom and General Electric Company (UK) Merger of Alsthom's activities and GEC's Power Systems division into a joint venture
1989	Agreement between CGE and General Electric Company and setting up of GEC Alsthom GEC acquires an equity interest in CGEE Alsthom (a company of CGE) CGEE-Alsthom changes its name to Cegelec
1990	CGE-Fiat agreement. Alcatel acquires Telettra and Fiat acquires a majority stake in CEAC Acquisition by Câbles de Lyon of Câbleries de Dour (Belgium) and Ericsson's U.S. cable operations Agreement on Framatome's capital structure, with CGE holding a 44.12% stake
1991	Compagnie Générale d'Électricité changes its name to Alcatel Alsthom Purchase of the transmission systems division of the American group Rockwell Technologies Câbles de Lyon becomes Alcatel Cable and takes over AEG Kabel
1993	Acquisition by Alcatel Alsthom of STC Submarine Systems, a division of Northern Telecom Europe (today Nortel Networks)
1995	Serge Tchuruk becomes chairman and CEO of Alcatel Alsthom. He restructures the company focusing on telecommunications Alcatel Alsthom is renamed Alcatel
1998	Acquisition of 16.36% in Thomson-CSF (now Thales) Acquisition of DSC, a U.S. company, which has a solid position in the U.S. access market Initial public offering of GEC ALSTHOM which becomes Alstom. Alcatel retains 24% in the newly-formed company Alcatel sells Cegelec to Alstom
1999	Acquisition of the American companies Xylan, Packet Engines, Assured Access and Internet Devices, specializing in Internet network and solutions Alcatel raises its ownership in Thomson-CSF (now Thales) to 25.3% and reduces its ownership in Framatome to 8.6%
2000	Acquisition of Newbridge Networks, a Canadian company and worldwide leader in ATM technology networks Acquisition of the American company Genesys, worldwide leader in contact centers The Cable and Components activities are subsidiarized and renamed Nexans Sale of its 24% share in Alstom IPO of a significant part of Cables & Components business (Nexans activity). Alcatel retains 20% of Nexans shares Acquisition of the remaining 48.83% stake held in Alcatel Space by Thales, bringing Alcatel's ownership of Alcatel Space to 100%. After this transaction, Alcatel's stake in Thales decreases to 20%
2001	Sale of DSL modems activity to Thomson Multimedia Sale of its remaining interest in Thomson (formerly TMM) Alcatel acquires control of Alcatel Shanghai Bell
2002	Sale of 10.3 million Thales shares (Alcatel's shareholding in Thales decreases from 15.83% to 9.7%) Acquisition of TiMetra Inc., a privately held, U.S.-based company that produces routers Sale of Alcatel's optical components business to Avanex
2003	Sale of SAFT Batteries subsidiary to Doughty Hanson

	Alcatel and TCL Communication Technology Holdings Limited form a joint venture mobile handset company. The joint venture company is 55% owned by TCL and 45% owned by Alcatel
	Alcatel and Draka Holding NV ("Draka") combine their respective global optical fiber and communication cable businesses. Draka owns 50.1% and Alcatel owns 49.9% of the new company, Draka Comteq BV
	Acquisition of privately held, U.S.-based eDial Inc., a leading provider of conferencing and collaboration services for businesses and telephone companies
2004	Acquisition of privately held, U.S.-based Spatial Communications (known as Spatial Wireless), a leading provider of software-based and multi-standard distributed mobile switching products
	Acquisition of Native Networks, a UK-based company providing of optical Ethernet goods and services
	Sale of shareholding in Nexans, representing 15.1% of Nexans' share capital, through a private placement
	Merger of Alcatel space activities with those of Finmeccanica, S.p.A completed through the creation of Alcatel Alenia Space (Alcatel owned 67%, and Alenia Spazio, a unit of Finmeccanica, owned 33%) and Telespazio Holding (Finmeccanica owned 67%, and Alcatel owned 33%).
2005	Exchange of Alcatel 45% interest in joint venture with TCL Communication for TCL Communication Shares (TCL owning all of the joint venture company and Alcatel owning 141,375,000 shares of TCL).

## Recent events

*No 2008 dividend.* Our Board has determined that it is not prudent to pay a dividend on our ordinary shares and ADSs based on 2008 results. Our Board will present this proposal at our Annual Shareholders' Meeting on May 29, 2009.

*Change in credit rating.* On March 3, 2009, Standard & Poor's lowered to B+ from BB- its long-term corporate credit ratings and senior unsecured ratings on Alcatel-Lucent and on Lucent. The ratings on the trust preferred notes of Lucent Technologies Capital Trust were lowered to CCC+. The B short-term rating on Alcatel-Lucent was affirmed. The B1 short-term credit rating on Lucent was withdrawn and a negative outlook was issued.

On February 18, 2009, Moody's lowered the Alcatel-Lucent Corporate Family Rating, as well as the rating for senior debt of the Group, from Ba3 to B1. The trust preferred notes of Lucent Technologies Capital Trust were downgraded from B2 to B3. The Not-Prime rating for the Group's short-term debt was confirmed. The negative outlook of the ratings was maintained.

*Thales.* On February 4, 2009, we confirmed that our divestiture of our interest in Thales for € 1.6 billion was proceeding on plan (see "Highlights of transactions during 2008").

## Highlights of transactions during 2008

### Acquisitions

*Acquisition of Motive Networks.* On October 7, 2008, we completed the acquisition of Motive, Inc., a U.S.-based company, through a tender offer for an aggregate purchase price of U.S. \$ 67.8 million. The acquisition solidified the existing three-year relationship between the two companies, which had jointly developed and sold remote management software solutions for automating the deployment, configuration and support of advanced home networking devices called residential gateways (RGs). As a result of this combination, more than 70 service providers worldwide can now rely on a single solution to deliver a seamless, consistent, converged customer experience across a range of services, networks and devices, both fixed and mobile.

### Dispositions

*Thales.* On December 19, 2008, we announced the signature of a definitive agreement regarding the acquisition by Dassault Aviation of our interest in Thales (41,262,481 shares). The total purchase price is based on a price of € 38 per Thales share, representing approximately € 1.57 billion. The closing of the transaction, expected to take place in the second quarter of 2009, is subject to certain governmental approvals, including with respect to antitrust.

### Other matters

*Moody's.* On April 3, 2008, Moody's affirmed the Alcatel-Lucent Corporate Family Rating as well as that of the debt instruments originally issued by historical Alcatel and Lucent. The outlook was changed from stable to negative.

*Update on joint venture with NEC.* In February 2008, we and NEC announced the execution of a memorandum of understanding concerning the formation of a RRD joint venture focusing on the development of Long Term Evolution (LTE) wireless broadband access product offerings to support the network evolution of some of the leading carriers around the world. Leveraging the common LTE product strategy and platform of the joint venture, we and NEC each planned to manage delivery, project execution and dedicated support to our respective customers. Since then, the roadmaps as well as the technical and business requirements of key operators around the world have significantly evolved. Recognizing the diversity of the market, we and NEC agreed that a full-fledged RRD joint venture was an inappropriate option. We have further optimized and focused the scope and format of our technical collaboration in the LTE radio access space, and we are currently working on a Joint Development Agreement to share some key radio technologies between the two companies.

*Developments in Microsoft cases.* On September 25, 2008, the Court of Appeals for the Federal Circuit in Washington D.C. affirmed the ruling of the lower court in San Diego, California, reversing the earlier jury verdict that had awarded us U.S. \$ 1.5 billion in damages for patent infringement (see Section 6.10 "Legal Matters"). In a second phase of this litigation with Microsoft Corporation, which also involves Dell, on April 4, 2008, a jury awarded us approximately U.S. \$ 368 million in damages on additional patents, and the

judge granted prejudgment interest on that award on April 28, 2008. On December 15, 2008, we and Microsoft executed a settlement and license agreement whereby the parties agreed to settle the majority of their outstanding litigations. This settlement included dismissing all pending patent claims in which we are a defendant and provided us with licenses to all Microsoft patents-in-suit in these cases. Only the appeal of the April 2008 judgment against Microsoft and Dell remains currently pending in the Court of Appeals for the Federal Circuit.

## Highlights of transactions during 2007

### Acquisitions

*Acquisition of Informiam.* On December 11, 2007, we acquired Informiam LLC, a privately-held U.S.-based company and a pioneer in software that optimizes customer service operations through real-time business performance management. Informiam is now a business unit within Genesys.

*Acquisition of NetDevices.* On May 24, 2007, we acquired privately-held NetDevices, based in California. NetDevices sells enterprise networking technology designed to facilitate the management of branch office networks.

*Acquisition of Tropic Networks.* On April 13, 2007, we acquired substantially all the assets, including all intellectual property, of privately-held Tropic Networks. Canada-based Tropic Networks designs, develops and markets regional and metro-area optical networking equipment for use in telephony, data, and cable applications. We and Tropic Networks have been cooperating since July 2004, when historical Alcatel invested in the Canadian start-up.

The financial terms of these all-cash transactions were not disclosed, but were not material to the Group.

### Dispositions

*Sale of interest in Draka Comteq.* In December 2007, we sold our 49.9% interest in Draka Comteq to Draka Holding, N.V., our joint venture partner in this company, for € 209 million in cash. Historical Alcatel formed this joint venture with Draka Holding in 2004 by combining its optical fiber and communication cable business with that of Draka Holding.

*Sale of interest in Avanex.* In October 2007, we sold our 12.4% interest in Avanex to Pirelli and entered into supply agreements with both Pirelli and Avanex for related components. We had acquired these shares in July 2003 when historical Alcatel sold its optronics business to Avanex.

*Completion of transactions with Thales.* On April 6, 2007, following the authorization of the European Commission on April 4, 2007, we sold our 67% interest in the capital of Alcatel Alenia Space (a joint venture company, created in 2005 with the space assets from Finmeccanica and historical Alcatel) and our 33% interest in the capital of Telespazio (a worldwide leader in satellite services) to Thales for € 670 million in cash, subject to an adjustment, the calculation of which is being performed. We had previously completed, on January 5, 2007, the contribution to Thales of our railway signaling business and our integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services in exchange for 25 million newly issued Thales shares and € 50 million in cash, including purchase price adjustments.

### Other matters

*Conclusion of Class A and Class O litigation.* Beginning in May 2002, several purported Class Action lawsuits were filed against us and certain of our officers and Directors challenging the accuracy of certain public disclosures that were made in the prospectus for the initial public offering of historical Alcatel's Class O shares (which are no longer outstanding) and the accuracy of other public statements regarding the market for our former Optronics division's products. The actions were consolidated in the U.S. District Court for the Southern District of New York. In June 2007, the court dismissed the plaintiff's amended complaint and the time to appeal has expired.

*Microsoft case update.* On August 6, 2007, the U.S. District Court judge in San Diego, California presiding over our digital music patent infringement litigation with Microsoft Corporation issued his ruling on the post-trial hearings in which Microsoft argued for the reversal of the earlier jury verdict that had awarded us U.S. \$ 1.5 billion in damages. The judge agreed with Microsoft and reversed the jury verdict.

*Change in credit rating.* On September 13, 2007, Standard & Poor's revised our outlook, together with Lucent's, from Positive to Stable. At the same time, our BB- long-term corporate rating, which had been set on December 5, 2006, was affirmed. Our B short-term corporate credit rating and Lucent's B1 short-term credit rating, both of which had been affirmed on December 5, 2006, were also affirmed.

On November 7, 2007, Moody's lowered the Alcatel-Lucent Corporate Family Rating as well as the rating of the senior debt of the Group, from Ba2 to Ba3. The Not-Prime rating was confirmed for the short-term debt. The stable outlook was maintained. The trust preferred notes of Lucent Technologies Capital Trust were downgraded from B1 to B2.

## Highlights of transactions during 2006

### Acquisitions

*Acquisition of UMTS business from Nortel.* On December 4, 2006, we signed an agreement with Nortel Networks Corporation (or Nortel) to acquire Nortel's UMTS (Universal Mobile Telecommunications System) radio access business (including the technology and product portfolio), associated patents and tangible assets, as well as customer contracts and other related assets, for U.S. \$ 320 million. The acquisition was completed on December 31, 2006.

*Business combination with Lucent.* On April 2, 2006, historical Alcatel and Lucent announced that they had entered into a definitive agreement. Completion of the business combination took place on November 30, 2006.

As a result of the business combination, each share of Lucent common stock issued and outstanding immediately prior to the effective time of the business combination was converted into the right to receive 0.1952 (the "Exchange Ratio") of an ADS representing one ordinary share, nominal value € 2.00 per share, of Alcatel-Lucent. Outstanding options to purchase shares of Lucent common stock granted under Lucent's option plans were converted into the right to acquire our ordinary shares, with the exercise price and the number of ordinary shares adjusted to reflect the Exchange Ratio. Lucent's warrants and convertible debt securities outstanding at the effective time of the business combination also became exercisable for or convertible into our ADSs and ordinary shares with the strike price and number of ADSs or ordinary shares adjusted to reflect the Exchange Ratio.



*Acquisition of VoiceGenie.* During the second quarter of 2006, we acquired privately-held VoiceGenie for € 30 million in cash. Founded in 2000, VoiceGenie is a leader in voice self-service solutions, with a software platform based on Voice XML, an open standard used for developing self-service applications by both enterprises and carriers.

*Acquisition of 2Wire.* On January 27, 2006, we acquired a 27.5% stake in 2Wire, a pioneer in home broadband network product offerings, for a purchase price of U.S. \$ 122 million in cash.

### Dispositions

*Thales.* On December 1, 2006, we signed an agreement with Thales for the transfer of our interests in two joint ventures in the space sector created with Finmeccanica and of our railway signaling business and our integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services (see "Highlights of transactions during 2007 – Dispositions" above).

### Other Transactions

*Buy-out of Fujitsu joint venture.* In August 2006, we acquired Fujitsu's share in Evolium 3G, our wireless infrastructure joint venture with Fujitsu.

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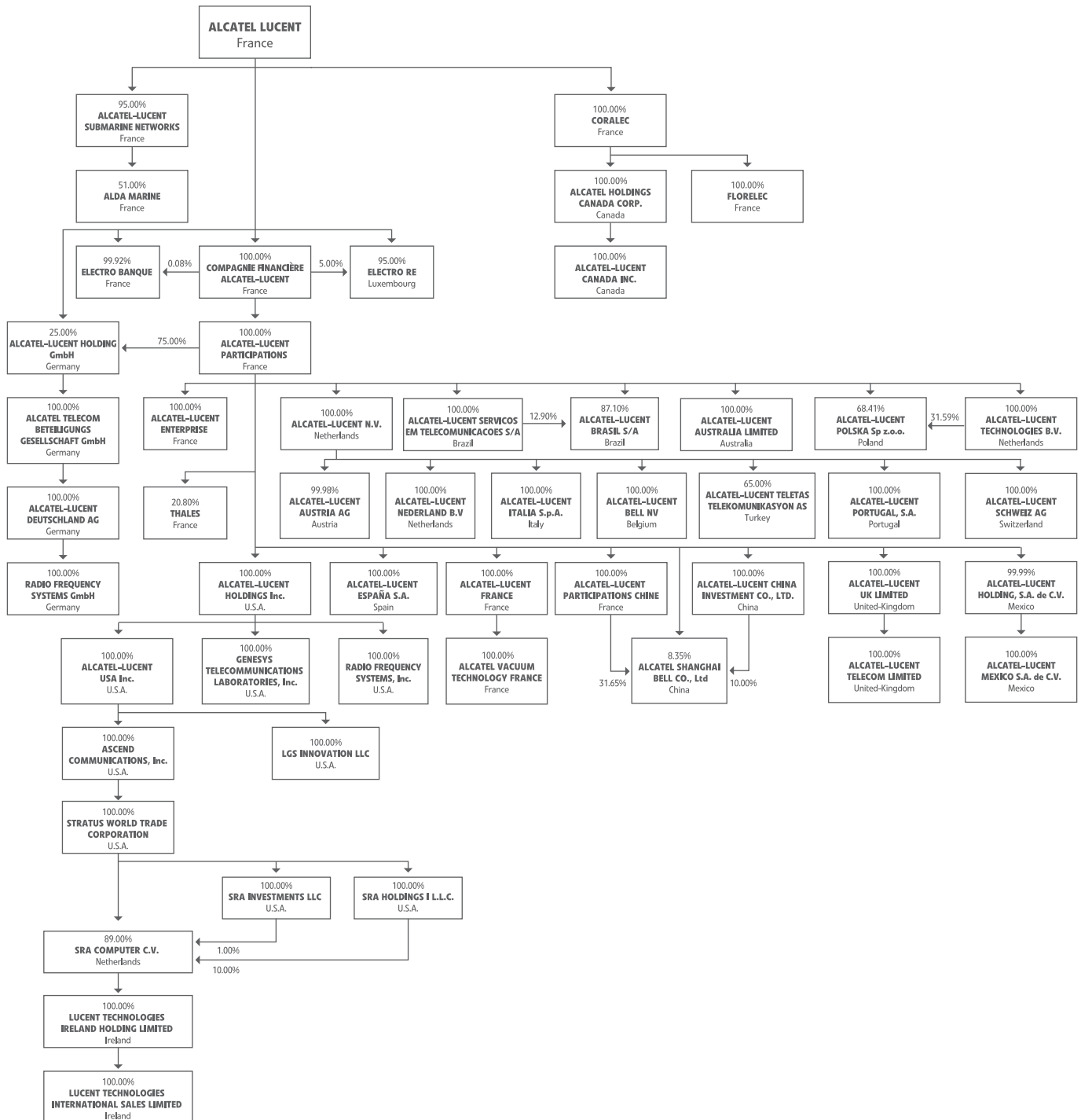
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### 4.3 STRUCTURE OF THE PRINCIPAL COMPANIES CONSOLIDATED IN THE GROUP AS OF DECEMBER 31, 2008

By percentage of share capital held.



## 4.4 REAL ESTATE AND EQUIPMENT

We occupy, as an owner or tenant, a large number of buildings, production sites, laboratories and service sites around the world. There are two distinct types of sites with different sizes and features:

- production and assembly sites dedicated to our various businesses;
- sites that house research and innovation activities and support functions, which cover a specific region and all businesses.

A significant portion of assembly and research activities are carried out in Europe and China for all of our businesses. We also have operating subsidiaries and production and assembly sites in Canada, the United States, Mexico, Brazil and India.

At December 31, 2008, our total production capacity was equal to approximately 305,000 sq. meters and the table below shows the geographic region by business segment for 2008 of such production capacity.

We believe that these properties are in good condition and meet the needs and requirements of the Group's current and future activity and do not present an exposure to major environmental risks that could impact the Group's earnings.

The environmental issues that could affect how these properties are used are mentioned in Section 5.12 of this annual report.

### Alcatel-Lucent, production capacity at December 31, 2008

<i>(in thousands of m<sup>2</sup>)</i>	Europe	North America	Asia-Pacific	Total
Carrier	162	33	89	284
Enterprise	21	0	0	21
Services	0	0	0	0
<b>TOTAL</b>	<b>183</b>	<b>33</b>	<b>89</b>	<b>305</b>

We are present in 130 countries and have approximately 800 sites, the most important of which are as follows:

### Production/assembly sites

Country	Site	Ownership
China	Shanghai	Full ownership
France	Calais	Full ownership
France	Eu	Full ownership
United Kingdom	Greenwich	Full ownership
Italy	Battipaglia	Full ownership
Germany	Hannover	Full ownership
United States	Meriden	Full ownership

## Research and innovation and support sites

Country	Site	Ownership
Germany	Stuttgart	Lease
Germany	Nuremberg	Lease
Austria	Vienna	Full ownership
Belgium	Anvers	Lease
Brazil	São Paulo	Full ownership
Canada	Ottawa	Full ownership
China	Shanghai (Pudong)	Full ownership
Spain	Madrid	Lease
United States	Daly City	Lease
United States	Plano	Full ownership
United States	Whippany	Full ownership
United States	Naperville	Full ownership
United States	Murray Hill	Full ownership
France	Villarcieux	Lease
France	Vélizy	Lease
France	Lannion	Full ownership
France	Paris Headquarters	Lease
France	Orvault	Full ownership
India	Bangalore	Lease
India	Chennai	Lease
Italy	Vimercate	Lease
Mexico	Cuautitlan Izcalli	Full ownership
Netherlands	Hilversum	Lease
United Kingdom	Swindon	Lease
Singapore	Singapore	Lease

## 4.5 MATERIAL CONTRACTS

### Thales agreements

*Overview.* On December 1, 2006, we signed an agreement with Thales for the transfer of our transportation, security and space activities to Thales and on the future industrial cooperation of the two groups. This agreement follows the execution in 2006 of an agreement among Thales, Finmeccanica S.p.A., an Italian aerospace and defense company, and us, in which Finmeccanica agreed to the transfer to Thales of our 67% interest in Alcatel Alenia Space and our 33% interest in Telespazio Holding, our two joint ventures with Finmeccanica.

On January 5, 2007, our transportation and security activities were contributed to Thales and we received 25 million new Thales shares and a cash payment of € 50 million, including purchase price adjustments. The transfer of our space activities to Thales for a cash payment of € 670 million was finalized on April 6, 2007.

On December 19, 2008, we announced the signature of a definitive agreement regarding the acquisition by Dassault Aviation of our Thales shares. The closing of the transaction is expected to take place in the second quarter of 2009. For more detail about this sale, please refer to Section 4.2, "History and Development – Highlights of transactions during 2008 – Dispositions." Until the closing, the cooperation agreement, shareholders' agreement and the agreement regarding the strategic interest of the French State described below remain in full force and effect.

*Cooperation Agreement.* In connection with the transfer of certain of our transportation, security and space activities to Thales, we entered into a cooperation agreement on December 1, 2006 with Thales and the French government (the "French State") governing the relationship between Thales and us after completion of the transaction. The cooperation agreement requires that Thales give preference to the equipment and solutions developed by us, in consideration for our agreement not to submit offers to military clients in certain countries, subject to certain exceptions protecting, in particular, the continuation of Lucent's business with U.S. defense agencies. The agreement also includes non compete commitments by us with respect to our businesses being contributed to Thales, and by Thales with respect to our other businesses, in each case, subject to limited exceptions. The agreement also provides for cooperation between Thales and us in certain areas relating to Research and Development.

In connection with the Thales transaction, we entered into an amended shareholders agreement on December 28, 2006 with TSA, a French company wholly owned by the French State, which governs the relationship of the shareholders in Thales. The key elements of this relationship are described below.

*Board of Directors of Thales.* The Thales Board of Directors is comprised of 16 persons and includes (i) five Directors, proposed by the French State, represented by TSA; (ii) four Directors proposed by us, each of whom must be a citizen of the European Union, unless otherwise agreed by the French State; (iii) two Thales employee representatives; (iv) one representative of the employee shareholders of Thales; and (v) four independent Directors. The French State and we must consult with each other on the appointment of independent Directors. At least one Director appointed by the French State and one Director appointed by us sit on each of the board committees.

The French State and we each have the right to replace members of the Thales Board of Directors, such that the number of Directors appointed by each of the French State and us is equal to the greater of:

- the total number of Directors (excluding employee representatives and independent Directors), multiplied by a fraction, the numerator of which is the percentage of shares held by the French State or us, as the case may be, and the denominator of which is the total shares held by the French State and us; and
- the number of employee representatives and representatives of employee shareholders on the Thales Board of Directors.

*Joint Decision-Making.* The following decisions of the Thales Board of Directors require the approval of a majority of the Directors appointed by us:

- the election and dismissal of the chairman/chief executive officer of Thales (or of the chairman and of the chief executive officer, if the functions are split) and the splitting of the functions of the chairman/ chief executive officer;
- the adoption of the annual budget and strategic plan of Thales;
- any decision threatening the cooperation between us and Thales; and
- significant acquisitions and sales of shares or assets (with any transaction representing € 150 million in revenues or commitments deemed significant).

If the French State and we disagree on (i) major strategic decisions deemed by the French State to negatively affect its strategic interests or (ii) the nomination of a chairman/chief executive officer in which we exercised our veto power, the French State and we must consult in an effort to resolve the disagreement. If the parties cannot reach a joint agreement within 12 months (reduced to three months in the case of a veto exercised on the nomination of the chairman/chief executive officer), either the French State or we may unilaterally terminate the shareholders agreement.

*Shareholding in Thales.* We will lose our rights under the shareholders agreement unless we hold at least 15% of the capital and voting rights of Thales. The shareholders agreement provides that the participation of the French State in Thales will not exceed 49.9% of the share capital and voting rights of Thales, including the French State's golden share in Thales (described below under "Agreement Regarding the Strategic Interests of the French State").

*Duration of Shareholders Agreement.* The amended shareholders agreement took effect on January 5, 2007 and will remain in force until December 31, 2011. The agreement provides that, unless one of the parties makes a non-renewal request at least six months before the expiration date, the agreement will be automatically renewed for five years. If the French State's or our equity ownership drops below 15% of the then outstanding share capital of Thales, the following provisions apply:

- the party whose ownership decreases below 15% of Thales' share capital will, one year following the date on which such shareholding falls below 15%, no longer have rights under the shareholders agreement unless such party has acquired during that one-year period Thales shares so that it again owns in excess of 15% of the Thales share

capital. If a party's ownership decreases below 15%, the party will take the necessary actions to cause the resignation of the board members it has appointed so that their number reflects the proportion of Thales' share capital and voting rights that such party maintains;

- the party whose shareholding has not decreased below the 15% threshold has a right of first refusal to acquire any shares the other party offers for sale to a third party in excess of 1% of the then outstanding share capital of Thales.

*Breach of Our Obligations.* In the case of a material breach by us of our obligations under the agreement relating to the strategic interests of the French State, which is defined as a breach that the French State determines may jeopardize substantially the protection of its strategic interests, the French State has the power to enjoin us to cure the breach immediately. If we do not promptly cure the breach or if the French State determines that foreign rules of extra territorial application that are applicable to us impose constraints on Thales likely to substantially jeopardize the strategic interests of the French State, the French State is entitled to exercise its termination remedies as described below.

If any natural person's or entity's equity ownership of us increases above the 20%; 33.33%, 40% or 50% thresholds, in capital or voting rights, we and the French State must consult as to the consequences of this event and the appropriateness of the agreement respecting the strategic interests of the French State to the new situation. If, after a period of six months following the crossing of the threshold, the French State determines that the share ownership of us is no longer compatible with its strategic interests and that the situation cannot be remedied through an amendment to the shareholders agreement, the French State is entitled to exercise its termination remedies as described below.

*Termination Remedies.* Upon a breach of our obligations described above or if a third party acquires significant ownership in us as described above and an amendment to the shareholders agreement will not remedy the concerns of the French State, the French State may:

- terminate the shareholders agreement immediately;
- if the French State deems necessary, require us to immediately suspend the exercise of our voting rights that exceed 10% of the total voting rights in Thales; or
- if the French State deems necessary, require us to reduce our shareholding in Thales below 10% of the total share capital of Thales by selling our shares of Thales in the marketplace. If, after a period of six months, we have not reduced our shareholding, the French State may force us to sell all of our Thales shares to the French State or a third party chosen by the French State.

*Agreement Regarding the Strategic Interests of the French State.* On December 28, 2006, we entered into a revised agreement with the French State in order to strengthen the protection of the strategic interests of the French State in Thales. The terms of this agreement include, either as an amendment to, or as a separate agreement supplementing the shareholders agreement, the following:

- we will maintain our executive offices in France;
- Thales board members appointed by us must be citizens of the European Union, unless otherwise agreed by the French State, and one of our executives or board members who is a French citizen must be the principal liaison between us and Thales;

- access to classified or sensitive information with respect to Thales is limited to our executives who are citizens of the European Union, and we are required to maintain procedures (including the maintenance of a list of all individuals having access to such information) to ensure appropriate limitations to such access;
- normal business and financial information with respect to Thales is available to our executives and Directors (regardless of nationality);
- the French State will continue to hold a golden share in Thales, giving it veto rights over certain transactions that might otherwise be approved by the Thales Board of Directors, including permitting a third party to own more than a specified percentage of the shares of certain subsidiaries or affiliates holding certain sensitive assets of Thales, and preventing Thales from disposing of certain sensitive assets;
- the French State has the ability to restrict access to the Research and Development operations of Thales, and to other sensitive information; and
- we must use our best efforts to avoid any intervention or influence of foreign state interests in the governance or activities of Thales.

## National Security Agreement and Specialty Security Agreement

On November 17, 2006, the Committee on Foreign Investment in the United States ("CFIUS"), approved our business combination with Lucent. In the final phase of the approval process CFIUS recommended to the President of the United States that he not suspend or prohibit our business combination with Lucent, provided that we execute a National Security Agreement ("NSA") and Specialty Security Agreement ("SSA") with certain U.S. Government agencies within a specified time period. As part of the CFIUS approval process, we entered into a NSA with the Department of Justice, the Department of Homeland Security, the Department of Defense and the Department of Commerce (collectively, the "USG Parties") effective on November 30, 2006. The NSA provides for, among other things, certain undertakings with respect to our U.S. businesses relating to the work done by Bell Labs and to the communications infrastructure in the United States. Under the NSA, in the event that we materially fail to comply with any of its terms, and the failure to comply threatens to impair the national security of the United States, the parties to the NSA have agreed that CFIUS, at the request of the USG Parties at the cabinet level and the Chairman of CFIUS, may reopen review of the business combination with Lucent and revise any recommendations submitted to the President. In addition, we agreed to establish a separate subsidiary to perform certain work for the U.S. government, and hold government contracts and certain sensitive assets associated with Bell Labs. This separate subsidiary has a Board of Directors including at least three independent Directors who are resident citizens of the United States who have or are eligible to possess personnel security clearances from the Department of Defense. These Directors are former U.S. Secretary of Defense William Perry, former National Security Agency Director Lt. Gen. Kenneth A. Minihan, USAF (Ret.) and former Assistant Secretary of the U.S. Navy Dr. H. Lee Buchanan. The SSA, effective December 20, 2006, that governs this subsidiary contains provisions with respect to the separation of certain employees, operations and facilities, as well as limitations on control and influence by the parent company and restrictions on the flow of certain information.

# 5 DESCRIPTION OF THE GROUP'S ACTIVITIES

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## 5.1 BUSINESS ORGANIZATION

We announced several changes to our leadership team, organization, business model and strategic focus over the course of 2008. In September, we announced two key leadership changes: Philippe Camus became non-executive Chairman of the Board of Directors and Ben Verwaayen became Chief Executive Officer. In November, we announced that Paul Tufano became Chief Financial Officer. In addition, our Board of Directors initiated a process that ultimately resulted in a smaller Board – with 10 directors instead of 14 – consisting largely of new members. In November, we also announced our new organization and business model (effective January 1, 2009) which steps are part of a realignment of our operations in support of our new strategic focus that we announced in December 2008 and which is discussed below. All of these changes are intended to improve our profitability as they strengthen our focus on customers, simplify the organization, clarify accountability and responsibility, and improve the cost structure of our business.

*Strategic Focus.* Our new strategic vision for 2009 and beyond is to improve the internet or “web” experience of service providers, enterprises and end-users while improving our customers’ return on their investments. To do that, we intend to combine the creative innovation that is delivered on a best-efforts basis over the internet via so-called “over-the-top” services, like social networking, video sharing, etc. that treat the network as transport only, with the “trusted” services (security, quality of service, privacy, reliability, etc.) that leverage unique capabilities of the network-based service providers. The resulting combination will be more end-users who are willing to pay for more web-based services offered within a trusted environment. We believe the result is a sustainable business model that is beneficial for both network operators and web application creators; one that will fuel innovation and the capital investment required to expand the overall web experience to more people and businesses. In order to achieve this strategy, we will undergo a major strategic transformation and are taking significant steps to realign our operations. We will be focusing on three markets: service providers, enterprises, and selected verticals and on four key areas of investment: IP (internet protocol), optics, mobile and fixed broadband and applications enablement. Applications enablement is a key focus area because it includes all aspects of an “open” network architecture that need to be accessible to “over-the-top” application providers so they can develop more compelling, high value services for delivery over service provider networks.

*Organization.* The new organization structure effective January 1, 2009 includes:

- four groups responsible for emphasizing our strengths in R&D in the design, development and overall product management of the products and services we offer our customers. One of the four groups is the Applications Software group (ASG), a new group that consolidates the various software businesses that were previously spread throughout the company, and is designed to increase our focus on and support for our software applications business. This new Applications software group is an integral part of our new strategic focus on new services and applications that combine the trusted capabilities of the network

with the creative services delivered over the internet. ASG consists of the Applications Software business division that had previously been part of the Carrier group, the Genesys contact center software business that had previously been part of the Enterprise group, and the Operations Support Systems and Business Support Systems (OSS/BSS) software businesses that had previously been part of the Services group. The Carrier Product group has been simplified from six to four divisions: IP, Optics, Wireless and Wireline. The Enterprise Product group remains focused on small, medium and large enterprises and now also includes selected verticals – where customers in transportation, energy, health, defense and the public sector need large, complex communications networks. The Services group is focused on managed services, professional services, and network integration. It no longer includes OSS/BSS (operations support systems/business support systems) software activities that are now part of ASG, or the select verticals that are now part of the Enterprise Product group;

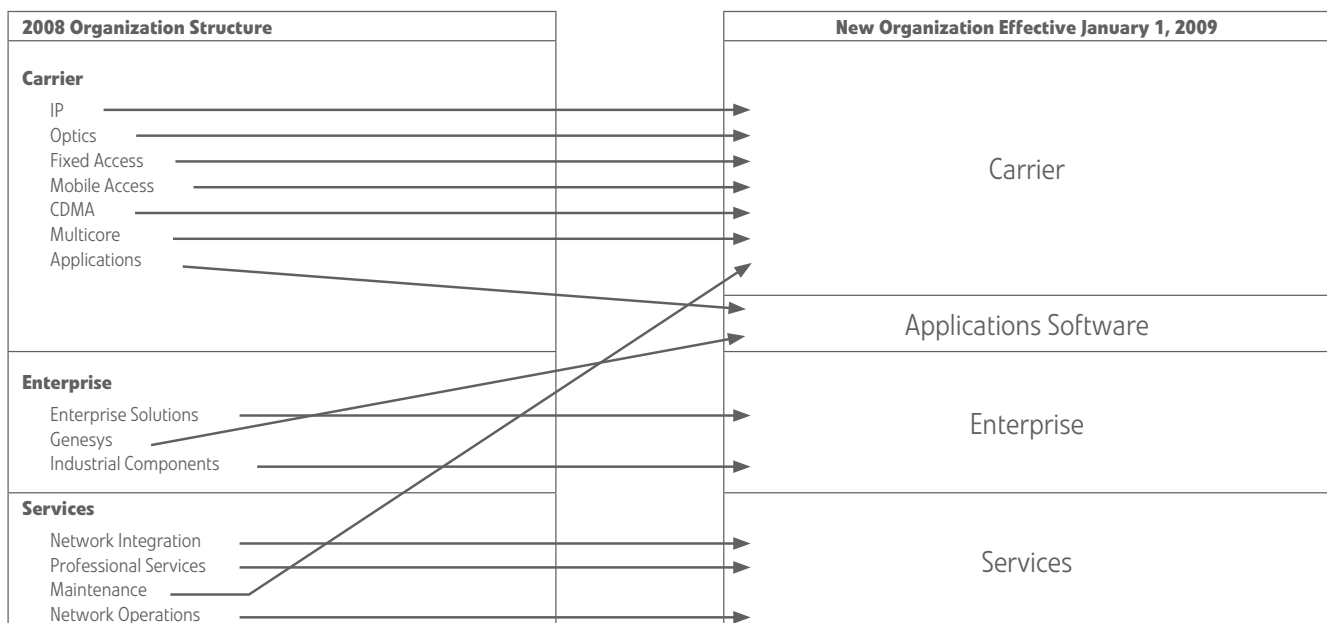
- three regional organizations – one for the Americas, one for Asia Pacific, and one that includes Europe, the Middle East and Africa – to replace the two geographic structures that existed previously. The regions are accountable for serving customers and growing the business profitably. The regions’ primary mission is to sell and insure the highest customer satisfaction. The three regions will each have complete responsibility for all customer-focused activities except for the Enterprise market and the selected verticals included in the industry and public sector market;
- three new organizations designed to sharpen our customer focus and reinforce our focus on operations. The Solutions and Marketing organization will focus on bringing together the right products and services to create the complex solutions required by customers to address new opportunities. The Quality Assurance and Customer Care organization will work with the regional organizations and the Groups to insure that our solutions, products and services are of the highest quality and will work seamlessly in our customer environments. A global Operations function will focus on our IT and procurement infrastructure, including manufacturing, logistics, supply chain and underlying processes, systems and IT;
- an expanded management committee that reports to our CEO, with 14 members, including our CEO. The role of this committee is to oversee our strategy, organization, corporate policy matters, long term financial planning and human resources.

As a result, starting in 2009, we no longer organize our business according to the three former business segments – Carrier, Enterprise and Services – and we no longer organize the Carrier business around seven business divisions. However, in this annual report, we discuss the Carrier, Enterprise and Services segments that were in place for 2008.

The 2008 organization is shown in the table below, which is followed by a table that shows how the 2008 organization was changed to create the 2009 organization:

	<b>CARRIER</b>		<b>ENTERPRISE</b>	<b>SERVICES</b>
<i>Fixed Access</i>	<i>Mobile Access</i>	<i>Multicore</i>	<i>Enterprise Solutions</i>	<i>Network Integration</i>
<i>IP</i>	<i>CDMA Networks</i>	<i>Applications</i>	<i>Genesys</i>	<i>Professional Services</i>
<i>Optics</i>			<i>Industrial Components</i>	<i>Maintenance</i>
				<i>Network Operations</i>

For financial information by operating segment and geographic market, see Note 5 to our consolidated financial statements and Chapter 6 – “Operating and financial review and prospects”, included elsewhere in this document.



## 5.2 CARRIER SEGMENT

The Carrier segment supplies a broad portfolio of products and solutions used by fixed, wireless and convergent service providers, as well as enterprises and governments, for their business critical communications. A key development that began in the wireline carrier market and is now taking place in the wireless carrier market is the transformation of networks to a high bandwidth, full Internet Protocol (or IP) architecture. This architecture enables service providers to provide enhanced, triple play services (internet, telephony and TV) to end users over any kind of broadband access (copper, fiber or wireless). For 2009 and beyond, as part of our strategic transformation, the Carrier Product group will shift its investment towards next-generation platforms:

- by reinforcing those areas where we are market leaders (IP, Optics, broadband access, IMS core, CDMA EV-DO);

- by boosting investment in focus areas such as LTE, W-CDMA, evolved packet core, open application enablers; and
- by streamlining product offerings in mature portfolios such as CDMA 1x, GSM, ATM, ADSL, DLC and legacy applications.

In addition we expect to partner, co-source and participate in the consolidation of the industry to reduce spending for WiMAX, CPE, classic core, non-IMS based fixed next generation networks (or NGN) portfolio and some legacy applications, and during 2009 we expect to complete platform rationalization programs for W-CDMA and NGN.

In 2008, our carrier segment revenues were € 11,540 million including inter-company sales and € 11,514 million excluding inter-company sales, representing 68% of our total revenues.



## Fixed Access

We are the largest digital subscriber line (or DSL) vendor worldwide, and we also lead the Gigabit Passive Optical Networking (or GPON) market, with 41% of DSL revenues, and 46% of GPON Optical Line Termination (or GPON OLT) revenues in 2008 according to industry analyst firm Dell'Oro. This confirms our long-standing position as the worldwide leader in broadband access.

The Fixed access market is driven, on one hand, by the increased penetration of broadband in fast growing economies such as China and, on the other hand, by the introduction by service providers of triple play offerings (internet, telephony and TV). These enhanced services require increased bandwidth delivered over classical copper telephone lines, using DSL, and optical fiber that our customers are deploying in their access networks, closer to the end-user.

Our family of fixed access products, which are IP-based, provides support for both DSL and fiber. It enables service providers to optimize the combination of these technologies, depending on the network configuration and the area of installation. Our products allow carriers to offer voice, data and video (triple play functionality) over a single access line, and to deliver to their customers virtually unlimited broadcast channels, video on demand, HDTV (or high definition TV), VoIP (or voice over IP), high speed Internet, and business access services. The functionality of our products serves the needs of the carriers' urban, suburban and rural customers.

## Internet Protocol

Our portfolio of third generation IP routers and switches is designed to support the next wave of internet applications and services while helping service providers monetize their network investment and reduce customer churn. The portfolio consists of three product families that deliver multiple services – including triple play, Ethernet, Frame Relay, Asynchronous Transfer Mode (or ATM) and IP Virtual Private Networks (or VPN) business services – over different networks, including next-generation voice; IP-based core, radio access and mobile backhaul networks; and converged fixed/mobile networks. The three product families of switches and routers are:

- *Multi-service wide-area-network (or MS WAN) switches* enable fixed line and wireless carriers to transition their existing networks to support newer technologies and services. They are based on a blend of technologies, which has integrated ATM and multi-protocol switching functions;
- *Internet Protocol/Multiprotocol Label Switching (or IP/MPLS) service routers* were designed for internet-based services. They direct traffic within and between carriers' networks to enable delivery of internet access, internet TV, mobile phone and text messaging and managed VPNS on a single common network infrastructure with superior performance and scale;
- *Carrier Ethernet service switches* enable carriers to deliver residential, business and mobility services more cost-effectively than traditional methods due to higher capacity and performance.

The IP/MPLS and Carrier Ethernet products are designed to facilitate the development and availability of applications for the more participatory and more interactive Web 2.0 business and consumer services that offer carriers the opportunity to increase the profitability of their fixed and mobile networks and services without relying on subscriber growth alone. The

products make it possible for service providers to offer and deliver services that are set forth in service level agreements between business enterprises and operators.

Our service routers and Ethernet service switches share a single operating system and network management that provides consistency of features, quality of service and operations, administration and maintenance capabilities from the network core to the customer edge – which is unique, cost-effective, and critical as carriers transform their networks to support new internet-based services. Our service routers are particularly well suited to deliver complex services to business, residential and mobile end-users, ensuring the high capacity, reliability and quality of service required to support HDTV channels, voice calls and high bandwidth internet access. Our IP/MPLS service routers and Ethernet service switches are often used in conjunction with our DSL and GPON access products to deliver these newer triple-play services.

## Optics

Our Optics division designs and markets equipment to transport information over fiber optic connections for long distances over land (terrestrial) and undersea (submarine), as well as for short distances in metropolitan and regional areas. According to industry analyst Ovum RHK, we have had the largest share of the optical networking market (measured in revenues) since 2001. The division also includes our microwave wireless transmission activities.

## Terrestrial

Our terrestrial optical products offer a portfolio designed to seamlessly support service growth from the metro to the core parts of the network. With our products, carriers can manage voice, data and video traffic patterns based on different applications or platforms and can introduce a wide variety of competitive data-managed services, including multiple service quality capabilities, variable service rates and traffic congestion management. Most importantly, these products allow carriers to leverage their existing network infrastructure to offer these new services.

As the market leader in optical networking, we have played a key role in the transformation of optical transport networks. Our wavelength-division multiplexing (WDM) products address a variety of markets, from the enterprise to the ultra-long-haul, to meet service provider requirements for cost-effective, scalable networks that can handle their increased data networking needs. In 2008, our WDM product portfolio was enhanced with the launch of our "Zero Touch Photonics" approach which eliminates the need for frequent on-site interventions, allowing operators to solve bandwidth bottlenecks while offering the lowest cost per transported bit. This new approach facilitates the design and installation of a more flexible WDM network that is also easier to operate, manage and monitor. Our innovation in optics is also apparent in traffic aggregation, where our new packet optical transport technology allows for a virtually seamless migration to new IP-based services, and in optical switching, where our increasingly intelligent switches maximize the efficient utilization of network resources. All these products provide cost-effective, managed platforms that support different services and are suitable for applications in diversified network configurations.

## Submarine

We are an industry leader in the development, manufacturing, installation and management of undersea telecommunications cable networks. Our submarine cable networks can connect continents (using optical amplification due to the long distances), as well as a mainland and an island, or several islands together or many points along a coast. This market is characterized by relatively few large contracts that often require more than one year to complete, and current projects are concentrated on links between Europe and India, networks to connect West and East Africa, Mediterranean and South East Asia systems, as well as around the Indian sub-continent. In addition to new cable systems, this market also includes significant activity upgrading existing submarine networks as our customers respond to surging broadband traffic volumes.

## Wireless Transmission

We offer a comprehensive point-to-point portfolio of microwave radio products meeting both European telecommunications standards (or ETSI) and American standards-based (or ANSI) requirements. These products include high, low and medium capacity microwave systems for carriers' transmission systems, mobile backhauling applications, fixed broadband applications and private applications in vertical segments like digital television broadcasting, defense and security, energy and utilities. As a complement to optical fiber and other wireline systems, our portfolio of wireless transmission equipment supports a full range of network/radio configurations, network interfaces and frequency bands with high spectrum efficiency. Our next-generation packet microwave radio links enable operators to quickly and efficiently adapt their networks in line with traffic and service growth. We are the market leader in the long haul microwave market segment where microwave radio is used to transport signals over long distances.

## Mobile Access

### GSM

We develop mobile radio products for the second generation (or 2G) GSM (or Global System for Mobile communications) standard, including GPRS/EDGE (or General Packet Radio Service/Enhanced Data Rates for GSM Evolution) technology upgrades to that standard. Beginning in 2006, the GSM infrastructure market has experienced heightened competition, while remaining the world's leading 2G mobile technology in terms of the number of subscribers. Subscriber growth has been particularly strong in emerging markets, such as China and India.

In 2008, our GSM product strategy focused on providing operators with total cost of ownership savings (i.e., savings that apply to capital expenditures and operating expenses) without compromising performance, scalability or future evolution, based on a renovated portfolio that we introduced at the end of 2006 and that is now fully field proven. This portfolio includes the Advanced Telecom Computing Architecture (or ATCA) Base Station Controller (or BSC) together with a new generation of transceiver that doubles the capacity of sites (or Twin TRX). We provide a full range of tailored GSM/EDGE products to satisfy all type of operators' needs and challenges, including products for emerging markets, fast expansion, greenfield deployment or full network renovation.

As part of our innovation program, we developed products to address remote site constraints, where external power supplies are limited or

not available. We are active in the "Green BTS (base station)" market with products maximizing renewable energy thanks to the significant power reductions offered by our Twin TRX technology. We have already deployed more than 400 solar powered BTSs worldwide. As a result, our GSM product line strategy allows us to take advantage of GSM growth opportunities in emerging markets.

Since 1999, our product strategy has focused on the ability to evolve our technology in order to deliver future capabilities while maintaining compatibility with earlier versions of the technology. To that end, we have delivered more than 500,000 multi-standard indoor and outdoor GSM base stations which are able to host 2G, 3G and 4G Long Term Evolution (or LTE) modules, allowing our customers to evolve smoothly from second generation GSM to third generation W-CDMA and fourth generation LTE technologies.

### WiMAX

As part of the new strategic focus we announced in December 2008, our WiMAX activities for 2009 will be specifically focused on addressing the "enhanced Wireless DSL" market opportunity, which includes data-centric mobility usage on small laptop computers (or netbooks) and other mobile internet devices as well as residential and limited mobility PC use. This market segment positions WiMAX as a lower-cost alternative to building out a new landline network. As early as 2004, we announced a partnership with Intel – a key WiMAX proponent for the development of end-to-end product offerings to provide broadband connectivity over wireless networks, and we continue to work with them to drive the WiMAX market.

We believe that a broad, widely-inclusive ecosystem of WiMAX vendors (of infrastructure, handsets, etc.) will foster widespread development of the technology. Accordingly, in 2008, we marketed our Open Customer Premises Equipment Program, one of the industry's premiere showcases and test-beds for WiMAX devices, and we continued to participate in the Open Patent Alliance (OPA), whose primary objective is to foster widespread access to WiMAX patent licenses. Finally, to further enrich the ecosystem, we announced in September 2008 that we had developed a new Seal of Interoperability Acceptance for Commercial Services (SIACS), designed to help ensure interoperability between WiMAX products.

In 2008, we entered into approximately 34 commercial contracts of which 10 are already in operation. These include OneMax in the Dominican Republic (the first commercial network operating in the 3.5 gigahertz spectrum band in Central and Latin America), Nuevatel and Entel in Bolivia, Packet One in Malaysia, WorldMax in The Netherlands (the first commercial network in Amsterdam, launched in June 2008), Mobilink in Pakistan, V-TEL in Georgia and WiMAX Telecom in Croatia.

### W-CDMA

Wideband Code Division Multiple Access, referred to as W-CDMA or Universal Mobile Telephone Communications Systems, or UMTS, is the third generation (or 3G) wireless technology derived from the GSM standard deployed worldwide. The focus on W-CDMA and other 3G wireless technologies has increased as competition among operators has reduced the average revenue per user (or ARPU) that wireless operators recognize from their voice services. This competition has driven increased investment in 3G networks so that our customers can offer new mobile high-speed data capabilities to their customers in order to increase ARPU. 2008 has been a very important year for W-CDMA, as a growing subscriber base, new applications and increased market penetration have driven strong traffic growth. One specific aspect of that traffic growth is in the

use of wireless data and of the mobile internet, with both operators and users citing the financial and social benefits of this technology.

The iPhone® phenomenon has shown that there is strong end-user demand for W-CDMA's mobile broadband capabilities, especially when they are offered via a user-friendly device. This, combined with the capability to deliver email to handheld devices like the BlackBerry® or Ultra Mobile PCs, is at the heart of current 3G successes. The recent support of HSDPA and HSUPA (High Speed Downlink Packet Access and High Speed Uplink Packet Access – the latest evolution of W-CDMA technology) on networks and devices has led to significant increases in data speeds and the volume of data traffic. The demand for 3G services delivered over W-CDMA networks has also been driven by increasingly common flat-rate offers, at least for the data part of the end user subscription.

Our position in the W-CDMA market is the result of the rationalization of the product portfolios from our acquisition of Nortel's 3G assets and the integration of the historical Alcatel and Lucent technologies into a single portfolio. In 2008 we delivered a new, converged software release for all of our customers. During 2009, we expect to complete the platform rationalization of W-CDMA.

### TD-SCDMA

We have an alliance with Datang Mobile to foster the development of the TD-SCDMA (or Time Division-Synchronized Code Division Multiple Access) 3G mobile standard in China, where we deployed trial TD-SCDMA networks in 2006. In 2008, we were awarded the phase II trial of the TD-SCDMA network for China Mobile, leveraging our experience accumulated in the first phase that started in early 2007. In addition, we have a number of partnerships for the development of equipment and services based on Advanced Telecom Computing Architecture (or ATCA), a standard that reduces the cost and complexity of our customers' mobile infrastructure.

### LTE (Long-Term Evolution)

2008 saw a rapid surge of mobile data traffic fuelled by the success and proliferation of 3G-enabled devices. As mobile operators move to offer more flat-rate pricing plans, mobile traffic levels will continue to increase, putting additional pressure on existing network capacity. As user demand continues to evolve and the next generation of users gain access to personalised services, the need to evolve networks to support these increasing traffic levels while minimizing operating expenses and capital expenditures is leading operators to look forward to deploying fourth-generation LTE.

LTE offers service providers a highly compelling evolution path from existing networks (GSM, W-CDMA, CDMA or WiMAX) by simplifying the network and harmonizing on a common IP base, leading to better network performance and a lower cost per bit, thus lowering the total cost of ownership for network operators. It creates an environment in which consumers will be able to use wireless networks to access high-bandwidth content at optimal cost, enabling a new generation of services and affordability for mobile users. LTE is expected to become the technology of choice for wireless operators.

### CDMA

CDMA2000 is the world's leading 3G (third generation) wireless technology with over 463 million subscribers worldwide in 2008 according to the CDG (CDMA Development Group). It is deployed in spectrum ranging from 450 Mhz to 2,100 Mhz, with each carrier network deployed in smaller increments of

spectrum than competing wireless product offerings. CDMA2000 provides operators with a path to increase capacity and coverage with minimum hardware and software upgrades. The most current technology, known as 1XEV-DO (Evolution Data Only) Revision A ("Rev A"), enables operators to offer high speed data supporting two-way, real-time data applications such as VoIP (voice over Internet Protocol), mobile video, push-to-talk and push-to-multimedia. The next enhancement, Revision B, is expected to provide improvements significantly increasing throughput performance with minimal upgrades.

Despite increases in both CDMA subscribers and traffic volumes, we believe the market for CDMA infrastructure is mature and declining. We have revised our long-term outlook for this market, taking into account recent changes in market conditions as well as the potential negative impact of future technology evolutions. As with any product or technology that reaches a mature point in its life cycle, we are moderating our R&D investments in the current generation of CDMA to reflect the declines that will naturally take place in this market over time. We have been focusing our investments to sustain our CDMA revenue while we position to win in 4G. In addition, during 2009 we will emphasize improving our customers' total cost of ownership through capital expenditure and operating expense improvements. Our CDMA Product Unit is also aggressively positioning LTE-ready High Efficiency products and assets for voice and data applications while it supports EVDO growth through enhancements in system capacity, reliability and performance and introduces EVDO VOIP for enhanced applications. These enhancements provide an elegant evolution to LTE, minimize footprint and improve power efficiency, thereby reinforcing our commitment to eco-sustainability and broadband data.

### Applications

Our Applications business includes multimedia and communications related services such as web information, video and music, as well as payment and messaging products organized around the following portfolios:

- IPTV (internet Protocol Television – the delivery of broadcast-like television over an IP network) and Multi-screen (multi-play services on the TV, PC, handheld devices, etc.): interactive, multimedia applications that can be delivered over fixed and mobile networks for residential use and personal entertainment;
- mobile TV: the Alcatel-Lucent 5910 Mobile interactive TV solutions are ready-to-deploy, end-to-end solutions for delivering mobile interactive television service over various types of networks, including packet switched networks such as GPRS, 3G, and HSDPA (Unicast). Other network types include broadcast and multicast networks, such as Digital Video Broadcast Satellite services to Handheld (or DVB-(S)H) and Anycast, a network with many receiver endpoints, only one of which is chosen at any given time to receive information from the sender. We are a provider of the world's first commercial trial of mobile TV service based on the Open Mobile Alliance's BCAST Smartcard Profile in Singapore, with the Alcatel-Lucent 5910 MiTV platform.

In September 2008, at the International Broadcasting Convention in Amsterdam, we, together with other major players from the DVB-SH ecosystem delivered the world-first live demonstration of full end-to-end DVB-SH mobile TV, as well as the world-first implementation of the DVB-SH standard in the UHF band;

- payment: we have a portfolio of end-to-end rating and billing offerings. We have long-standing field experience in bridging legacy and IP

environments, including a range of solutions for the converged payment market, customer interactions market (800 toll-free numbers, gaming and premium numbers), deregulation market (number portability, carrier selection) and "smart metering" for utilities. Our convergent charging payment products are deployed in more than 200 networks and serve over 450 million subscribers;

- messaging: voice, data and next generation messaging services for mobile, fixed and convergent service providers.

The division also develops subscriber data management products, applications and convergent services for networks that are based on the IP-based IMS architecture. Although customer spending in this market has materialized more slowly than we had expected, we believe this sector offers strong growth potential, so we have increased resources and streamlined the portfolio to better address the specific areas where we see the most market opportunity. Our IMS services are available over any kind of access network, on any device, and may be blended with other IMS or non-IMS traditional services. Our complete IMS package (application and core network) is in more than 30 deployments or advanced trials, and more than 60 operators are using our IMS application servers and services.

Our subscriber data management portfolio is a suite of software applications that can be used by all types of service providers (fixed, wireless,

converged) to manage subscriber data (subscription, authentication, mobility, etc.) that comes from multiple sources. Our subscriber data management applications have been deployed in more than 200 networks with over 775 million subscribers.

## Multicore

The Multicore division offers core networking products that extend from classic switching systems, where we have a leading market position supporting approximately one quarter of the world's installed lines, to IP next-generation core offerings (the IP Multimedia Subsystem, IMS) for fixed, mobile and convergent operators. We have deployed our IP/NGN products in more than 275 fixed and mobile networks, and we are involved in more than 30 full IMS network transformation projects. Carriers have expressed a strong desire to migrate their embedded base with products that are scalable, beginning with basic voice services and growing into enriched multimedia services enabled by IMS. Based on these market needs, in 2008 we released a new version of our market leading IMS software, running on standards-based hardware, which incorporates innovations from Bell Laboratories, that enables carriers to deploy a less complex, greener, IMS solution and provides both NGN and IMS functionality. Using our IMS service architecture, operators can differentiate their products and services with quality of service controls and deliver new services that go beyond simple voice and internet usage.

## 5.3 ENTERPRISE SEGMENT

Our enterprise segment provides end to end offerings including software, hardware and services that interconnect networks, people, processes and knowledge. The division addresses the enterprise and government markets via indirect channels and a dedicated sales and marketing force that leverages our innovation, integration and unique engagement capabilities to address small to extra large and multinational businesses and government agencies. A network of over 2100 alliance partners, business partners and system integrators support our global customer base.

The group's traditional portfolio includes:

- secure converged communication infrastructure offering total continuous service for voice, local, wide and wireless area networks;
- personalized tools for collaboration, customer service (including contact center) and mobility;
- communication-enabled business process solutions designed to improve execution and service delivery;
- product offerings that provide context-aware, content-driven knowledge sharing across any access;
- carrier grade solutions and a comprehensive services offering.

Following our repositioning of the Enterprise segment into high growth sectors in 2007, including security and services, efforts in 2008 were directed toward deepening our customer relationships through improved engagement models, including additional investments in our direct sales

channel, our channel management capabilities and our relationships with our carrier customers.

We continued to enhance our Unified Communications (UC) portfolio through the release of our 2008 editions of Corporate and Office Communications Solutions. The My Instant Communicator unified communications solution, that we integrated with IBM Sametime during 2008 received industry recognition in independent tests for its delivery of state-of-the-art UC functionality and performance. Our Office Communications release in 2008 leveraged the trend towards open source with its support for open API (application program interface) development, allowing partners and customers to rapidly and cost effectively introduce new services for small and medium businesses.

The data networking business contributed significantly to our growth in 2008. The OmniSwitch evolution reinforced our market leading capabilities in terms of availability, security, convergence and eco-sustainability for Ethernet core, aggregation and edge networking. In addition, we launched new products specifically tailored for medium-sized businesses and specific industries. The OmniAccess WLAN (wireless local area network) portfolio was enriched with the support of the 802.11n set of standards for WLANs and other wireless networks.

Our Genesys contact center business continued to gain market share in a difficult economic climate, and it broadened its portfolio beyond the contact center with the acquisitions of Conseros and SDE Software Development Engineering. Conseros brings business applications that allow enterprises to manage and distribute high volumes of work anywhere in the enterprise.

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SDE is the developer of the Genesys Customer Interaction Portal, a Web-based capability that allows our service provider customers to offer contact center capabilities with on-demand or as-needed licensing to their enterprise customers.

We market and sell our enterprise segment solutions to enterprises and government agencies under our own vision of what we call the Dynamic

Enterprise, where interconnection of network, people, processes and knowledge differentiates a company's competitiveness and efficiency.

In 2008, our enterprise segment revenues were € 1,590 million including inter-company sales and € 1,551 million excluding inter-company sales, representing 9% of our total revenues.

## 5.4 SERVICES SEGMENT

Our services business segment uses a combination of IT experience and network expertise to integrate clients' networks to enable faster, more reliable and cost-effective communications. Our offerings are centered on five areas where we believe we can enhance value by designing, integrating, implementing and running complex projects in a changing environment. Across these five areas, we are focused on high value-added services – including network transformation and other professional services – across multiple technologies and vendors in order to provide our customers with a complete and high quality offering.

The five service areas on which we are focused are:

- IP Network Transformation;
- Multivendor Maintenance;
- Systems & Applications Integration;
- Managed Services & Network Operations;
- Selected Verticals.

IP network transformation services (including network planning, design, consulting, project management, and optimization services) help our customers choose a migration plan to a new technology, which will allow our clients to effectively seize new revenue opportunities, optimize performance, reduce operating expenses, and plan an evolution of their network to capitalize on their investment and drive bottom-line results. Our project management services help our customers meet their time to market needs and budgetary targets by identifying, analyzing and mitigating risks.

We are a global player in the delivery of multi-vendor maintenance services. Multi-vendor maintenance services create operational efficiencies for customers by restructuring and streamlining traditional maintenance functions and delivering improved service levels at a lower total cost. Our global reach, multi-vendor technology skills, integrated delivery capability, and delivery track record characterize our offerings. Multi-vendor services include technical support to diagnose, restore, and resolve network problems, and spare parts management to improve asset utilization. They include remote and on-site technical support services for both proactive and reactive maintenance services.

Systems and applications integration services consist of specialized consulting services that help carriers leverage their network assets to introduce new and innovative services. These professional services help our customers significantly reduce the time required to bring new applications to market, streamline and enhance their current operational processes, and integrate their new service delivery environment with their operational and

business support systems. We offer a powerful combination of network and IT expertise, and we continue to invest in our IT expertise. In 2008, for example, we purchased ReachView, an IT assurance integrator company in North America to enhance our breadth of IT competences. Some of the new integration contracts we signed in 2008 were with Belgacom of Belgium to design and integrate IMS applications and a core network solution, with Vodacom South Africa for integrating its new 3G network, and with eircom of Ireland for integration services associated with its IP network transformation project.

Managed services & network operations services consist of a wide range of outsourced network operations and network transformation services that help our clients reduce their operating expenses while enhancing network reliability. Managed services provide a seamless transition to an outsourced environment utilizing state-of-the-art tools and technology plus highly skilled technicians to provide ongoing network management of our customers' networks. These functions can be performed at our 10 network operations centers, at our 4 IP transformation centers, or at the customer's network operations center. We believe that the market for managed services offers significant growth opportunities on a stand alone basis as well as offering a significant opportunity to build long lasting relationships with our customers. Managed services and network operations services also offer a way to capitalize on an emerging industry trend for operators to share network infrastructure. Since these services often require an up-front investment by us in both resources and the tools required to manage and operate the networks, we are disciplined and selective in our approach when pursuing new managed services opportunities. We currently provide network operation services to more than 70 networks with more than 140 million subscribers around the world, including new 2008 customers such as BT Global Services.

Selected Verticals are an area of increasing focus where we have significantly increased resources. The target markets within Verticals are transportation, energy and the public sector. In these markets, customers require complex private communications networks to support their mission-critical operations. Whether providing internet access to passengers in high-speed trains, enabling power utilities enhanced control over their transmission grids, monitoring the transport of several million barrels of oil per day in real-time over thousands of kilometers, offering innovative e-government services and very high speed broadband to citizens, or enhancing large administrations' and enterprises' efficiency, all of these missions require reliable, future-proof, and multi-service communication networks. We use our carrier-grade equipment and services to meet the mission-critical requirements in these markets: from design, integration

and deployment to operations and maintenance. In 2008, some of our new Verticals customers were Poland's A2 motorway, the Public Security Secretary for the state of Sao Paulo in Brazil, RTE (a subsidiary of French utility EDF Group) for its integrated fiber-optic network and King Shaka International Airport (South Africa).

In 2008, our services segment revenues were € 3,452 million including inter-company sales and € 3,441 million excluding inter-company sales, representing 20% of our total revenues.

## 5.5 MARKETING AND DISTRIBUTION OF OUR PRODUCTS

We sell substantially all of our products and services to the world's largest telecommunications service providers through our direct sales force, except in China where our products are also marketed through indirect channels and joint ventures that we have formed with Chinese partners. For sales to Tier 2 and Tier 3 service providers, we use our direct sales force and value-added resellers. Under the organization structure that became effective January 1, 2009, our three regional organizations each have complete responsibility for all customer-focused activities, except for the Enterprise market. Our enterprise communications products are sold through business partners and distributors that are supported by our direct sales force.

In order to strengthen our customer focus, we decided at the beginning of 2009 to discontinue the use of third party sales agents. This decision

will be implemented over the course of a transition period. Furthermore, we have created two new organizations to (i) improve solutions that are designed for customers and (ii) ensure that the mix of products and services that are delivered to customers have been appropriately tested and have the required quality assurance. The Solutions and Marketing organization will focus on pre-sales activities and bring together the right products and services to create the solutions required by customers to address new opportunities. It will provide the link between the business groups' experts and the regions' knowledge of their customers' needs. The Quality Assurance and Customer Care organization will insure that our solutions, products, and services are of the highest quality and will work seamlessly and reliably in our customers' networks.

## 5.6 COMPETITION

We have one of the broadest portfolios of product and services offerings in the telecommunications service provider market, both for the carrier and non-carrier markets. Our addressable market segment is very broad and our competitors include large companies, such as Avaya, Cisco Systems, Ericsson, Fujitsu, Huawei, ZTE, Motorola, Nokia Siemens Networks (NSN) and Nortel Networks Corporation. Some of our competitors, such as Ericsson, NSN, Huawei and Nortel, compete across many of our product lines while others – including a number of smaller companies – compete in one segment or another. The list of our competitors may change as a result of the difficult economic environment – for example, Nortel's recent decision to file for bankruptcy protection – but it is too early to predict the changes that may occur.

We believe that technological advancement, product and service quality, reliable on-time delivery, product cost, flexible manufacturing capacities, local field presence and long-standing customer relationships are the main factors that distinguish competitors of each of our segments in their respective markets. In today's difficult economic environment another factor that may serve to differentiate competitors, particularly in emerging markets, is the ability and willingness to offer some form of financing.

We expect that the level of competition in the global telecommunications networking industry will remain intense, for several reasons. First, although consolidation among vendors results in a smaller set of competitors, it also

triggers competitive attacks to increase established positions and market share, pressuring margins.

Consolidation also allows some vendors to enter new markets with acquired technology and capabilities, effectively backed by their size, relationships and resources. In addition, carrier consolidation is continuing in both developed and emerging markets, resulting in fewer customers overall. In today's economic environment, Capex spending cuts are compounding the competitive impact of a smaller set of customers. Most vendors are also targeting the same set of the world's largest service providers because they account for the bulk of carrier spending for new equipment. Competition is also accelerating around IP network technologies as carriers continue to shift capital to areas that support the migration to next-generation networks. Furthermore, competitors providing low-priced products and services from Asia are gaining significant market share worldwide. They have been gaining share both in developed markets and in emerging markets, which account for a growing share of the overall market and which are particularly well-suited for those vendors' low-cost, basic communications offerings. As a result, we continue to operate in an environment of intensely competitive pricing.

## 5.7 TECHNOLOGY, RESEARCH AND DEVELOPMENT

### Overview

Research and development remains one of our main priorities, as we believe the creation of new technologies for the carrier and enterprise telecommunications market can substantially differentiate us in the marketplace. However, we are enhancing the efficiency of our R&D spending by focusing on four key segments – optical, IP, broadband and applications enablement – while we partner or rationalize spending in other areas. We also have plans under way to consolidate global R&D centers and have taken actions to transfer people from Chateaufort en Yvelines to Velizy and Villarceaux in France, and from Lisle to Naperville, Illinois and from Whippany to Murray Hill, New Jersey in the U.S. Some of the specific technologies and scientific fields that we view as central to our business strategy and our research and development priorities are:

- broadband wired access (VDSL, GPON);
- broadband wireless access and indoor coverage (multi-standard radio access, CDMA EV-DO, W-CDMA, WiMAX, innovative antenna technologies such as MIMO, Femto technology that provides in-home cell phone coverage, and LTE);
- optics (100 Gbit/s transport, Flexible optics, photonic networking);
- intelligent IP (IP and optical);
- new service delivery architecture and platforms (IMS, end-to-end provisioning, fault management);
- multimedia and mobile/fixed services and applications (wireline video networking, mobile TV);
- network security and optimization;
- mathematics, physical sciences, computer and software sciences; and
- e-Health (in partnership with University of Pittsburgh Medical Center, for example)

Our new strategic plan has directly affected our research and development efforts and led to specific initiatives to sharpen focus and achieve greater operational and cost efficiencies such as:

- increasing our own, internal R&D emphasis on Long-Term Evolution (LTE) in order to bring our own solution to market as momentum continues to grow behind this preferred technology for “4G” cellular mobile services. As we accelerated our internal LTE development program, we have stopped our LTE joint venture project with NEC.
- focusing our R&D efforts in WiMAX on the “enhanced wireless DSL” segment of the market.
- Placing additional emphasis on developing differentiating solutions in support of our growing IMS business

In 2008, we spent € 2.5 billion, representing 14.8% of our revenues, on innovation and the support of our various product lines. The € 2.5 billion amount is actual euros spent before taking into account capitalization of development costs and the impact of the purchase price allocation entries of the business combination with Lucent, as disclosed in Note 3 to our consolidated financial statements included elsewhere in this document.

### Advanced Research

Advanced research is conducted across many of our organizations, including Bell Labs. These initiatives create new growth opportunities through disruptive innovation and provide us with a competitive market advantage. Bell Labs has research locations in nine countries: USA, Canada, France, Germany, Belgium, UK, Ireland, India and China. Bell Labs continues to conduct fundamental and applied research in the areas that we view as central to our business strategy and our research and development priorities.

Bell Labs has achieved break-through innovations in areas such as 100 Gigabit Ethernet and Long Term Evolution (LTE) as well as green technology, thermal management and Web 2.0. In 2008, Bell Labs developed a novel heatsink device that has the potential to significantly reduce energy consumption in a broad range of telecommunications equipment.

In 2008, Bell Labs developed applications that foster collaboration in a virtual environment among colleagues who may be in geographically diverse locations, which increases productivity while decreasing administrative and travel expense.

### Quality, security and reliability

#### Quality

In 2008, our goal was to continue to execute on the goal we set in 2007 to improve quality, security and reliability of our portfolio.

One of our objectives in 2008 was to improve our customer satisfaction survey in order to achieve a higher degree of assurance that we meet customer expectations. We also integrated over 50 separate TL 9000 certificates into a single, multi-site certification, to improve business agility and establish a consistent approach to resolving customer critical issues.

#### Security

Telecom services and network infrastructures continue to maintain a sharp focus on security. In response, we continue to improve our offering so that security and reliability are a more integral part of our overall portfolio – what we call “security designed-in”. The release in 2008 of our new security specific technologies for both the enterprise and the service provider space improve our offerings. The security framework that Bell Labs developed is part of our product lifecycle permitting the tightening of security for our products, systems and services.

In the security and reliability program framework, in 2008 we continued to promote a study called the Availability and Robustness of Electronic Communications Infrastructure that involved government and industry participants across Europe and which was formally accepted by the European Commission’s Information Science and Media Directorate-General with high praise for this significant contribution. The aim of the study was to develop a forward-looking analysis of the factors influencing the availability of electronic communication networks and of the adverse factors that could act as potential barriers to the development of global networked economies. The study has been used as a framework and the basis for security roadmaps and strategies that further strengthen European telecommunications availability.

**Reliability**

To anticipate future technology reliability needs, in 2008 we pursued ongoing study of the implications that result from introducing emerging technologies. Our network modeling experts continued to develop methods for network design with quality of service and reliability while migrating large numbers of users to all-IP networks. In addition, business modeling experts created models for new services such as IPTV, for decision support during critical technology choices, and for evaluation of outsourcing options. These models are used in our customer engagements.

**R&D Efficiency**

In the area of R&D efficiency, in 2008 we continued and improved upon a number of major initiatives begun in 2007 that were designed to improve the cost and efficiency of research and development activities in 2008. We initiated within the Carrier business group, an R&D transformation program whose goal is to modernize and improve overall R&D efficiency. The first phase of this program was completed in 2008. The second phase began in 2008 and expects to be completed in 2009.

By defining and validating a common hardware library and set of tools, we have completed the first step in achieving the rationalization of our hardware development environment across all of the company's hardware development centers. This initiative will be generalized to all hardware lab sites in 2009 with the goal of providing the Group with an optimal, flexible and cost effective hardware development program.

Leveraging a strong compliance program and expertise in central office structure and thermal technology, in 2008 we developed an innovative solution for data centers and central offices that will significantly reduce the amount of energy required to cool IT or telecom equipment. Today, half of a data center's energy expenditure is applied to cooling alone. This thermal management solution was demonstrated successfully at two of our sites (one in Europe and one in the U.S.) in 2008 and is expected to be commercialized in 2009 as a key service within our portfolio of eco-sustainability and energy reduction solutions. All of our product groups maintain energy reduction

targets within their roadmaps. We also take an active role in shaping and defining energy consumption metrics for the telecommunication industry and we believe we comply with industry standards.

**Standardization, technology partnerships and acquisitions****Standardization**

In 2008, more than 500 employees from across all of our business groups were engaged in standardization efforts. They participated in a total of more than 200 working groups in approximately 100 standards organizations. Building on our position as a leading contributor in the areas of Access, Packet, Optics and Wireless technologies, we have reinforced our efforts in areas such as 4G Mobility, IMS and Applications enablement. During the course of 2008, we reaffirmed or secured significant leadership positions in organizations such as the 3GPP, 3GPP2, ATIS, Broadband Forum, ETSI, IEEE, IETF, OMA, TIA and the WiMAX Forum.

**Technology partnerships and acquisitions**

To strengthen our technology leadership we entered into a number of partnerships and made strategic acquisitions in 2008. We developed strategic relationships with a number of companies in the sector including Edgeware (Sweden) to expand video server ecosystem, Convergys (U.S.) to provide operators with a pre-integrated and converged billing and customer care solution, Airvana (U.S.) for CDMA Femto cells and GENBAND (U.S.) for Media Gateway solutions. We have also maintained ongoing global partner engagements with companies such as IBM, Accenture, Sun Microsystems, Hewlett Packard and Cap Gemini. We completed a number of acquisitions to complement our Genesys contact center offering. For example, we acquired a German software development and engineering company that was previously owned by partner VoicInt Telecommunications. We also acquired U.S. based Conseros, a pioneer in the area of integrating customer interactions and business processes as well as Motive (also U.S.-based) to enhance our home networking management solution.

**5.8 INTELLECTUAL PROPERTY**

In 2008 we obtained more than 2,700 patents worldwide, resulting in a portfolio of more than 26,000 active patents worldwide across a vast array of technologies. We also actively pursue a strategy of licensing selected technologies in order to expand the reach of our technologies and to generate licensing revenues.

We rely on patent, trademark, trade secret and copyright laws both to protect our proprietary technology and to protect us against claims from others. We believe that we have direct intellectual property rights or rights

under licensing arrangements covering substantially all of our material technologies.

We consider patent protection to be particularly important to our businesses due to the emphasis on research and development and intense competition in our markets.



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## 5.9 SOURCES AND AVAILABILITY OF MATERIALS

We make significant purchases of electronic components and other materials from many sources. While we have experienced some shortages in components and other commodities commonly used across the industry, we have generally been able to obtain sufficient materials and components from various sources around the world to meet our needs. We continue to develop and maintain alternative sources of supply for essential materials and components.

We do not have a concentration of sources of supply of materials, labor or services that, if suddenly eliminated, could severely impact our operations, and we believe that we will be able to obtain sufficient materials and components from U.S., European and other world market sources to meet our production requirements.

## 5.10 SEASONALITY

The quarterly pattern in our 2008 revenues – a weak first quarter, a very strong fourth quarter and second and third quarter results that fell between those two extremes – generally reflects the underlying pattern of service providers' capital expenditures. That same general pattern is likely to be present in service providers' capital expenditures in 2009, although the global recession is very likely to have an impact on that pattern. Specifically, first

quarter weakness may be magnified as service providers enter the year with very cautious capital expenditure plans, reflecting their uncertainty about the ultimate severity of the recession. The global economy will continue to have an impact on seasonality beyond the first quarter, but that impact will ultimately depend on how the recession unfolds in 2009.

## 5.11 OUR ACTIVITIES IN CERTAIN COUNTRIES

We operate in more than 130 countries, some of which have been accused of human rights violations, are subject to economic sanctions by the U.S. Treasury Department's Office of Foreign Assets Control or have been identified by the U.S. State Department as state sponsors of terrorism. Some U.S.-based pension funds and endowments have announced their intention to divest the securities of companies doing business in some of these countries and some state and local governments have adopted, or

are considering adopting, legislation that would require their state and local pension funds to divest their ownership of securities of companies doing business in those countries. Our net revenues in 2008 attributable to these countries represented less than one percent of our total net revenues. Although U.S.-based pension funds and endowments own a significant amount of our outstanding stock, most of these institutions have not indicated that they intend to effect such divestment.

## 5.12 ENVIRONMENTAL MATTERS

We are subject to national and local environmental and health and safety laws and regulations that affect our operations, facilities and products in each of the jurisdictions in which we operate. These laws and regulations impose limitations on the discharge of pollutants into the air and water, establish standards for the treatment, storage and disposal of solid and hazardous waste and may require us to clean up a site at significant cost. In the U.S., these laws often require parties to fund remedial action regardless of fault. We have incurred significant costs to comply with these laws and regulations and we expect to continue to incur significant compliance costs in the future.

Remedial and investigatory activities are under way at numerous current and former facilities owned or operated by the respective historical Alcatel and Lucent entities. In addition, Lucent was named a successor to AT&T as a potentially responsible party at numerous Superfund sites pursuant to the

U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") or comparable state statutes in the United States. Under a Separation and Distribution Agreement with AT&T and NCR Corp. (a former subsidiary of AT&T), Lucent is responsible for all liabilities primarily resulting from or relating to its assets and the operation of its business as conducted at any time prior to or after the separation from AT&T, including related businesses discontinued or disposed of prior to its separation from AT&T. Furthermore, under that Separation and Distribution Agreement, Lucent is required to pay a portion of contingent liabilities in excess of certain amounts paid out by AT&T and NCR, including environmental liabilities. In Lucent's separation agreements with Agere and Avaya, those companies have agreed, subject to certain exceptions, to assume all environmental liabilities related to their respective businesses.

It is our policy to comply with environmental requirements and to provide workplaces for employees that are safe and environmentally sound and that will not adversely affect the health or environment of communities in which we operate. Although we believe that we are in substantial compliance with all environmental and health and safety laws and regulations and that we have obtained all material environmental permits required for our operations and all material environmental authorizations required for our products, there is a risk that we may have to incur expenditures significantly in excess of our expectations to cover environmental liabilities, to maintain compliance

with current or future environmental and health and safety laws and regulations or to undertake any necessary remediation. The future impact of environmental matters, including potential liabilities, is often difficult to estimate. Although it is not possible at this stage to predict the outcome of the remedial and investigatory activities with any degree of certainty, we believe that the ultimate financial impact of these activities, net of applicable reserves, will not have a material adverse effect on our consolidated financial position or our income (loss) from operating activities.

## 5.13 HUMAN RESOURCES

### Our approach

Human capital is critical: it can significantly impact a company's long-term growth strategy. Our human resources teams forecast talent needs for current and future requirements to shape our business strategy but also to ensure that we have the associated skills/competency sets. In 2008, our main missions were to:

- provide expertise and leadership support in all functional areas of human resources;
- define and deploy human capital strategies that support and align with business initiatives at corporate, organizational and local levels;
- develop and enhance individual and organizational capabilities to achieve performance excellence.

### Supporting diversity and equal opportunities

In today's global environment we believe it is crucial to understand the cultures, customs and needs of employees, customers and regional markets. As a global enterprise, we actively seek to ensure that our employee body reflects the diversity of our business environment.

We are committed to recognizing and respecting the diversity of people and ideas, and to ensuring equal opportunities for all.

With a presence in 130 countries, we offer employees the opportunity to gain exposure to very different cultures and ways of working. At the end of 2008, we launched a "Talent Diversity" review in each organization aimed at renewing teams and fostering cultural diversity as a key competency.

### Promoting the development of talents as a tool for retention

We focus our attention on attracting and keeping the people with the greatest ability and potential to deliver our business strategy. We have launched a large set of HR programs and tools – like the Global Performance Management Process (GPMP) and the Organization and People Reviews (OPRs) – to ensure we continue to improve our ability to identify talents, enhance our employees' experience and provide appropriate development opportunities and prospects to progress our employees' career with us. Through the GPMP, employees receive concrete, constructive feedback on their individual performance and have the opportunity to review their professional development plans. In 2008, 85% of managers and professionals set performance goals based on the GPMP. The OPRs help us to identify and nurture internal talents for strategic roles or succession plans.

With 20 centers worldwide accredited through a combined internal and external process, the Alcatel-Lucent University helps employees succeed in their current jobs and adapt to future requirements. The University offers qualification programs in key areas, such as project management, sales, services, leadership development and IP transformation, complemented by structured learning solutions developed to strengthen key business competencies. In 2008, our employees averaged 18 hours of training. Overall, nearly 55,000 employees received formal training in 2008.

### Encouraging mobility

We actively encourage mobility across borders – whether geographical, organizational or functional – to develop diversity and teamwork and express our international culture. As a cornerstone of our social policy, this is a powerful tool in our employee's professional evolution, and at December 31, 2008, we had 766 employees engaged in such rotations. In 2009, we will implement a new HR objective to rotate 80% of our high-potential employees through such an assignment within three years.

### Implementing a competitive and harmonized compensation policy

We are committed to providing our employees with a total compensation package that, in each country, is competitive with those of major companies in the technology sector. Our compensation structure reflects both individual and company performance. Our policy is for all employees to be fairly paid regardless of gender, ethnic origin or disability. Beginning in 2008, we have been engaging in a single, unified review process throughout the entire company.

We also have a long-term remuneration policy involving equity ownership. In December 2008, our Board decided that, in 2009, in an effort to give our employees a stake in our future, all employees will be eligible to receive a grant of 400 options, to the extent legally possible.

### Managing workforce reduction

In December 2008, we announced that we would institute cost reductions designed to reduce our break-even point by € 1 billion per year in both 2009 and 2010. As a part of these initiatives, we analyzed the Group's organizational structure and decided to reduce approximately 1,000 managers and approximately 5,000 contractors (as defined in "Contractors", below) worldwide in order to simplify our reporting structure and ensure better operational controls. We carry out all workforce reductions in accordance with local rules and regulations, both in terms of the method and the measures.

## Fostering a dialogue with employees

We are committed to fostering an open dialogue with employees on important decisions directly affecting them. The objective of our European Committee (ECID) is to provide information and facilitate an exchange of views between senior management and European employee representatives. The committee is composed of 30 members including representatives from the various European countries where we operate and meets at least twice a year depending on company business. In 2008, the European Committee met three times and various interim meetings were also held. In 2009, members from Eastern European countries will join the ECID

## Accompanying the transformation

Our human resources teams are playing a key role in supporting our strategic transformation. Related initiatives include a strong emphasis on people and organizational aspects with specific attention to instilling

emphasis on customer care, speed, accountability, innovation, trust and empowerment in our day-to-day business activities.

## Employees

At December 31, 2008, we employed 77,717 people worldwide, compared with 76,410 at December 31, 2007 and 89,370 at December 31, 2006.

The tables below show the geographic locations and the business segments in which our employees worked on December 31, 2006 through 2008.

Total number of employees and the breakdown of this number by business segment is determined by taking into account all of the employees at year-end who worked for fully consolidated companies and a percentage of those employees at year-end who worked for subsidiaries consolidated using proportionate consolidation based on the percentage of interest in such companies.

	Carrier	Enterprise	Services	Other	Total Group
2006 <sup>(1)</sup>	45,444	6,026	28,080	9,819	89,370
2007	39,428	6,779	29,033	1,170	76,410
2007 Restated <sup>(2)</sup>	39,011	7,427	28,902	1,070	76,410
<b>2008</b>	<b>36,646</b>	<b>7,832</b>	<b>32,099</b>	<b>1,140</b>	<b>77,717</b>

(1) Including 1,631 employees that were part of the acquisition of UMTS technologies from Nortel as of December 31, 2006; 29,861 employees from Lucent in connection with the business combination of Lucent as of November 30, 2006, and 8,862 employees related to discontinued businesses transferred to Thales as described in Note 3 to our consolidated financial statements included elsewhere in this document.

(2) In 2008, certain shared support staff in the Carrier and Services segments were transferred to Enterprise with a corresponding decrease in the support staff of the other segments, mainly Carrier. In 2008, employees from Other were transferred to other segments as part of the reduction of the corporate headquarters activities of Lucent.

The breakdown by geographical areas below gives the headcount of employees who worked for fully consolidated companies and companies in which we own 50% or more of the equity. The impact of taking into account the headcount of subsidiaries consolidated using proportionate consolidation only for the percentage of interests in these entities is isolated

in the "proportionate consolidation impact" column. The impact is related to the joint ventures with Finmeccanica in the space business, which were transferred to Thales as explained in Note 3 to our 2008 consolidated financial statements included elsewhere in this document.

	France	Other Western Europe	Rest of Europe	Asia Pacific	USA	Rest of the World	Proportionate consolidation impact	Total Group
2006	17,071	20,632	3,108	14,589	23,647	12,219	(1,896) <sup>(1)</sup>	89,370
2007	12,109	14,382	3,168	14,083	21,946	10,722		76,410
<b>2008</b>	<b>10,942</b>	<b>13,958</b>	<b>3,664</b>	<b>15,210</b>	<b>20,360</b>	<b>13,583</b>		<b>77,717</b>

(1) This consolidation impact is a reduction of 1,411 in our employee headcount in France, and a reduction of 485 in the rest of Europe.

Membership of our employees in trade unions varies from country to country. In general, relations with our employees are satisfactory.

## Temporary workers and contractors

Separate from our employees, we resort to temporary workers and contractors.

### Temporary Workers

The average number of temporary workers (that is, in general, employees of third parties seconded to perform work at our premises due, for example, to a short-term shortfall in our employees or in the availability of a certain expertise) in January and February 2008 was 2,442.

## Contractors

Starting in March 2008, we have placed our focus on the notion of "contractors," which includes not only temporary workers, but also the number of individuals at third parties performing work subcontracted by us on a "Time & Materials" basis, when such third parties' cost to us is almost exclusively a function of the time spent by their employees in performing this work. At December 31, 2008, we had 11,265 contractors.

## Employee share ownership, stock option plans and performance shares

### Profit-sharing agreements

The companies of the Group have set up profit-sharing agreements and employee savings plans based on the recommendations of senior management.

Our foreign subsidiaries establish profit-sharing plans for their employees in accordance with local laws applicable to them, when such laws allow them to do so.

### Capital increases reserved for employees

Since 2001, we have not effected any capital increases reserved for employees.

### Performance shares and stock option grant policy

Our policy in this area is to remain competitive worldwide in light of our competitors' practices. Upon recommendation of the Compensation Committee, our Board determines the number of options or shares to be granted and the conditions applicable to the grants based on a review of the equity compensation policies of companies in the same business sector, the practices in each country and the level of responsibility of the beneficiary.

Our stock option plans were created to give those senior executives and employees who, either directly or indirectly, actively participate in generating the Group's earnings, a stake in the Group's increased profitability. The options are therefore a way of giving beneficiaries a long-term interest in the Group's earnings.

Moreover, to ensure that the Group's activities and the employees who are most essential to its development remain stable under all circumstances, in the event a third party tries to launch a takeover of Alcatel-Lucent, a tender offer for our shares or a procedure to de-list our shares, our Board of Directors may decide to immediately vest all outstanding options (excluding those held by individuals who were Directors on the option grant date or on the date of the Board's decision) regardless of any restricted period.

The group of beneficiaries of stock options grew considerably following the business combination with Lucent, changing from 8,001 beneficiaries in 2006 to 14,415 in 2008, with the major portion of the options being granted to employees of our U.S. subsidiaries, in accordance with the compensation policies prevailing in the United States.

### Stock options

The main policies regarding the grant of stock options established in 2000 and 2001 are retained.

Our Board of Directors received an authorization at the Shareholder's Meeting held on May 30, 2008 to grant Alcatel Lucent stock options representing up to 4% of the company's capital for a period of 38 months. The exercise price for option grants does not include any discount or reduction from the average opening share price for Alcatel-Lucent shares on the Euronext™ market for the 20 trading days preceding the Board meeting at which the options are granted, but such price cannot be lower than the € 2 nominal share value.

Under our annual stock option plans, one-fourth of the number of options granted to beneficiaries vest on the first anniversary of the

date of grant and 1/48 of the options granted vest at the end of each subsequent month.

Options can only be exercised when vested (subject to the existence of holding periods that may be imposed by local laws). Therefore beneficiaries who are employees of a subsidiary with its registered office in France cannot exercise their options before the end of the holding period set by Article 163 bis C of the French tax code, which is currently four years from the date of grant. All vested options must be exercised no later than the eighth anniversary of the date of grant.

### Performance conditions for option grants applicable to members of our Management Committee

Options granted to members of our Management Committee are subject to the same conditions as those governing all other beneficiaries, as well as the following conditions.

In compliance with the commitment made by our Board of Directors at the Annual Shareholders' Meeting held on May 30, 2008, options granted to Management Committee members are also subject to an additional exercisability condition linked to the performance of Alcatel-Lucent shares.

The share price of Alcatel-Lucent shares will be measured yearly in relation to a representative sample of 14 peer group companies that are solution and service providers in the telecommunications equipment sector (this figure may be revised in line with market changes).

The number of vested stock options that will be exercisable will be measured annually in proportion to our stock price's performance as compared to our peer group. This annual measurement will occur over a four year period, beginning from the grant date. At the meeting closest to the end of each twelve month period, our Board, after consultation with the Compensation Committee, will determine whether or not the stock performance target has been met for the prior year, based on an annual study conducted by a third party consulting firm.

### Performance shares

Our Board of Directors received an authorization at the Shareholders' Meeting held on May 30, 2008, to grant up to 1% of the company's capital in Alcatel-Lucent performance shares for a period of 38 months.

At the time of the grant, our Board must set the vesting criteria, including the service conditions applicable to the beneficiary and the Group performance targets applicable to the Group throughout the vesting period.

A beneficiary who is an employee and/or Executive Officer of a company within the Group with its registered office in France will vest in his/her performance shares at the end of a two-year vesting period. Such performance shares will be available following the expiration of a two year holding period. For a beneficiary who is an employee and/or Executive Officer of a company within the Group with its registered office outside of France, the vesting period is four years, with no additional holding period.

Evaluation of the Group's performance must be based on the same criteria as those used for the Global Annual Incentive Plan. For each of the criteria, quantified targets will be fixed at the start of each year for the current fiscal year.

At the end of the two or four year vesting period, so long as the beneficiary has been an employee of the Group for two years (with limited exceptions) the number of performance shares that will vest will depend on the achievement, based on an average, of the annual Group performance targets set by our Board for the two or four year period.

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## 2009 grants

The Board of Directors has decided to extend its performance share grant policy in 2009, by proceeding with a mixed grant of performance shares and stock options in favor of the beneficiaries.

In this context, the Board of Directors has also decided to make an exceptional grant of 400 stock options to each employee of the Group.

### Performance shares

On March 18, 2009, our Board of Directors authorized the grant of up to 6,982,956 Alcatel Lucent Performance shares to 11,076 employees and managers of the Group, subject to the satisfaction of the service and performance conditions described above. This grant includes the grant of a maximum of 866,658 performance shares to 13 members of the Management Committee, representing 12.4% of the annual grant, and a maximum of 200,000 Performance shares granted to our Chairman of the Board of Directors as further described in Section 7.5 – “Compensation”.

The Board of Directors fixed the performance targets on the basis of the criteria used for the Global Incentive Annual Incentive Plan (AIP) applicable to approximately 43,000 employees in the Group, namely the evolution of Revenues, Operating income and Operating cash flow minus restructuring cash outlays and capital expenditures.

The earliest date on which these shares will be available to the beneficiaries is March 18, 2013.

### Exceptional plan for Group employees

On March 18, 2009, our Board of Directors authorized the grant of 400 stock options to all of our employees, subject to compliance with the relevant laws of the countries where the beneficiaries work. This exceptional plan represents 30,646,400 stock options to 76,641 employees in the Group. The employees will be able to subscribe for shares at the price of € 2 per share, which is equal to the nominal share value.

These options will vest, subject to the service conditions, in two successive tranches, at 50% per year over two years.

After the end of a holding period, which varies depending on the country in which the employer of the beneficiary has its registered office (four years for beneficiaries who are employees of a company that has its registered office in France) these options are exercisable until March 17, 2017.

### Annual stock option plan

On March 18, 2009, our Board of Directors authorized under our annual stock option plan, the grant of 21,731,110 stock options to 11,112 Group employees and managers at an exercise price of € 2 per share, which is equal to the nominal share value.

After the end of holding period, which varies depending on the country in which the employer of the beneficiary has its registered office (four years for beneficiaries who are employees of a company that has its registered office in France), these options are exercisable until March 17, 2017.

This grant includes a total of 3,600,000 options granted to the 14 members of the Management Committee including the CEO, representing 6.9% of the annual stock option plan, and 3.9% of the total of options granted in March 2009 (52 million). These options were granted at the same exercise

price of € 2 per share and are subject to the general conditions of the annual plan in addition to the specific condition applicable to the members of the Management Committee, namely the share performance condition described above.

## 2008 grants

### Performance shares

At meetings held on September 17 and October 29, 2008, our Board of Directors authorized the grant of a maximum of 100,000 Alcatel-Lucent performance shares to Mr. Camus and 250,000 Alcatel-Lucent performance shares to Mr. Verwaayen, subject to the vesting service and Group performance conditions as described in Section 7.5 “Compensation”.

### Stock option plans

On March 25 and April 4, 2008, our Board of Directors authorized under our annual stock option plan, the grant of 48,787,716 stock options to 14,415 Group employees and managers at an exercise price of € 3.80, which corresponds to the average opening share price for the 20 trading days preceding the Board meeting held on March 25, 2008.

A total of 2,850,000 of these options were granted to the members of the Management Committee at the time, representing 5.8% the total number of options granted. These options are subject to the general conditions of the annual plan.

After the end of holding period, which varies depending on the country in which the employer of the beneficiary has its registered office (four years for beneficiaries who are employees of a company that has its registered office in France), the options are exercisable until March 24, 2016.

Our Board of Directors, meeting on September 17, 2008, granted Mr. Verwaayen 250,000 stock options, subject to Group performance targets, at an exercise price of € 3.90 which corresponds to the average opening share price for the 20 trading days preceding the Board meeting. The performance conditions are the same as those applicable to the members of Management Committee as described above and only are applicable to 125,000 of the options granted (see Section 7.5 “Compensation” for further details.)

During the course of 2008, our CEO, exercising the power delegated to him, granted 2,276,100 stock options to certain newly hired Group employees. The exercise conditions are consistent with those applicable to the annual stock option plan, including performance conditions for the beneficiaries who are members of the Management Committee. The employees will be able to subscribe shares at the price of € 4.40 per share under the July 1, 2008 plan and € 2 per share under the December 31, 2008 plan.

### Information concerning the largest grants or exercises

In compliance with the provisions of Article L. 225-184 of the French Commercial Code, the table below provides information for fiscal year 2008

relating to the employees of the Group (other than the Chairman or the CEO) who received the 10 largest amounts of option grants and were issued the 10 largest numbers of shares upon exercise of options.

10 largest numbers of options	Number of stock options granted/issued	Weighted average price	Plan	Specific provisions
10 largest stock option grants	7,100,000	3.48	March 25, 2008 April 2, 2008 Dec 31, 2008	Performance conditions for Management Committee members
10 largest option exercises	31,205	1.08	Between 11/ November 1, 2000 and March 25, 2008	

### Summary of outstanding options

On December 31, 2008, before the expiration of the stock option plan adopted on March 7, 2001, 177,898,780 stock options were outstanding, representing 7.7% of our existing share capital, each option giving the right to one Alcatel-Lucent share. On December 31, 2008, the March 7, 2001 plan represented 25.1 million outstanding stock options.

Taking into account the stock option grants on March 18, 2009 mentioned above, the total number of outstanding options is 204.8 million, representing 8.85% of our existing share capital (before taking into account the issuance of shares corresponding to these options). In fiscal year 2009, stock options granted under seven plans will expire, representing 13.5 million options. These options were granted in 2001 at exercise prices between € 9 and € 41. At March 18, 2009, the situation is as follows:

Grant year <sup>(1)</sup>	Exercise price	Outstanding options
2001	from € 9 to € 41	13,549,181
2002	from € 3.2 to € 17.2	508,745
2003	from € 6.7 to € 11.2	12,702,330
2004	from € 9.8 to € 13.2	13,662,806
2005	from € 8.8 to € 11.41	13,697,445
2006	from € 9.3 to € 12	14,655,635
2007	from € 6.3 to € 10	35,588,202
2008	from € 2 to € 4.40	48,448,834
2009	€ 2	52,377,510
<b>TOTAL FOR PLANS</b>		<b>205,190,688</b>

(1) This summary does not take into account options cancelled from January 1, 2009 until March 18, 2009.



***Stock options granted by foreign subsidiaries***

Until 2000, Alcatel-Lucent Holding Inc., formerly Alcatel USA Inc., had established its own option plans for executives of our U.S. and Canadian companies which options were exercisable for Alcatel-Lucent ADSs. Under these plans, at December 31, 2008, 7,641,471 options remain outstanding.

Option plans of foreign companies acquired by Alcatel-Lucent are exercisable for Alcatel-Lucent shares or ADSs, in an amount adjusted for the exchange ratio used during the acquisition.

The details at December 31, 2008 of the outstanding options granted by U.S. and Canadian companies are set forth in Note 23 of the consolidated financial statements.

When the options are exercised, we use treasury shares (for the Packet Engines, Xylan, Internet Devices Inc., DSC and Genesys acquisitions), or we issue new ADSs (for the Lucent Technologies Inc., Astral Point Communications Inc., Telera, iMagic TV, TiMetra Inc. and Spatial Wireless acquisitions).

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# 6 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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## FORWARD-LOOKING INFORMATION

This Form 20-F, including the discussion of our Operating and Financial Review and Prospects, contains forward-looking statements based on beliefs of our management. We use the words “anticipate”, “believe”, “expect”, “may”, “intend”, “should”, “plan”, “project”, or similar expressions to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results to be materially different, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products, lack of acceptance of new products or services and changes in business strategy. Such forward-looking statements include, but are not limited to, the forecasts and targets set forth in this Form 20-F, such as the discussion in Chapter 4 – “Information about the Group” and below in this Chapter 6 under the heading “Outlook for 2009” with respect to (i) our projection that the 2009 global telecommunications equipment and related

services market should decline between 8% and 12% at a constant €/U.S. \$ exchange rate, (ii) our expectation that we will maintain a stable share of that market, (iii) our plan to reduce our break-even point by € 1 billion per year for each of 2009 and 2010 by improving gross margin, enhancing R&D efficiency and materially reducing SG&A expenses, and (iv) our expectation that we will achieve an operating profit before restructuring costs, impairment of assets, gain/loss on disposal of consolidated entities and post-retirement benefit plan amendments (excluding the negative non-cash impacts of Lucent’s purchase price allocation) around break-even in 2009, under the heading “Liquidity and Capital Resources” with respect to (v) the expected level of restructuring costs and capital expenditures in 2009, and under the heading “Contractual obligations and off-balance sheet contingent commitments” with respect to (vi) the amount we would be required to pay in the future pursuant to our existing contractual obligations and off-balance sheet contingent commitments.

## PRESENTATION OF FINANCIAL INFORMATION

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes presented elsewhere in this document. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. IFRS, as adopted by the European Union, differs in certain respects from the International Financial Reporting Standards issued by the International Accounting Standards Board. However, our consolidated financial statements for the years presented in this document in accordance with IFRS would be no different if we had applied International Financial Reporting Standards issued by the International Accounting Standards Board. References to “IFRS” in this Form 20-F refer to IFRS as adopted by the European Union.

On November 30, 2006, historical Alcatel and Lucent Technologies Inc., since renamed Alcatel-Lucent USA, Inc. (“Lucent”) completed a business combination pursuant to which Lucent became a wholly owned subsidiary of Alcatel. On December 1, 2006, we and Thales signed a definitive agreement for the acquisition by Thales of our ownership interests in two joint ventures in the space sector created with Finmeccanica and our railway signaling business and integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services. In

January 2007, the transportation and security activities were contributed to Thales, and in April 2007, we completed the sale of our ownership interests in the two joint ventures in the space sector.

As a result of the Lucent transaction, our 2006 consolidated financial results include (i) 11 months of results of only historical Alcatel and (ii) one month of results of the combined company. As a result of Thales transaction, our 2006 financial results pertaining to the businesses transferred to Thales are treated as discontinued operations.

In addition, our 2006 and 2007 financial results take into account the effect of the change in accounting policies on employee benefits, due to the application of the interpretation IFRIC 14, with retroactive effect from January 1, 2006 as described in the following section.

As a result of the purchase accounting treatment of the Lucent business combination required by IFRS, our results for 2008, 2007 and 2006 included several negative, non-cash impacts of purchase accounting entries.

## CHANGES IN ACCOUNTING STANDARDS AS OF JANUARY 1, 2008

As of January 1, 2008, Alcatel-Lucent applied (with retroactive effect as of January 1, 2006) IFRIC 14, which is an interpretation of IAS19, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction."

The "asset ceiling" rule of IAS 19 limits the measurement of a defined benefit asset to 'the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognized gains and losses'. Questions have arisen about when refunds or reductions in future contributions should be considered available, particularly when a minimum funding requirement exists.

In the United Kingdom, for example, minimum funding requirements exist to improve the security of the post-employment benefit obligations to participants of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.

Further, the limit on the measurement of the value of a defined benefit asset may cause the minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the value of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

The first application of this new interpretation had a negative impact on our shareholder's equity as of December 31, 2008 of € 91 million (€ 45 million as of December 31, 2007 and € 82 million as of December 31, 2006) in connection with our pension plans in the United Kingdom.

## CRITICAL ACCOUNTING POLICIES

Our Operating and Financial Review and Prospects is based on our consolidated financial statements, which are prepared in accordance with IFRS as described in Note 1 to those consolidated financial statements. Some of the accounting methods and policies used in preparing our consolidated financial statements under IFRS are based on complex and subjective assessments by our management or on estimates based on past experience and assumptions deemed realistic and reasonable based on the circumstances concerned. The actual value of our assets, liabilities and shareholders' equity and of our earnings could differ from the value derived from these estimates if conditions changed and these changes had an impact on the assumptions adopted.

We believe that the accounting methods and policies listed below are the most likely to be affected by these estimates and assessments:

### Valuation allowance for inventories and work in progress

Inventories and work in progress are measured at the lower of cost or net realizable value. Valuation allowances for inventories and work in progress are calculated based on an analysis of foreseeable changes in demand, technology or the market, in order to determine obsolete or excess inventories and work in progress.

The valuation allowances are accounted for in cost of sales or in restructuring costs depending on the nature of the amounts concerned.

<i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Valuation allowance for inventories and work in progress on construction contracts	(654)	(514)	(378)
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Impact of inventory and work in progress write-downs in income (loss) before income tax, related reduction of goodwill and discontinued operations	(285)	(186)	(77)

## Impairment of customer receivables

An impairment loss is recorded for customer receivables if the present value of the future receipts is below the nominal value. The amount of the impairment loss reflects both the customers' ability to honor their debts

and the age of the debts in question. A higher default rate than estimated or the deterioration of our major customers' creditworthiness could have an adverse impact on our future results.

<i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Accumulated impairment losses on customer receivables (excluding construction contracts)	(207)	(187)	(192)
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Impact of impairment losses in income (loss) before income tax, related reduction of goodwill and discontinued operations	(17)	(3)	(18)

## Capitalized development costs, other intangible assets and goodwill

### Capitalized development costs

<i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Capitalized development costs, net	578	596	501

The criteria for capitalizing development costs are set out in Note 1f to our consolidated financial statements included elsewhere in this annual report. Once capitalized, these costs are amortized over the estimated useful lives of the products concerned (3 to 10 years).

We must therefore evaluate the commercial and technical feasibility of these development projects and estimate the useful lives of the products resulting from the projects. Should a product fail to substantiate these assumptions, we may be required to impair or write off some of the capitalized development costs in the future.

Impairment losses for capitalized development costs of € 135 million were accounted for in the fourth quarter of 2008 mainly related to a change in our WiMAX strategy, by focusing our WiMAX efforts on supporting fixed

and nomadic broadband access applications for providers. This impairment is presented on the specific line item "Impairment of assets" in the income statement.

Impairment losses for capitalized development costs of € 41 million were accounted for in 2007 mainly related to the UMTS (Universal Mobile Telecommunications Systems) business.

Impairment losses of € 104 million and write-offs amounting to € 197 million were accounted for in capitalized development costs in 2006, and were mainly related to the discontinuance of product lines following the acquisition of UMTS technologies from Nortel and the business combination with Lucent.

### Other intangible assets and Goodwill

<i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Goodwill, net	4,215	7,328	10,891
Intangible assets, net <sup>(1)</sup>	2,567	4,230	5,441
<b>TOTAL</b>	<b>6,782</b>	<b>11,558</b>	<b>16,332</b>

(1) Including capitalized development costs, net.

Goodwill amounting to € 8,051 million and intangible assets amounting to € 4,813 million were accounted for in 2006 as a result of the Lucent business combination as described in Note 3 to our consolidated financial statements. Using market-related information, estimates (primarily based

on risk-adjusted discounted cash flows derived from Lucent's management) available at the time and judgment, an independent appraiser determined the fair values of the net assets acquired from Lucent, and in particular those relating to the intangible assets acquired.

As discussed in more detail in Notes 7, 12 and 13 to our consolidated financial statements, impairment losses of € 4,545 million were accounted for in 2008 mainly related to the CDMA (€ 2,533 million), Optics (€ 1,019 million), Multicore (€ 300 million) and Applications (€ 339 million) business divisions, each of which are considered to be groups of Cash Generating Units ("CGU") at which level impairment tests of goodwill are performed.

An impairment loss of € 2,832 million was accounted for in 2007, of which € 2,657 million was charged to goodwill and € 175 million was charged to other intangible assets, mainly for the CDMA, IMS business divisions and UMTS business.

An impairment loss of € 40 million on intangible assets and € 233 million in write-offs were accounted for in 2006 on the UMTS business.

The recoverable values of our goodwill and intangible assets, as determined for the impairment tests performed by the Group, are based on key assumptions which could have a significant impact on the consolidated financial statements. These key assumptions include, among other things, the following elements:

- discount rate; and
- projected cash-flows; which are based on the successful implementation of the strategic plan publicly announced on December 12, 2008 and a nominal rate of growth of our revenues in 2010.

The discount rate used for the additional impairment test performed during the fourth quarter of 2008 was the Group's weighted average cost of capital ("WACC") of 12.0%. For the annual impairment tests of 2008 and 2007, the rate used was 10% and 9.5% for 2006. The same rate of 10% was used for the additional impairment test performed in December 2007. These discount rates are after-tax rates applied to after-tax cash flows. The use of such rates results in recoverable values that are identical to those that would be obtained by using, as required by IAS 36, pre-tax rates applied to pre-tax cash flows. Given the absence of comparable "pure player" listed companies for each group of Cash Generating Units, we do not believe that the assessment of a specific WACC for each product or market is feasible. A single discount rate has therefore been used on the basis that risks specific to certain products or markets have been reflected in determining the cash flows.

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have decreased or increased the 2008 impairment loss € 100 million and € 93 million, respectively.

As indicated in Note 1g to our consolidated financial statements, in addition to the annual goodwill impairment tests, impairment tests are carried out if we have indications of a potential reduction in the value of our intangible assets. Possible impairments are based on discounted future cash flows and/or fair values of the assets concerned. Changes in the market conditions or the cash flows initially estimated can therefore lead to a review and a change in the impairment losses previously recorded.

## Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", when events or changes in market conditions indicate that tangible or intangible assets may be impaired, such assets are reviewed in detail to determine whether their carrying value is lower than their recoverable value, which could lead to recording an impairment loss (recoverable value is the higher of value in use and fair value less costs to sell) (see Note 1g to our consolidated financial statements). Value in use is estimated by calculating the present value of the future cash flows expected to be derived from the asset. Fair value less costs to sell is based on the most reliable information available (market statistics, recent transactions, etc.).

When determining recoverable values of property, plant and equipment, assumptions and estimates are made, based primarily on market outlooks, obsolescence and sale or liquidation disposal values. Any change in these assumptions can have a significant effect on the recoverable amount and could lead to a revision of recorded impairment losses.

The planned closing of certain facilities, additional reductions in personnel and unfavorable market conditions have been considered impairment triggering events in prior years. Impairment losses of € 34 million have been recorded on property, plant and equipment in 2008. Impairment losses of € 94 million were accounted for during 2007 mainly related to the UMTS business and the planned disposal of real estate (no significant impairment losses were recorded in 2006).

## Provision for warranty costs and other product sales reserves

Provisions are recorded for (i) warranties given to customers on our products, (ii) expected losses at completion and (iii) penalties incurred in the event of failure to meet contractual obligations. These provisions are calculated based on historical return rates and warranty costs expensed as well as on estimates. These provisions and subsequent changes to the provisions are recorded in cost of sales either when revenue is recognized (provision for customer warranties) or, for construction contracts, when revenue and expenses are recognized by reference to the stage of completion of the contract activity. Costs and penalties ultimately paid can differ considerably from the amounts initially reserved and could therefore have a significant impact on future results.

**Product sales reserves***(in millions of euros)*

	December 31, 2008	December 31, 2007	December 31, 2006
Related to construction contracts <sup>(1)</sup>	186	147	70
Related to other contracts <sup>(2)</sup>	575	557	599
<b>TOTAL</b>	<b>761</b>	<b>704</b>	<b>669</b>

(1) See Note 18 to our consolidated financial statements, included in the amounts due to/from customers.

(2) See Note 27 to our consolidated financial statements.

For further information on the impact on 2008 income statement of the change in these provisions, see Notes 18 and 27 to our consolidated financial statements.

**Deferred taxes**

Deferred tax assets relate primarily to tax loss carry-forwards and to deductible temporary differences between reported amounts and the tax bases of assets and liabilities. The assets relating to the tax loss carry-

forwards are recognized if it is probable that the Group will generate future taxable profits against which these tax losses can be set off.

**Deferred tax assets recognized***(in millions of euros)*

	December 31, 2008	December 31, 2007	December 31, 2006
Related to the United States (including Lucent)	339 <sup>(2)</sup>	675 <sup>(1)</sup>	746
Related to France	339 <sup>(2)</sup>	404 <sup>(1)</sup>	372
Related to other tax jurisdictions	174	153 <sup>(1)</sup>	574
<b>TOTAL</b>	<b>852</b>	<b>1,232</b>	<b>1,692</b>

(1) Following the performance by the Group of the 2007 annual goodwill impairment test, a reassessment of deferred taxes resulted in the reduction of deferred tax assets recorded compared to the situation as of December 31, 2006.

(2) Following the performance by the Group of an additional impairment test of goodwill during the fourth quarter of 2008, a reassessment of deferred taxes resulted in the reduction of deferred tax assets recorded in the United States and in France compared to the situation as of December 31, 2007.

Evaluation of the Group's capacity to utilize tax loss carry-forwards relies on significant judgment. We analyze past events and the positive and negative elements of certain economic factors that may affect our business in the foreseeable future to determine the probability of our future utilization of these tax loss carry-forwards, which also consider the factors indicated in Note 1n to our consolidated financial statements. This analysis is carried out regularly in each tax jurisdiction where significant deferred tax assets are recorded.

If future taxable results are considerably different from those forecast that support recording deferred tax assets, we will be obliged to revise downwards or upwards the amount of the deferred tax assets, which would have a significant impact on our balance sheet and net income (loss).

As a result of the business combination with Lucent, € 2,395 million of net deferred tax liabilities were recorded as of December 31, 2006, resulting from the temporary differences generated by the differences between the fair value of assets and liabilities acquired (mainly intangible assets such as acquired technologies) and their corresponding tax bases. These deferred tax liabilities will be reduced in our future income statements as and when such differences are amortized. The remaining deferred tax liabilities related to the purchase price allocation of Lucent as of December 31, 2008 are € 957 million (€ 1,629 million as of December 31, 2007).

As prescribed by IFRSs, we had a twelve-month period to complete the purchase price allocation and to determine whether certain deferred tax assets related to the carry-forward of Lucent's unused tax losses that had not been recognized in Lucent's historical financial statements should be recognized in our financial statements. If any additional deferred tax assets attributed to the combined company's unrecognized tax losses existing as of the transaction date are recognized in our future financial statements,

the tax benefit will be included in our income statement. Goodwill will also be reduced, resulting in an expense, for that part of the deferred tax assets recognized relating to Lucent's tax losses.

On the other hand, as a result of the business combination, a historical Alcatel entity may consider that it becomes probable that it will recover its own tax losses not recognized as a deferred tax asset before the business combination. For example, an entity may be able to utilize the benefit of its own unused tax losses against the future taxable profit of the Lucent business. In such cases, we would recognize a deferred tax asset but would not include it as part of the accounting for the business combination. It could therefore have a positive impact on our future net results.

**Pension and retirement obligations and other employee and post-employment benefit obligations**

Our results of operations include the impact of significant pension and post-retirement benefits that are measured using actuarial valuations. Inherent in these valuations are key assumptions, including assumptions about discount rates, expected return on plan assets, healthcare cost trend rates and expected participation rates in retirement healthcare plans. These assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. In addition, discount rates are updated quarterly for those plans for which changes in this assumption would have a material impact on Alcatel-Lucent's results or shareholders' equity.

	2008	2007	2006
Weighted average expected rates of return on pension and post-retirement plan assets	7.04%	7.39%	7.35%
Weighted average discount rates used to determine the pension and post-retirement obligations	6.44%	5.54%	3.95%

The net effect of pension and post-retirement costs included in "income (loss) before tax, related reduction of goodwill and discontinued operations", was a € 246 million increase in pre-tax income during 2008 (€ 628 million increase in pre-tax income during 2007 and a € 50 million reduction in pre-tax income during fiscal 2006). Included in the € 246 million increase in 2008 is € 65 million booked as a result of certain changes to management retiree healthcare benefit plans (refer to Note 25f). Included in the € 628 million increase in 2007 was € 258 million booked as a result of certain changes to management retiree healthcare benefit plans (refer to Note 25f).

The weighted average expected rates of return on pension and post-retirement plan assets used to determine our pension and post-retirement credits are established at the beginning of each fiscal year. The decrease in the weighted average expected rates of return on pension and post-retirement plan assets between 2007 and 2008 is mainly due to the more conservative asset allocation at the end of 2007 (the Group reduced the exposure of its defined benefit pension plans to the equity markets in November 2007). Changes in the rates were generally due to adjustments in expected future returns based on studies performed by the Group's external investment advisors or/and to a change in the asset allocation. Even if the actual financial markets are very volatile, this assumption is required to be a long-term expected rate of return rather than a prediction of the immediate next period performance and is not reviewed every quarter. In addition, the rates that are used to determine the pension expense or income are applied on the opening fair value. For Alcatel-Lucent's U.S. plans, the pension expense or income is updated every quarter. Therefore, the fourth quarters 2008 expected return on plan assets (accounted for in financial income) for Alcatel-Lucent's U.S. plans is based on the fair value of plan assets at September 30, 2008, whereas the expected return on plan assets for Alcatel-Lucent's non U.S. plans is based on December 31, 2007 plan assets fair values. The interest cost associated with the plan liabilities is also impacted by the change in discount rates used to value the plan liabilities. The Group recognized a U.S. \$ 72 million decrease between the third and fourth quarter of 2008 of the net pension credit accounted for in "other financial income (loss)" (expected return on plan assets for Alcatel-Lucent's U.S. plans due to the decline of the plan assets fair values and expected change of the interest cost in relation with the decrease of the liability). We do not expect any significant change of the net pension credit accounted for in "other financial income (loss)" between the fourth quarter 2008 and the first quarter 2009.

Plans assets are invested in many different asset categories (such as cash, equities, bonds, real estate, private equity, etc...). In the quarterly update of plan asset fair values, approximately 80% are based on closing date fair values and 20% have a one to three month delay as the fair value of private equity, venture capital, real estate and absolute return investments are not available in a short period. This is standard practice in the investment management industry. Assuming that the December 31, 2008 actual fair value of private equity, venture capital, real estate and absolute return investments were 10% lower than the ones retained for accounting purposes as of December 31, 2008, this would result in a negative impact in equity of roughly € 250 million.

For the purposes of recognizing the net pension and post-retirement credit, the discount rates are determined at the beginning of each quarterly period (for significant plans). For the purposes of determining the plan obligations, these rates are determined at the end of each period. The Group plans to use a discount rate of 6.08% during fiscal 2009. Changes in the discount rate in 2007 and 2008 were due to increasing long-term interest rates. The discount rates also are somewhat volatile because they are set based upon the prevailing rates as of the measurement date. The discount rate used to determine the post-retirement benefit costs is slightly lower due to a shorter expected duration of post-retirement plan obligations as compared to pension plan obligations. A lower discount rate increases the plan obligations and the Alcatel-Lucent net pension and post-retirement credit and profitability, whereas a higher discount rate reduces the plan obligations and the Alcatel-Lucent net pension and post-retirement credit and profitability.

The expected rate of return on pension and post-retirement plan assets and the discount rate were determined in accordance with consistent methodologies, as described in Note 25 to our consolidated financial statements.

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have decreased or increased the 2008 net pension and post-retirement result by approximately € 28 million and € 34 million, respectively. A 0.5% increase or decrease in the expected return on plan assets would have increased or decreased the 2008 net pension and post-retirement result by approximately € 133 million.

The Group's U.S. companies have taken various actions to reduce their share of retiree health care costs, including the shifting or increases of certain costs to their retirees. The retiree health care obligations are determined using the terms of the current plans. Health care benefits for employees who retired from Lucent's predecessor prior to March 1, 1990 are not subject to annual dollar caps on Lucent's share of future benefit costs. The benefit obligation associated with this retiree group approximated 59% of the total U.S. retiree health care obligation as of December 31, 2008. Management employees who retired on or after March 1, 1990 have paid amounts above the applicable annual dollar caps on Lucent's share of future benefit costs since 2001.

Lucent's collective bargaining agreements were ratified during December 2004 and address retiree health care benefits, among other items. Lucent agreed to continue to subsidize these benefits up to the established cap level consistent with current actuarial assumptions. Except for costs attributable to an implementation period that ended on February 1, 2005, costs that are in excess of this capped level are being borne by the retirees in the form of premiums and plan design changes. Lucent also agreed to establish a U.S. \$ 400 million trust that is being funded by Lucent over eight years and managed jointly by trustees appointed by Lucent and the unions. This trust is currently being funded by Section 420 transfers from the overfunded Occupational Pension Plan. The trust is being used to mitigate the cost impact on retirees of premiums or plan design changes. The

agreements also acknowledge that retiree health care benefits will no longer be a required subject of bargaining between Lucent and the unions.

The amount of prepaid pension costs that can be recognized in our consolidated financial statements is limited to the sum of (i) the cumulative unrecognized net actuarial losses and past service cost, (ii) the present value of any available refunds from the plan, and (iii) any reduction in future contributions to the plan. As Lucent currently has the ability and intent to use eligible excess pension assets applicable to formerly represented retirees to fund certain retiree healthcare benefits for such retirees, such use has been considered as a reimbursement from the pension plan. The funded status of the formerly represented retiree health care obligation of € 1,479 million as of December 31, 2008 (€ 1,775 million as of December 31, 2007), the present value of Medicare Part D subsidies of approximately € 272 million as of December 31, 2008 (as this amount is currently netted in the retiree health care obligation – € 299 million as of December 31, 2007) and the present value of future service costs of € 61 million as of December 31, 2008 (€ 644 million as of December 31, 2007) have been considered in determining the asset ceiling limitation for Lucent's pension plans as of December 31, 2008.

The impact of expected future economic benefits on the pension plan asset ceiling is a complex matter. Based on preliminary estimates, as of the January 1, 2009 valuation date, there were approximately € 2.1 billion of pension plan assets that would be eligible for "collectively bargained" transfers to fund retiree health care costs for Lucent's formerly represented retirees (alternatively, € 2.5 billion would be available for "multi-year" transfers, which also require the plan to remain 120% funded during the transfer period). This amount should be sufficient to address the obligation arising from the healthcare being provided to Lucent's formerly represented retirees and as a result the Group should be able to utilize pension plan assets for Section 420 "collectively bargained" or "multi-year" transfers to fund all its health care obligations for Lucent's formerly represented retirees.

In December 2008, a Section 420 transfer of U.S. \$ 653 million occurred to cover 2008 and nine months of 2009 health care costs for Lucent's formerly represented retirees. This had an U.S. \$ 270 million positive impact in the consolidated statement of cash flows in the fourth quarter of 2008.

The impact of the different actuarial assumptions on the level of the funded status could have consequences on the Group's funding requirements and the determination of the asset ceiling, which would affect our ability to make Section 420 transfers in the future and use the overfunding of some pension plans to fund underfunded healthcare plans related to the same beneficiaries.

## Revenue recognition

As indicated in Note 10 to our consolidated financial statements, revenue is measured at the fair value of the consideration received or to be received when the Group has transferred the significant risks and rewards of ownership of a product to the buyer.

For revenues and expenses generated from construction contracts, we apply the percentage of completion method of accounting, provided certain specified conditions are met, based either on the achievement of contractually defined milestones or on costs incurred compared with total estimated costs. The determination of the stage of completion and the revenues to be recognized rely on numerous estimations based on costs incurred and acquired experience. Adjustments of initial estimates can, however, occur throughout the life of the contract, which can have significant impacts on our future net income (loss).

Although estimates inherent in construction contracts are subject to uncertainty, certain situations exist whereby management is unable to reliably estimate the outcome of a construction contract. These situations can occur during the early stages of a contract due to a lack of historical experience or throughout the contract as significant uncertainties develop related to additional costs, claims and performance obligations, particularly with new technologies. During the fourth quarter of 2007, as a result of cost overruns and major technical problems that we experienced in implementing a large W-CDMA contract, we determined that we could no longer estimate with sufficient reliability the final revenue and associated costs of such contract. As a result, we expensed all the contract costs incurred to that date, but we only recognized revenues to the extent that the contract costs incurred were recoverable. Consequently, revenues of € 72 million and cost of sales of € 298 million were recognized in 2007 in connection with this construction contract. The negative impact on income (loss) before tax, related reduction of goodwill and discontinued operations of changing from the percentage of completion method to this basis of accounting was € 98 million for 2007. No change in the accounting treatment occurred in 2008. If and when reliable estimates become available, revenue and costs associated with the construction contract will then be recognized respectively by reference to the stage of completion of the contract activity at the balance sheet date. Future results of operations may therefore be impacted.

For arrangements to sell software licenses with services, software license revenue is recognized separately from the related service revenue, provided the transaction adheres to certain criteria (as prescribed by the Statement of Position SOP 97-2 of the American Institute of Certified Accountants or AICPA, such as the existence of sufficient vendor-specific objective evidence ("VSOE") to determine the fair value of the various elements of the arrangement.

Some of our products include software that is embedded in the hardware at delivery. In those cases, where indications are that software is more than incidental, such as where the transaction includes software upgrades or enhancements, more prescriptive software revenue recognition rules are applied to determine the amount and timing of revenue recognition. As products with embedded software are continually evolving, as well as the features and functionality of the products driven by software components that are becoming more critical to their operation and success in the market, the Group is continually assessing the applicability of some of the guidance of the SOP 97-2 including whether software is more than incidental. Several factors are considered in making this determination including (i) whether the software is a significant focus of the marketing effort or is sold separately, (ii) whether updates, upgrades and other support services are provided on

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the software component and (iii) whether the cost to develop the software component of the product is significant in relation to the costs to develop the product as a whole. The determination of whether the evolution of our products and marketing efforts should result in the application of some of the SOP 97-2 guidance requires the use of significant professional judgment. Further, we believe that reasonable people evaluating similar facts and circumstances may come to different conclusions regarding the most appropriate accounting model to apply in this environment. Our future results of operations may be significantly impacted, particularly due to the timing of revenue recognition, if we change our assessment as to whether software is incidental, particularly if VSOE or similar fair value cannot be obtained with respect to one or more of the undelivered elements.

For product sales made through distributors, product returns that are estimated according to contractual obligations and past sales statistics are recognized as a reduction of sales. Again, if the actual product returns were considerably different from those estimated, the resulting impact on our future net income (loss) could be significant.

It can be difficult to evaluate our capacity to recover receivables. Such evaluation is based on the customers' creditworthiness and on our capacity to sell such receivables without recourse. If, subsequent to revenue recognition, the recoverability of a receivable that had been initially considered as likely becomes doubtful, a provision for an impairment loss is then recorded (see Note 2b to our consolidated financial statements).

Alcatel-Lucent had a fire in a newly-built factory containing new machinery. The non recoverables assets having a net book value of € 4 million were written off as of September 30, 2008 representing an equivalent negative impact on cost of sales in 2008. The cost of the physical damage and business interruption are insured and will give right to an indemnity claim, the amount of which is currently being assessed by our insurers. This indemnity will be accounted for as other revenue once virtually certain and a reliable estimates are available which could take up to one to two years to determine.

## 6.1 OVERVIEW OF 2008

In 2008, service providers continued to focus their equipment spending on next-generation technologies that will allow them to offer new services and/or reduce their operating expenses. At the same time, the economic environment grew considerably more challenging in the latter part of 2008 as the recession in the U.S. deepened and spread elsewhere around the world. In addition to overall market and negative economic forces, our business was also affected by internal developments, including key changes to our senior leadership team, adoption of a new strategic focus and a realignment of our operations.

The transformation of carrier networks to all-IP (internet Protocol) architecture remains a key objective of service provider spending on next-generation technology, as the new architecture allows carriers to consolidate multiple networks while delivering new multimedia and triple play services

## Purchase price allocation of a business combination

In a business combination, the acquirer must allocate the cost of the business combination at the acquisition date by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities at fair value at that date. The allocation is based upon certain valuations and other studies performed with the assistance of outside valuation specialists. Due to the underlying assumptions made in the valuation process, the determination of those fair values requires estimations of the effects of uncertain future events at the acquisition date and the carrying amounts of some assets, such as fixed assets, acquired through a business combination could therefore differ significantly in the future.

As prescribed by IFRS 3, if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination is effected, the acquirer must account for the business combination using those provisional values and has a twelve-month period to complete the purchase price allocation. Any adjustment of the carrying amount of an identifiable asset or liability made as a result of completing the initial accounting is accounted for as if its fair value at the acquisition date had been recognized from that date. Detailed adjustments accounted for in the allocation period are disclosed in Note 3 to our consolidated financial statements.

Once the initial accounting of a business combination is complete, further adjustments are accounted for only to correct errors.

to their end users. Strong carrier spending for IP equipment continued to reflect that ongoing transformation in 2008, and helped drive our own IP service router revenues to a record quarterly high at year-end. The ongoing transformation of service provider networks to all-IP also resulted in healthy demand for network integration and other professional services offered by us and other vendors.

Expanding broadband access capabilities remained a focus area for wireline carriers, with an emphasis on offering enhanced capabilities over optical fiber deployed deeper into access networks. However, the number of new subscribers to broadband access delivered over older, copper-based DSL (digital subscriber line) technology fell in 2008, and our own DSL shipments dropped 19%. That decline reflects a shift by some users to fiber-based and cable-based services, an increasingly saturated DSL market and deteriorating

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economic conditions. The deteriorating economy is also one of the factors, along with equal access regulatory issues, that resulted in a slower than expected deployment of fiber-based access networks in 2008. Despite those issues, the increasingly widespread availability of broadband access has facilitated marked growth in bandwidth-intensive traffic like video, and that drove very strong spending for additional capacity in optical networks earlier in the year. As added capacity came on-line and economic conditions deteriorated, growth in optical spending softened considerably later in the year, particularly for terrestrial-based networks. Spending on undersea optical networks – for additional capacity on existing networks and for new cable systems – remained strong throughout the year. Elsewhere in wireline, spending for legacy core switching equipment continued to decline, and spending for next-generation equipment increased.

In wireless, the number of subscribers and traffic volume continued to increase globally, and wireless operators continued to invest in the mobile broadband capabilities offered by third-generation networks. However, some very disparate technology-specific spending trends have developed. Specifically, spending for CDMA (Code Division Multiple Access) wireless networks was much weaker than expected, while demand has been stronger than expected for GSM (Global System for Mobile Communications) and W-CDMA (Wideband CDMA) in emerging markets, especially in Asia. Meanwhile, the industry continued to work on the standards and technologies that will underlie fourth-generation wireless networks. In the market for professional services – which includes services that are attached to a product sold, as well as those which are offered independent of any equipment sale – growing demand has been led by the network integration and network operations (outsourcing) sectors. The deteriorating economy has affected the enterprise market more than the service provider market, especially in North America. However, our own enterprise data networking business has posted gains throughout the year, as has our contact center business.

As has been noted above, the deteriorating global macroeconomic environment in 2008 negatively impacted many of these broad spending trends. So far, the magnitude of those impacts has been mixed, with more projects being delayed and stretched out as opposed to being cancelled. However, the sharp year-end deterioration of the U.S. economy in 2008 suggests that the global recession may be deepening, which would mean service provider spending in the future may be seriously impacted. Economic issues are magnifying what already were intense competitive pressures, resulting in market-wide prices and margins that remain under significant pressure. In developed markets, the pressure on profitability

reflects aggressive pricing by incumbents who are consolidating their existing market positions and defending those positions against other vendors who are trying to establish market share with their own aggressive pricing. Vendors are also battling to establish market share in emerging markets, which account for a growing portion of global spending for carrier telecommunications equipment and related applications and services. There, the pressure on profitability is compounded by a focus on providing low-cost basic communications services.

In addition to overall market and economic forces, internal developments in 2008 affected our business. Starting in September, we announced several changes to our leadership team, organization, business model and strategic focus. These changes are intended to improve our profitability as they strengthen our focus on customers, simplify the organization, clarify accountability and responsibility, and improve the cost structure of the business. For a more detailed discussion of these changes, see Chapter 5 “Business Organization”.

We also booked impairment charges totalling € 4.7 billion during the year related to our CDMA, Optics, Multicore, Applications, Mobile Access and Fixed Access business divisions. Included in the € 4.7 billion is an € 810 million charge related to our CDMA business that was taken at mid-year following the 2008 annual impairment test, and charges of € 3.9 billion were booked at year-end. The mid-year CDMA impairment was due to the fact that in the second quarter of 2008, revenues from our CDMA business declined at a higher pace than planned. The unexpected, large reduction in the capital expenditures of one of our key customers in North America primarily affected this business. Although other geographic areas offer new opportunities, the uncertainty regarding spending in North America has led us to make more cautious mid-term assumptions about the results of this business. We performed an additional impairment test during the fourth quarter of 2008 in light of the difficult financial and economic environment, the continuing material decrease in our market capitalization and the new 2009 outlook, taking into account estimated consequences of our strategic decisions we disclosed in December 2008. The re-assessment of our near-term outlook, taking into account more conservative growth assumptions for the telecommunications equipment and related services market in 2009, coupled with the decision to streamline our portfolio, and with the use of a higher discount rate, led to an additional loss at year-end of € 3,910 million, including a € 2,429 million charge to goodwill and other impairment losses on other assets.

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## 6.2 CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008 COMPARED TO THE YEAR ENDED DECEMBER 31, 2007

*Introduction.* As mentioned earlier, in January 2007, we contributed our transportation and security activities to Thales, and in April 2007, we completed the sale of our ownership interests in two joint ventures in the space sector to Thales. Consequently, our results for 2007 exclude the businesses transferred in January and April 2007 to Thales.

*Revenues.* Revenues were € 16,984 million in 2008, a decline of 4.5% from € 17,792 million in 2007. Approximately 52% of our revenues are denominated in or linked to the U.S. dollar. When we translate these sales into euros for accounting purposes, there is an exchange rate impact based on the relative value of the U.S. dollar and the euro. The value of the U.S. dollar relative to the euro increased significantly in the second half of 2008, but for the year as a whole compared with 2007, the value of the U.S. dollar declined relative to the euro. The decrease in the value of the U.S. dollar relative to the

euro from 2007 to 2008 had a negative impact on our revenues. If there had been a constant euro/U.S. dollar exchange rate in 2008 as compared to 2007, our consolidated revenues would have decreased by approximately 1.1% instead of the 4.5% decrease actually experienced. This is based on applying (i) to our sales made directly in U.S. dollars or in currencies linked to U.S. dollars during 2008, the average exchange rate that applied for 2007, instead of the average exchange rate that applied in 2008, and (ii) to our exports (mainly from Europe) during 2008 which are denominated in U.S. dollars and for which we enter into hedging transactions, our average euro/U.S. dollar hedging rate that applied for 2007. Our management believes that providing our investors with our revenues for 2008 in constant euro/U.S. dollar exchange rates facilitates the comparison of the evolution of our revenues with that of the industry.

The table below sets forth our revenues as reported, the conversion and hedging impact of the euro/U.S. dollar and our revenues at a constant rate:

<i>(in millions of euros)</i>	Year ended December 31, 2008	Year ended December 31, 2007	% Change
Revenues as reported	16,984	17,792	(4.5%)
Conversion impact euro/U.S. dollar	519	-	2.9%
Hedging impact euro/U.S. dollar	90	-	0.5%
Revenues at constant rate	17,593	17,792	(1.1%)

Revenues in 2008 and in 2007 by geographical market (calculated based upon the location of the customer) are as shown in the table below:

<b>Revenues by geographical market</b> <i>(in millions of euros)</i>	<b>France</b>	<b>Other Western Europe</b>	<b>Rest of Europe</b>	<b>Asia Pacific</b>	<b>U.S.</b>	<b>Other Americas</b>	<b>Rest of world</b>	<b>Consolidated</b>
2008	1,419	3,537	944	3,192	4,812	1,538	1,542	16,984
2007	1,219	3,657	954	3,386	5,438	1,534	1,604	17,792
% Change 2008 vs. 2007	16.4%	(3.3%)	(1.0%)	(5.7%)	(11.5%)	0.3%	(3.9%)	(4.5%)

In 2008, the United States accounted for 28.3% of revenues by geographical market, down from 30.6% in 2007 as revenues fell 11.5% in that market. The decline in the United States reflected particular weakness in CDMA and DSL revenues, which were not fully offset by increased sales in W-CDMA, Enterprise and Services. Europe accounted for 34.7% of revenues in 2008 (8.4% in France, 20.8% in Other Western Europe and 5.6% in Rest of Europe), up from 32.8% in 2007 (6.9% in France, 20.6% in Other Western Europe and 5.4% in Rest of Europe). Within Europe, revenue increased 16.4% year-over-year in France due in part to gains in W-CDMA, while revenue fell 3.3% in Other Western Europe and 1.0% in Rest of Europe. Revenues in the Asia Pacific market fell 5.7% in 2008, but they were little changed as a percent of total revenue (18.8% in 2008 and 19.0% in 2007). Services revenues were particularly strong in the Asia Pacific market in 2008. Revenues in Other Americas were flat in 2008 (up 0.3% from 2007) as widespread gains offset lower CDMA revenues, although share of total revenue increased slightly – from 8.6% in 2007 to 9.1% in 2008. Rest of World revenues fell 3.9% from 2007 to 2008 but were little changed as a percent of total revenue (9.1% in 2008 and 9.0% in 2007). Around the world, growth in our Services business

was solid in 2008. We capitalized on new opportunities for our wireless business in emerging markets in 2008. Our IP routing business developed strong momentum in North America, Europe and China in 2008. Our legacy fixed access business (DSL) was weak in North America and Europe as spending shifted to highly price competitive emerging markets.

*Gross Profit.* Despite the decline in revenue in 2008, gross profit increased to 34.1% of revenue, or € 5,794 million, compared to 32.1% of revenue or € 5,709 million in 2007. The increase in gross profit is due to enhanced pricing discipline, which improves our ability to retain the benefits of our product cost reduction programs, and which reflects our ongoing commercial selectivity as we balance our intent to grow share with our focus on profitable growth. In addition, gross profit was minimally impacted in 2008 from purchase accounting for the Lucent business combination whereas in 2007, there was a negative, non-cash impact of € 253 million. Gross profit in 2008 included a € 13 million net gain from currency hedging; a € 21 million capital gain from the sale of real estate; and € 34 million from a litigation settlement, which were more than offset by (i) a net charge of € 275 million for write-downs of inventory and work in progress; (ii) a net charge of € 24 million for reserves

on customer receivables; and (iii) a € 48 million provision for a contract loss. Gross profit in 2007 included € 34 million from a litigation settlement related to business arrangements with a company in Columbia which was subsequently liquidated; and a net reversal of € 10 million of reserves on customer receivables as the reversal of historical reserves exceeded the amount of new reserves, which were more than offset by (i) a negative impact of € 130 million related to investments in current products and platforms that we will eventually discontinue, but that we continue to enhance in order to meet our commitment to our customers while preparing to converge them into a common platform; (ii) a € 98 million one-time charge resulting from the difficulties we encountered in fulfilling a large W-CDMA contract; and (iii) a net charge of € 178 million for write-downs of inventory and work in progress.

*Administrative and selling expenses.* In 2008, administrative and selling expenses were € 3,093 million or 18.2% of revenues compared to € 3,462 million or 19.5% of revenues in 2007. The 10.7% decline in administration and selling expenses reflects the progress we have made executing on our programs to reduce operating expenses, as well as a favorable currency impact on our U.S. dollar denominated expenses. Also contributing to the decrease in administrative and selling expenses was a decline in purchase accounting entries resulting from the Lucent business combination, from € 295 million in 2007 to € 122 million in 2008. The purchase accounting entries have a negative, non-cash impact, and they primarily relate to the amortization of purchased intangible assets of Lucent, such as customer relationships.

*Research and development costs.* Research and development costs were € 2,757 million or 16.2% of revenues in 2008, after the capitalization of € 101 million of development expense, compared to € 2,954 million or 16.6% of revenues after the capitalization of € 153 million of development expense in 2007. The 6.7% decline in research and development costs is due, as was the case for administrative and selling expenses, to the progress we have made executing on our programs to reduce operating expenses, as well as a favorable currency impact on our U.S. dollar denominated expenses. The reported decline in research and development costs would have been 12.0%, except for an increase in 2008 in purchase accounting entries relating to R&D resulting from the Lucent business combination, from € 269 million in 2007 to € 394 million in 2008. The increase in purchase accounting entries relating to R&D in 2008 is largely due to a non-recurring adjustment for the disposal of patents and an increase in the amortization of in-progress R&D reflecting the completion and initial amortization of various development projects acquired from Lucent. The purchase accounting entries have a negative, non-cash impact, and they primarily relate to the amortization of purchased intangible assets of Lucent, such as acquired technologies and in-process research and development. Research and development costs in 2008 included € 58 million in capital gains on the sale of intellectual property which was booked against our research and development expense.

Two contributors to our reduced operating expenses (including both administrative and selling expenses and research and development costs) in 2008, compared with 2007, have been headcount reductions and a shift of manpower from high cost to low cost countries. Company-wide headcount reductions, net totaled 2,775 in 2008, excluding the impact of acquisitions, managed services contracts and new consolidations of previously non-fully-consolidated entities. In 2007, headcount reductions, net totaled 6,324 excluding the impact of acquisitions, managed services contracts and new consolidations of previously non-fully-consolidated entities.

*Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments.* We recorded a loss from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments of € 56 million in 2008 compared to a loss of € 707 million in 2007. This smaller loss reflects improved pricing discipline, the benefits of our product cost and operating expense reduction programs and a decline in the purchase accounting entries booked in 2008, all of which more than offset the impact of lower revenues in 2008. The purchase accounting entries had a negative, non-cash impact of € 522 million in 2008 as compared to € 817 million in 2007.

Changes in provisions adversely impacted income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments in 2008 by € 235 million (of which € 443 million were additional provisions and € 208 million were reversals). Additional product sales reserves (excluding construction contracts) created during 2008 were € 354 million, while reversals of product sales reserves were € 135 million during the same period. Of the € 135 million in reversals, € 59 million related to reversals of reserves made in respect of warranties due to the revision of our original estimates for these reserves regarding warranty period and costs. This revision was due mainly to (i) the earlier than expected replacement of products under warranty by our customers with more recent technologies and (ii) the product's actual performance leading to fewer warranty claims than anticipated and for which we had made a reserve. In addition, € 30 million of the € 135 million reversal of product sales reserves was mainly related to reductions in probable penalties due to contract delays or other contractual issues or in estimated amounts based upon statistical and historical evidence. The remaining reversals (€ 46 million) were mainly related to new estimates of losses at completion. Changes in provisions adversely impacted income (loss) from operating activities before restructuring costs, impairment of intangible assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments by € 429 million in 2007, of which additional provisions were € 642 million and reversals were € 213 million. Additional product sales reserves created in 2007 were € 500 million while reversals of product sales reserves were € 145 million.

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*Restructuring Costs.* Restructuring costs were € 562 million in 2008, representing (i) an asset write-off of € 35 million; (ii) € 489 million of new restructuring plans, and adjustments to previous plans and (iii) € 38 million of other monetary costs. New restructuring plans cover costs related to the elimination of jobs and to product rationalization and facilities closing decisions. Restructuring costs were € 856 million in 2007, representing (i) an asset write-off of € 47 million, (ii) € 623 million of new restructuring plans or adjustments to previous plans; and (iii) € 186 million of other monetary costs. Our restructuring reserves of € 595 million at December 31, 2008 covered jobs identified for elimination and notified in the course of 2008, as well as jobs eliminated in previous years for which total or partial settlement is still due, costs of replacing rationalized products, and other monetary costs linked to decisions to reduce the number of our facilities.

*Impairment of Assets.* In 2008 we booked an impairment of assets charge of € 4,725 million, including € 3,272 million for goodwill; € 135 million for capitalized development costs; € 1,276 million for other intangible assets; € 39 million for property, plant and equipment; and € 14 million for financial assets. € 810 million of the € 4,725 million is a charge taken at mid-year arising from our yearly impairment test related to our CDMA business, and charges of € 3,910 million were booked at year-end related to our CDMA, Optics, Multicore, Applications, Mobile Access and Fixed Access business divisions. The mid-year CDMA impairment was due to the fact that in the second quarter of 2008, revenues from our CDMA business declined at a higher pace than we had planned. The unexpected, large reduction in the capital expenditures of one of our key CDMA customers in North America and the uncertainty regarding spending CDMA in North America were the main drivers of the decline. We performed an additional impairment test during the fourth quarter of 2008 in light of the difficult financial and economic environment, the continuing material decrease in our market capitalization and the new 2009 outlook, taking into account estimated consequences of our strategic decisions disclosed in December 2008. In 2007 we took an impairment of assets charge of € 2,944 million mainly related to our CDMA, W-CDMA and IMS businesses. Of the € 2,944 million, € 2,657 million is related to goodwill; € 39 million to capitalized development costs; € 174 million to other intangible assets; and € 74 million to property, plant and equipment.

*Post-retirement benefit plan amendment.* In 2008 we booked a € 47 million net credit related to post-retirement benefit plan amendments. It consists of an € 18 million reserve related to ongoing litigation that concerns a previous Lucent healthcare plan amendment (see 6.10 "Legal Matters – Lucent's Employment and Benefits Related Cases," in this annual report for more detail) and a € 65 million credit related to a € 148 million benefit obligation decrease for the Lucent management retiree healthcare plan. The benefit obligation decrease is a result of our adoption of a Medicare Advantage Private Fee-For-Service Plan. € 83 million of the € 148 million decrease is a result of a change in actuarial assumptions and is recognized in the Statement of Recognized Income and Expense, while € 65 million of the decrease is a result of a plan amendment and is recognized in this specific line item of our income statement. In 2007 we booked a € 258 million credit resulting from certain changes to Lucent management retiree healthcare benefit plans. Effective January 1, 2008, prescription drug coverage offered to former Lucent management retirees was changed to a drug plan similar

to the Medicare Part D program. This change reduced the benefit obligation projected in the first half of 2007 by € 258 million, net of a € 205 million elimination of the previously expected Medicare Part D subsidies.

*Income (loss) from operating activities.* Income (loss) from operating activities was a loss of € 5,303 million in 2008, compared to a loss of € 4,249 million in 2007. The bigger loss in 2008 is due primarily to a significantly larger impairment charge in 2008 as compared with 2007, which more than offset the combined positive impacts of our improved pricing discipline, our product cost and operating expense reduction programs, lower restructuring costs and a decline in the total purchase accounting entries booked in 2008 as compared with 2007. The bigger loss in 2008 is also partially due to a smaller credit booked for post-retirement benefit plan amendments than was the case in 2007.

*Finance costs.* Net finance costs in 2008 were € 212 million and included € 391 million of interest paid on our gross financial debt, offset by € 179 million in interest earned on our cash, cash equivalents and marketable securities. In 2007 net finance costs of € 173 million resulted from € 403 million of interest paid on our gross financial debt, offset by € 230 million in interest earned on cash, cash equivalents and marketable securities. The decline in interest paid in 2008 compared to 2007 is due largely to a lower level of gross financial debt, while the decline in interest earned is due largely to a lower level of cash, cash equivalents and marketable securities.

*Other financial income (loss).* Other financial income was € 366 million in 2008, compared to financial income of € 541 million in 2007. Other financial income consists largely of the difference between the expected financial return on the assets and the interest cost on the obligations of the pension and post-retirement benefit plans, mainly related to the Lucent plans' assets and obligations. The decline from 2007 to 2008 is due to a November 2007 re-allocation of the plans' assets which reduced their exposure to equity markets, as well as the decline in the fair value of the plans' assets.

*Share in net income (losses) of equity affiliates.* Share in net income of equity affiliates was € 96 million in 2008, compared with € 110 million in 2007. While our share of equity affiliates' earnings included positive contributions from both Thales and Draka in 2007, our share in 2008 included a contribution from Thales only, since we sold our interest in Draka in the fourth quarter of 2007. In 2008, the contribution from Thales also reflected the reclassification of our Thales shares from net assets in equity affiliates to assets held for sale as of the announcement on December 19, 2008 of a definitive agreement to sell our stake in Thales to Dassault Aviation.

*Income (loss) before income tax, related reduction of goodwill and discontinued operations.* Income (loss) before income tax, related reduction of goodwill and discontinued operations was a loss of € 5,053 million in 2008 compared to a loss of € 3,771 million in 2007.

*Reduction of goodwill related to deferred tax assets initially unrecognized.* In 2008 there was no reduction of goodwill related to deferred tax assets that were initially unrecognized. In 2007, there was a € 256 million reduction of goodwill that was due largely to the post-retirement benefit plan amendment described above.

*Income tax (expense) benefit.* We had an income tax expense of € 153 million in 2008, compared to an income tax expense of € 60 million in 2007. The income tax expense for 2008 resulted from a current income tax charge of € 99 million and a net deferred income tax charge of € 54 million. The € 54 million net deferred tax charge included deferred income tax benefits of € 740 million (related to the reversal of deferred tax liabilities accounted for in the purchase price allocation of the Lucent combination), that were more than offset by (i) a € 476 million charge from changes in deferred tax mainly due to the reassessment of the recoverability of deferred tax assets in connection with the goodwill impairment tests performed in 2008; (ii) a € 293 million deferred tax charge related to Lucent's post-retirement benefit plans; and (iii) a € 25 million deferred tax charge related to the post-retirement benefit plan amendment associated with our adoption of a Medicare Advantage Private Fee-For-Service Plan. The € 60 million income tax expense for 2007 resulted from a current income tax charge of € 111 million and a net deferred income tax benefit of € 51 million. The € 51 million net deferred tax benefit included deferred income tax benefits of € 652 million (related to the reversal of deferred tax liabilities accounted for in the purchase price allocation of the Lucent combination and the recognition of deferred tax assets initially unrecognized at the time of the Lucent combination), that were not fully offset by a € 420 million charge from changes in deferred tax mainly due to the reassessment of the recoverability of deferred tax assets in connection with the goodwill impairment and a € 181 million deferred tax charge related primarily to the post-retirement benefit plan amendment.

*Income (loss) from continuing operations.* We had a loss from continuing operations of € 5,206 million in 2008 compared to a loss of € 4,087 million in 2007 due to the factors noted above.

*Income (loss) from discontinued operations.* There was income of € 33 million from discontinued operations in 2008, mainly related to adjustments on initial capital gain (loss) on discontinued operations that were sold or contributed in previous periods (mainly related to activities that were contributed to Thales). That compares with income of € 610 million in 2007, which consisted primarily of a € 615 million net capital gain after tax on the contribution of our railway signaling business and our integration and services activities to Thales.

*Minority Interests.* Minority interests were € 42 million in 2008, compared with € 41 million in 2007, largely reflecting our operations in China with Alcatel-Lucent Shanghai Bell.

*Net income (loss) attributable to equity holders of the parent.* A net loss of € 5,215 million was attributable to equity holders of the parent in 2008, compared with a loss of € 3,518 million attributable to equity holders of the parent in 2007.

A summary of new financial reporting standards, amendments and interpretations published but not yet applied by the Group is presented in Note 1 to the consolidated financial statements (See Section 12).

## 6.3 RESULTS OF OPERATIONS BY BUSINESS SEGMENT FOR THE YEAR ENDED DECEMBER 31, 2008 COMPARED TO THE YEAR ENDED DECEMBER 31, 2007

As mentioned earlier, in January 2007, we contributed our transportation and security activities to Thales, and in April 2007, we completed the sale of our ownership interests in two joint ventures in the space sector to Thales. The table immediately below shows how we organized our business through December 31, 2008, which is also the basis for the segment results presented

and discussed further below. Effective January 1, 2009, this organization structure was superseded by the new organization that is discussed in further detail in Item 5.1 "Business Organization" found elsewhere in this document.

	Carrier		Enterprise	Services
Fixed Access	Mobile Access	Multicore	Enterprise Solutions	Network Integration
IP	CDMA Networks	Applications	Genesys	Professional Services
Optics			Industrial Components	Maintenance
				Network Operations

The table below sets forth certain financial information on a segment basis for 2008 and 2007. Segment operating income (loss) is the measure of operating segment profit or loss that is used by our Management Committee to perform its chief operating decision making function, assess performance and allocate resources. It consists of segment income (loss) from operating activities before restructuring costs, impairment of intangible assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments, excluding the main non-cash impacts of the purchase

price allocation (PPA) entries relating to the Lucent business combination. Adding "PPA Adjustments (excluding restructuring costs and impairment of assets)" to segment operating income (loss), as shown in the table below, reconciles segment operating income (loss) with income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments, as shown in the table below and in our 2008 consolidated financial statements.

**2008***(in millions of euros)*

	<b>Carrier</b>	<b>Enterprise</b>	<b>Services</b>	<b>Other &amp; Elimination</b>	<b>Total Group</b>
<b>REVENUES</b>	<b>11,540</b>	<b>1,590</b>	<b>3,452</b>	<b>402</b>	<b>16,984</b>
<i>Segment Operating Income (Loss)</i>	<i>(68)</i>	<i>128</i>	<i>268</i>	<i>138</i>	<i>466</i>
<i>PPA Adjustments (excluding restructuring costs and impairment of assets)</i>					<i>(522)</i>
<b>Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments</b>					<b>(56)</b>
Capital expenditures	680	96	73	52	901

**2007***(in millions of euros)*

	<b>Carrier</b>	<b>Enterprise</b>	<b>Services</b>	<b>Other &amp; Elimination</b>	<b>Total Group</b>
<b>REVENUES</b>	<b>12,819</b>	<b>1,562</b>	<b>3,173</b>	<b>238</b>	<b>17,792</b>
<i>Segment Operating Income (Loss)</i>	<i>(152)</i>	<i>126</i>	<i>147</i>	<i>(11)</i>	<i>110</i>
<i>PPA Adjustments (excluding restructuring costs and impairment of assets)</i>					<i>(817)</i>
<b>Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments</b>					<b>(707)</b>
Capital expenditures	673	93	40	36	842

*PPA Adjustments (excluding restructuring costs and impairment of assets).*

In 2008, PPA adjustments (excluding restructuring costs and impairment of assets) were € (522) million, compared with € (817) million in 2007. The decline in PPA adjustments in 2008 is due largely to the fact that PPA adjustments included € (258) million for an inventory reversal in 2007 which was not repeated in 2008.

*Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment.* In 2008, segment operating income of € 466 million for the Group, adjusted for € (522) million in PPA yields a loss from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment of € 56 million, as shown in the consolidated financial statements. In 2007, segment operating income of € 110 million for the Group adjusted for € (817) million in PPA yields a loss from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment of € 707 million, as shown in the consolidated financial statements.

**Carrier Segment**

Revenues in our carrier business segment were € 11,540 million in 2008, a decline of 10.0% from € 12,819 million in 2007, using current exchange rates. When we translate these sales into euros for accounting purposes, there is an exchange rate impact based on the relative value of the U.S. dollar and the euro. The decrease in the value of the U.S. dollar relative to the euro since 2007 had a significant negative impact on our revenues. If there had been a constant euro/U.S. dollar exchange rate in 2008 as compared to 2007 our carrier segment revenues would have decreased by approximately 6.9% instead of the 10.0% decline actually experienced.

Within the carrier segment, activity in our divisions that are focused on fixed line technologies exhibited varied trends in 2008, ranging from growth in Optics and IP routing to a decline in Fixed Access. Our Optics and Fixed Access businesses also reflected the sharper second-half deterioration in the economic environment, as the growth in Optics slowed and the decline in Fixed Access accelerated in the latter part of the year. In Optics, the increasingly widespread availability of broadband access facilitated strong growth in bandwidth-intensive traffic like video, driving solid spending for added capacity in optical networks. That growth slowed considerably in the

latter part of the year, especially in the terrestrial segment, reflecting the new capacity that came on-line earlier in the year as well as the increasingly difficult economic environment. Spending on undersea optical networks – for additional capacity on existing networks and for new cable systems – was particularly strong in 2008. Our Fixed Access revenues weakened in 2008 as we shipped 19% fewer DSL lines than in 2007. That decline reflected fewer new subscribers to carriers' broadband access services, particularly in the increasingly saturated developed markets. DSL activity in North America and Western Europe was also impacted by the recession. Initial mass deployments of GPON – the next-generation fixed access technology – were launched in 2008, but growth was slower than expected due to regulatory uncertainty and the economy. Operators still consider GPON as the preferred technology for extending optical fiber deeper into their access networks, but it is a new technology and has not yet scaled to the point where it can offset declines in our legacy DSL business. Our IP routing business increased in 2008, with an upgrade portfolio and increased customer diversification helping to drive record revenues in the fourth quarter. Our mature ATM (Asynchronous Transfer Mode) switching business, which is included in our IP division, continued on its structural decline path.

Elsewhere in our carrier segment, our Mobile Access division was paced by 50% growth in our W-CDMA business, as revenues ramped higher at several key customers. The increase in revenues, along with lower costs, helped us to reduce, by more than half, operating losses in our W-CDMA business in 2008. Elsewhere in Mobile Access, our growth in our GSM business was strong in the first half, driven by network expansions in China, India, the Middle East and Africa, but slowed considerably in the second half and was more in line with what is a mature, declining market. Our CDMA business declined sharply in 2008, reflecting particular weakness in North America that was not fully offset by shipments to a new customer in China.

Our legacy voice switching business continued its decreasing trend, reflecting lower carrier spending on that technology. At the same time, growth in our next-generation core networking business continued, and our revenues in that business surpassed, for the first time, those in our legacy switching business at year-end. There were mixed trends in our Applications business in 2008, including weakness in legacy payment systems and strong growth in subscriber data management.

## Enterprise Segment

Revenues in our enterprise business segment were € 1,590 million in 2008, an increase of 1.8% over revenues of € 1,562 million in 2007, using current exchange rates. If there had been a constant euro/U.S. dollar exchange rate in the 2008 as compared to 2007 our enterprise segment revenues would have increased by 4.8% instead of the 1.8% increase actually experienced. We have refocused our enterprise channel management and reorganized and added resources to our enterprise sales force, and those initiatives helped to drive growth in data networking, IP telephony and our Genesys contact center business in 2008. Growth in North America was particularly strong in 2008, although as the year progressed signs increased in North America and elsewhere that the deteriorating economy was affecting the enterprise market, particularly small-to-medium sized businesses. Enterprise segment operating income was € 128 million or 8.1% of revenue in 2008, little changed from € 126 million or 8.1% of revenue in 2007. The ongoing investments we are making in this part of our business have been largely offset by higher volumes and the progress we are making in our product cost reduction programs.

## Services Segment

Revenues in our services business segment were € 3,452 million in 2008, an increase of 8.8% over revenues of € 3,173 million in 2007, using current exchange rates. If there had been a constant euro/U.S. dollar exchange rate in the first half of 2008 as compared to the first half of 2007 our services segment revenues would have increased by 11.6% instead of the 8.8% increase actually experienced. Growth in services was particularly strong in network operations, network integration and multivendor maintenance. Services segment operating income was € 268 million or 7.8% of revenue in 2008, compared with € 147 million or 4.6% of revenue in 2007. The increase in segment operating income is due to higher volumes, a favorable mix of services and higher margins across our services portfolio.

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## 6.4 CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007 COMPARED TO THE YEAR ENDED DECEMBER 31, 2006

*Introduction.* As noted earlier, on November 30, 2006, pursuant to a merger agreement that historical Alcatel and Lucent entered into on April 2, 2006, Lucent became a wholly owned subsidiary of Alcatel. On December 1, 2006, we and Thales signed a definitive agreement for the acquisition by Thales of our ownership interests in two joint ventures in the space sector, our railway signaling business and our integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services. In January 2007, the transportation and security activities were contributed to Thales, and in April 2007, the sale of our ownership interests in the two joint ventures in the space sector was completed.

Consequently, the following discussion takes into account our results of operations under IFRS for the year ended December 31, 2007 which includes twelve months of Lucent's results of operations, while our 2006 results include only one month of Lucent's results. Our results for the year ended December 31, 2007 also include the UMTS radio access business acquired from Nortel on December 31, 2006 and exclude the businesses transferred in January and April 2007 to Thales. Our results for 2006 have been re-presented to exclude the businesses transferred to Thales in 2007 and to take into account the effect of the change in accounting policies on employee benefits.

*Revenues.* Revenues were € 17,792 million for 2007, an increase of 44.9% as compared to € 12,282 million for 2006. The increase was largely due to the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results included only one month of Lucent's results. Approximately 56.4% of our revenues were denominated in or linked to the U.S. dollar. When we translate these sales into euros for accounting purposes, there is an exchange rate impact based on the relative value of the U.S. dollar and the euro. During 2007, the decrease in the value of the U.S. dollar relative to the euro had a negative impact on our revenues. If there had been a constant euro/U.S. dollar exchange rate during 2007 as compared to 2006 our consolidated revenues would have increased by approximately 51.7% instead of the 44.9% actually experienced. This is based on applying (i) to our sales made directly in U.S. dollars or currencies linked to U.S. dollars effected during 2007, the average exchange rate that applied for 2006, instead of the average exchange rate that applied for 2007, and (ii) to our exports (mainly from Europe) effected during 2007 which are denominated in U.S. dollars and for which we entered into hedging transactions, our average euro/U.S. dollar hedging rate that applied for 2006. Our management believes that providing our investors with our revenues for 2007 in constant euro/U.S. dollar exchange rates facilitates the comparison of the evolution of our revenues with that of the industry.

The table below sets forth our revenues as reported, the conversion and hedging impact of the euro/U.S. dollar and our revenues at a constant rate:

<i>(in millions of euros)</i>	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>	<b>% Change</b>
Revenues as reported	17,792	12,282	44.9%
Conversion impact euro/U.S. dollar	740	-	6.0%
Hedging impact euro/U.S. dollar	98	-	0.8%
Revenues at constant rate	18,630	12,282	51.7%

*Revenues increased across the business* – in the carrier, enterprise and services segments. The revenue increase in each part of the business, except for the enterprise segment, is largely due to the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results include only one month of Lucent's results.

Revenues for 2007 and 2006 by geographical market (calculated based upon the location of the customer) are as shown in the table below:

<b>Revenues by geographical market</b> <i>(in millions of euros)</i>	<b>France</b>	<b>Other Western Europe</b>	<b>Rest of Europe</b>	<b>Asia Pacific</b>	<b>U.S.</b>	<b>Other Americas</b>	<b>Rest of world</b>	<b>Consolidated</b>
2007	1,219	3,657	954	3,386	5,438	1,534	1,604	17,792
2006	1,096	2,879	946	2,116	2,323	1,128	1,794	12,282
% Change 2007 vs. 2006	11%	27%	1%	60%	134%	36%	(11%)	45%



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The revenue increase in individual geographic markets was largely due to the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results included only one month of Lucent's results. However, in the Rest of World segment the inclusion of twelve months of Lucent's results in 2007 was more than offset by a reclassification of certain countries, including India, out of the Rest of World segment and into the Asia Pacific segment. Without the reclassification, Rest of World revenue would have shown an increase in 2007 instead of the 11% decline shown in the table, and Asia Pacific revenue would have shown a smaller increase than the 60% shown in the table. In 2007, the United States accounted for 30.6% of revenues by geographical market, while France, Other Western Europe, the Rest of Europe, Asia Pacific, Other Americas and the Rest of the World accounted for 6.9%, 20.6%, 5.4%, 19.0%, 8.6% and 9.0%, respectively. This compares with the following percentages of revenues by geographical market for 2006: France – 8.9%, Other Western Europe – 23.4%, the Rest of Europe – 7.7%, Asia Pacific – 17.2%, United States – 18.9%, Other Americas – 9.1% and the Rest of the World – 14.6%. The increase in United States revenue as a percentage of total revenue was largely due to the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results included only one month of Lucent's results, and to the fact that Lucent's revenues were concentrated in the United States.

*Gross profit.* During 2007, gross profit was 32.1% of revenues or € 5,709 million, compared to 33.1% of revenues or € 4,068 million in 2006. The increase in gross profit in absolute terms was largely due to the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results include only one month of Lucent's results. The decrease in gross profit as a percentage of revenues was due to competitive pricing pressures in our carrier markets and the non-recurring negative, non-cash impact of € 247 million upon the sale of a portion of Lucent's inventory in 2007. As a result of purchase accounting for the Lucent business combination, Lucent's inventory was revalued to its fair value and such "step-up" in valuation was reversed once the inventory was sold. The reversal of the inventory step-up related to the Lucent business combination began in 2006, with a negative non-cash impact on gross profit of € 167 million, and it was completed in 2007. Gross profit in 2007 also included (i) the negative impact of € 130 million related to investments in current products and platforms that we will eventually discontinue, but that we continue to enhance in order to meet our commitment to our customers while preparing to converge them into a common platform; (ii) the negative impact of a € 98 million one-time charge resulting from the difficulties we encountered in fulfilling a large W-CDMA contract; (iii) the positive impact of € 34 million from a litigation settlement related to business arrangements with a company in Colombia which was subsequently liquidated; (iv) the negative impact of a net charge of € 178 million for write-downs of inventory and work in progress; and (v) the positive impact of a net reversal of € 10 million of reserves on customer receivables as the reversal of historical reserves exceeded the amount of new reserves.

In addition to the negative non-cash impacts from purchase accounting discussed above, gross profit in 2006 also included (i) the negative impact of a net charge of € 59 million for write-downs of inventory and work in progress, (ii) the negative impact of a net charge of € 8 million on customer receivables, and (iii) the negative impact of € 87 million of sales incentive amounts paid to employees which are now included in administrative and selling expenses effective January 1, 2007.

*Administrative and selling expenses.* For 2007, administrative and selling expenses were € 3,462 million or 19.5% of revenues compared to € 1,911 million or 15.6% of revenues in 2006. The primary reason for the increase in administrative and selling expenses in 2007 compared with 2006 is the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results included only one month of Lucent's results. The increase in administrative and selling expenses as a percentage of revenues included the negative, non-cash impact of purchase accounting entries of € 295 million in 2007 and € 30 million in 2006 resulting from the Lucent business combination and primarily related to the amortization of purchased intangible assets of Lucent, such as customer relationships. Administrative and selling expenses in 2007 also include sales incentive amounts paid to employees, whereas prior to January 1, 2007, historical Alcatel classified these costs as cost of sales. Other operations that are included in 2007 results but not in 2006, including the UMTS radio access business acquired from Nortel and activities acquired through other acquisitions, also contributed to the 2007 increase in administrative and selling expenses.

*Research and Development costs.* Research and Development costs were € 2,954 million in 2007, after the capitalization of € 153 million of development expense, compared to € 1,470 million in 2006, after the capitalization of € 109 million of development expense. As a percentage of revenues, Research and Development costs for 2007 were 16.6%, compared to 12.0% in 2006. Research and Development costs included the negative, non-cash impact of purchase accounting entries of € 269 million in 2007 and € 30 million in 2006 resulting from the Lucent business combination primarily related to the amortization of purchased intangible assets of Lucent, such as acquired technologies and in process Research and Development. The primary reason for the increase in Research and Development expenses in 2007 compared with 2006 was the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results included only one month of Lucent's results. Acquisitions that occurred in 2007 or that occurred during 2006 but were included for a full year in 2007 also contributed to the 2007 increase in Research and Development costs.

*Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment.* We recorded a loss from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment of € 707 million for 2007 compared to income of € 687 million in 2006, which represented 5.6% of revenues. This decrease resulted from the competitive pricing environment that impacted our gross profit, and from the negative, non-cash impact of purchase accounting entries of € 817 million in 2007 as compared to € 227 million in 2006 resulting from the Lucent business combination, which more than offset Lucent's contribution to revenues and gross margin.

Changes in provisions adversely impacted income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment for 2007 by € 429 million (of which € 642 million were additional provisions and € 213 million were reversals). Additional product sales reserves (excluding construction contracts) created during 2007 were € 500 million, while product sales reserves reversals during 2007 were € 145 million. Of the € 145 million in reversals, € 85 million related to reversals of warranty provisions due to the revision of our original estimates for warranty provisions regarding warranty period and costs. This revision

was due mainly to (i) the earlier than expected replacement of products under warranty by our customers with more recent technologies and (ii) the product's actual performance leading to fewer warranty claims than anticipated and for which we had made a reserve. In addition, € 21 million of the € 145 million reversal of product sales reserves were mainly related to reductions in probable penalties due to contract delays or other contractual issues or in estimated amounts based upon statistical and historical evidence. The remaining reversals (€ 39 million) were mainly related to new estimates of losses at completion. Changes in provisions adversely impacted income (loss) from operating activities before restructuring costs, impairment of intangible assets and gain/(loss) on disposal of consolidated entities by € 252 million for 2006, of which € 195 million related to product sales reserves (excluding construction contracts). Additional product sales reserves created during 2006 were € 376 million while provision reversals during 2006 were € 181 million.

*Restructuring costs.* Restructuring costs were € 856 million for 2007, representing € 623 million of new restructuring plans and adjustments to previous plans, € 186 million of other monetary costs, and a valuation allowance or write-off of assets of € 47 million. New restructuring plans covered costs related to the elimination of jobs and to product rationalization and facilities closing decisions following the acquisition of UMTS technologies from Nortel and the business combination with Lucent. Restructuring costs were € 707 million in 2006, representing € 100 million of new restructuring plans or adjustments to previous plans, € 137 million of other monetary costs, and € 470 million of valuation allowances or write-offs of assets mainly associated with the discontinuance of certain product lines. Our restructuring reserves of € 698 million at December 31, 2007 covered more than 2,380 eliminated jobs, costs of replacing rationalized products, and other monetary costs linked to decisions to reduce the number of our facilities.

*Impairment of assets.* In 2007 we took an impairment of assets charge of € 2,944 million. Of the € 2,944 million, € 2,657 million was related to goodwill, € 39 million to capitalized development costs, € 174 million to other intangible assets and € 74 million to property, plant and equipment. Due to the delay in revenue generation from our 3G W-CDMA assets as compared to our initial expectations and to a reduction in margin estimates, we booked a € 426 million impairment charge. Also included in the € 2,944 million of 2007 impairment charges were impairment losses related to goodwill of € 2,109 million booked against our CDMA and EVDO (Code Division Multiple Access & Evolution Data Only) assets, € 396 million related to our IMS (internet Protocol Multimedia Subsystem) business and the balance was related to our Network Integration business. The CDMA and EVDO impairment charge related to goodwill was due to a revision in the long-term outlook for this activity, taking into account the 2007 change in market conditions as well as potential future technology evolutions. In 2006, we had € 141 million of impairment charges against intangible assets, primarily linked to our carrier segment.

*Post-retirement benefit plan amendment.* In 2007 we booked a € 258 million credit resulting from certain changes to management retiree healthcare benefit plans. Effective January 1, 2008, prescription drug coverage offered to former Lucent management retirees was changed to a drug plan similar to the Medicare Part D program. The future change reduced the current projected benefit obligation by € 258 million, net of a € 205 million elimination of the previously expected Medicare Part D subsidies. There was no corresponding amount for 2006.

*Income (loss) from operating activities.* Income (loss) from operating activities was a loss of € 4,249 million in 2007 compared to a loss of € 146 million in 2006. This larger loss was in great part due to major asset impairment charges and restructuring costs, a reduced gross margin, higher administrative and selling expenses and Research and Development costs, and the negative, non-cash impact of purchase accounting entries resulting from the Lucent business combination.

*Finance costs.* Finance costs were € 173 million in 2007 and included € 403 million of interest paid on our gross financial debt, offset by € 230 million in interest earned on our cash, cash equivalents and marketable securities. The 2006 net finance costs of € 98 million resulted from € 241 million of interest paid on our gross financial debt, offset by € 143 million in interest earned on cash, cash equivalents and marketable securities. The 2007 increase over 2006 in both interest paid and interest earned was largely due to the inclusion of twelve months of Lucent-related interest paid and interest earned for 2007, while our 2006 results included only one month of Lucent-related interest paid and interest earned.

*Other financial income (loss).* Other financial income was € 541 million in 2007 compared to financial expense of € 34 million in 2006. This increase was due primarily to the financial component of pension and post-retirement benefits, mainly related to the Lucent pension credit that was included in twelve months of 2007 results but in only one month of 2006 results.

*Share in net income (losses) of equity affiliates.* Share in net income of equity affiliates was € 110 million during 2007, with our 20.8% share in Thales and our 49.9% ownership interest in Draka (that we sold in the fourth quarter of 2007) contributing positively, compared to € 22 million in 2006. The increase in the Thales contribution was primarily due to our larger ownership interest in Thales (from 9.5% in 2006 to 20.80% in 2007) resulting from the receipt of 25 million Thales shares in January 2007 in connection with our contribution to Thales of our railway signaling business and our integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services.

*Income (loss) before tax, related reduction of goodwill and discontinued operations.* Income (loss) before tax, related reduction of goodwill and discontinued operations was a loss of € 3,771 million compared to a loss of € 256 million in 2006.

*Reduction of goodwill related to deferred tax assets initially unrecognized.* Due to the inability to demonstrate when deferred tax assets related to Lucent's pensions and other post-retirement benefits would be reversed and whether tax loss carry forwards would be available at the time of the reversal to offset such assets, our management decided to recognize only such amount of deferred tax assets as was equal to the amount of deferred tax liabilities accounted for in connection with these temporary differences. Deferred tax assets identified after the completion of a business combination and not initially recognized are accounted for in the income statement, as an income tax benefit (see discussion below) and a corresponding charge is accounted for as a reduction of goodwill. As the deferred tax liabilities related to pension assets increased in 2007 to € 256 million, a corresponding amount of deferred tax assets related to pensions that had not been recognized at the date of the business combination with Lucent were booked, which resulted in a corresponding reduction of goodwill. Of the € 256 million deferred tax liabilities recognized in 2007 relating to Lucent's pension obligations, € 181 million represented the post-retirement benefit plan amendment described above.

*Income tax (expense) benefit.* We had an income tax expense of € 60 million for 2007, compared to an income tax benefit of € 42 million for 2006. The net income tax expense for 2007 resulted from a current income tax charge of € 111 million and a net deferred income tax benefit of € 51 million. The € 51 million net deferred tax benefit included deferred income tax benefits of € 652 million (related to the reversal of deferred tax liabilities accounted for in the purchase price allocation of the Lucent combination and the recognition of deferred tax assets initially unrecognized at the time of the Lucent combination – see the explanation provided in the preceding paragraph), that were not fully offset by a € 420 million charge from changes in deferred tax mainly due to the reassessment of the recoverability of deferred tax assets in connection with the goodwill impairment described above and a € 181 million deferred tax charge related primarily to the post-retirement benefit plan amendment described above.

*Income (loss) from continuing operations.* We had a loss from continuing operations of € 4,087 million in 2007 compared to a loss of € 219 million in 2006.

*Income (loss) from discontinued operations.* Income from discontinued operations was € 610 million during 2007, consisting primarily of a € 615 million net capital gain after tax on the contribution of our railway signaling business and our integration and services activities to Thales. That compares with income of € 158 million generated primarily by those businesses in 2006.

*Minority Interest.* Minority interests were € 41 million during 2007 compared with € 45 million during 2006.

*Net income (loss) attributable to equity holders of parent.* A net loss of € 3,518 million was attributable to equity holders of the parent during 2007. In 2006, a net loss of € 106 million was attributable to equity holders of the parent.

## 6.5 RESULTS OF OPERATIONS BY BUSINESS SEGMENT FOR THE YEAR ENDED DECEMBER 31, 2007 COMPARED TO THE YEAR ENDED DECEMBER 31, 2006

The following discussion takes into account our results of operations under IFRS for the year ended December 31, 2007, (i) including Lucent's results of operations starting on December 1, 2006, (ii) excluding the businesses transferred to Thales, and (iii) treating the business segments established after the business combination with Lucent as if they were effective on January 1, 2006.

The table below sets certain financial information on a segment basis for 2007 and 2006. Segment operating income (loss) is the measure of operating segment profit or loss that is used by our Management Committee to perform its chief operating decision making function, assess performance

and allocate resources. It consists of segment (loss) from operating activities before restructuring costs, impairment of intangible assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments, excluding the main non-cash impacts of the purchase price allocation (PPA) entries relating to the Lucent business combination. Adding "PPA Adjustments (excluding restructuring costs and impairment of assets)" to segment operating income (loss), as shown in the table below, reconciles segment operating income (loss) with income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments, as shown in the table below and the consolidated financial statements.

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**2007***(in millions of euros)*

	<b>Carrier</b>	<b>Enterprise</b>	<b>Services</b>	<b>Other &amp; Elimination</b>	<b>Total Group</b>
<b>REVENUES</b>	<b>12,819</b>	<b>1,562</b>	<b>3,173</b>	<b>238</b>	<b>17,792</b>
<i>Segment Operating Income (Loss)</i>	<i>(152)</i>	<i>126</i>	<i>147</i>	<i>(11)</i>	<i>110</i>
<i>PPA Adjustments (excluding restructuring costs and impairment of assets)</i>					<i>(817)</i>
<b>Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment</b>					<b>(707)</b>
Capital expenditures	673	93	40	36	842

**2006***(in millions of euros)*

	<b>Carrier</b>	<b>Enterprise</b>	<b>Services</b>	<b>Other &amp; Elimination</b>	<b>Total Group</b>
<b>REVENUES</b>	<b>9,000</b>	<b>1,439</b>	<b>1,761</b>	<b>82</b>	<b>12,282</b>
<i>Segment Operating Income (Loss)</i>	<i>613</i>	<i>120</i>	<i>211</i>	<i>(31)</i>	<i>913</i>
<i>PPA Adjustments (excluding restructuring costs and impairment of assets)</i>					<i>(226)</i>
<b>Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment</b>					<b>687</b>
Capital expenditures	473	84	29	98	684

*PPA Adjustments (excluding restructuring costs and impairment of assets).* In 2007, PPA adjustments (excluding restructuring costs and impairment of assets) were € (817) million, compared with € (226) million in 2006. The increase in PPA adjustments in 2007 was due largely to the inclusion of twelve months of PPA entries relating to the Lucent business combination, while our 2006 results included only one month of PPA entries.

*Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment.* In 2007, segment operating income of € 110 million for the Group, adjusted for € (817) million in PPA yielded a loss from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment of € 707 million, as shown in our consolidated financial statements. In 2006, segment operating income of € 913 million for the Group adjusted for € (226) million in PPA yielded income from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment of € 687 million, as shown in our consolidated financial statements.

**Carrier Segment**

Carrier segment revenues were € 12,819 million for 2007 compared with € 9,000 million for 2006. The increase was due to the inclusion of twelve months of Lucent, and to a lesser degree the UMTS business acquired from Nortel, in results of operations for 2007, while our 2006 results included only one month of Lucent's results. A key development within the carrier market is the transformation of networks to a high-bandwidth, full IP architecture. While that IP transformation has had positive impacts across our carrier business, those impacts were more pronounced in wireline than in wireless in 2007. For example, increased shipments of our IP-based products helped drive our broadband access business in 2007, when we shipped 33 million DSL lines and counted more than 170 customers for our IP-based products. However, growth in that market slowed as 2007 progressed, reflecting high

market penetration rates and the somewhat slower than expected transition to new GPON technology. The demand for metro and long haul DWDM optical networks to support high-bandwidth requirements for IP video services, including IPTV, was a key contributor to growth in 2007 in both our terrestrial and submarine optics business. Our IP service routing business was up 33% in 2007, excluding reseller sales, and reached a milestone of U.S. \$ 1 billion in revenues for the year, while our multi-service wide-area-network switching business continued its long-term decline. In our multicore business in 2007 our core circuit switch business reflected the ongoing long-term decline that dominates carrier spending for that legacy technology. While that legacy market continued its decline in 2007, revenues in our next-generation core networking business remained too small to offset the declining legacy business. A growing number of subscribers on CDMA and GSM networks continued to drive higher traffic volumes, spending for capacity, and, in some cases, additional footprint. However, both of these businesses operate in mature markets that have started to decline, although revenues in our GSM business grew considerably as 2007 progressed, due to a refreshed product portfolio. 2007 was a year of investment for our W-CDMA business as we took three portfolios – one from historical Alcatel, one from Lucent and one from our acquisition of Nortel's UMTS radio access assets – and converged them into one portfolio. We completed the convergence from three platforms to two, and we are working to complete the move to one converged platform.

Carrier segment operating income was a loss of € 152 million in 2007 compared with income of € 613 million in 2006. This decrease resulted from competitive pricing pressures that impacted our gross profit, from investments in current products and platforms that we will eventually discontinue, from € 98 million that we recognized in cost of sales due to the problems we experienced on a large W-CDMA construction contract and from the negative, non-cash impact of purchase accounting entries resulting from the Lucent business combination which more than offset Lucent's contribution to revenues and gross margin.

## Enterprise Segment

Enterprise segment revenues were € 1,562 million for 2007, an increase of 9% over revenues of € 1,439 million for 2006. Part of the increase was due to the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results included only one month of Lucent's results, but the impact of Lucent's results on this segment was much smaller than it was on either the carrier or services segments. 2007 revenues showed strength across all parts of the enterprise business, with particularly strong gains in our data business and our contact center business, where we added more than 200 new customers during the year. There was also continued good momentum in the migration to IP-based telephony systems. Key growth regions were Europe and Asia.

Enterprise segment operating income was € 126 million in 2007, compared with € 120 million in the same period last year. The increase was largely due to higher revenues in 2007.

## Services Segment

Revenues in the services segment were € 3,173 million in 2007, compared with € 1,761 million in 2006. Nearly all of the increase was attributable to the inclusion of twelve months of Lucent's results of operations for 2007, while our 2006 results included only one month of Lucent's results. Additionally, the transformation of networks to an all-IP architecture has increased carrier spending for our network integration and transformation capabilities. Also, growth in our outsourced network operations services and professional services reflected an ongoing shift in the services market from traditional product-attached deployment and maintenance-type services to integration, network operations and other managed services.

Services segment operating income was € 147 million in 2007 compared with income of € 211 million in 2006. The decline reflects increased costs associated with new network operations contracts, a shift in the mix of services revenues and the negative, non-cash impact of purchase accounting entries resulting from the Lucent business combination.

# 6.6 LIQUIDITY AND CAPITAL RESOURCES

## Liquidity

### Cash flow for the years ended December 31, 2008 and 2007

#### Cash flow overview

Cash and cash equivalents decreased by € 690 million in 2008 to € 3,687 million at December 31, 2008. This decrease was mainly due to the cash used by investing activities of € 726 million (mainly due to capital expenditures), the net cash provided by operating activities of € 207 million being more than offset by cash of € 257 million used by financing activities, due primarily to the repayment or repurchase of long-term debt.

*Net cash provided (used) by operating activities.* Net cash provided by operating activities before changes in working capital, interest and taxes was € 653 million compared to € 413 million for 2007. This increase was primarily due to the effect of non-cash items (mainly impairment losses which amounted to € (4,725) million) that contributed to our net loss (group share) of € 5,215 million in 2008, as compared with net loss of € 3,518 million in 2007, which included an impairment of assets of € (2,944) million. In order to calculate net cash provided by operating activities before changes in working capital, interest and taxes, the € 5,215 million net loss for 2008 must be adjusted for financial, tax and non-cash items (primarily restructuring reserves, depreciation, amortization, impairments and provisions), net gain

on disposal of non-current assets and changes in fair values and share based payments, and adjusted further for cash outflows that had been previously reserved (mainly for ongoing restructuring programs). Impairment of assets and changes in pension and other post-retirement benefit obligations represented a non-cash net positive adjustment of € 4,273 million in 2008, mainly related to the impairment recorded in connection with the Optics and CDMA businesses, as compared with € 2,265 million in 2007 related to the impairment recorded in connection with the CDMA and UMTS businesses. The positive impact of adjustments related to depreciation and amortization of tangible and intangible assets, finance costs and share-based payments decreased from € 1,731 million in 2007 to € 1,538 million in 2008 due mainly to the lower depreciation allowances in 2008 following the impairment of assets accounted for in 2007. Income taxes and related reduction of goodwill represented a positive adjustment of the net result for an amount of € 153 million in 2008 as compared to a positive adjustment of € 316 million in 2007 (the decrease corresponding mainly to deferred taxes, as current income taxes remained stable). On the other hand, the negative adjustment on net income to exclude income from discontinued activities represented € 33 million in 2008 and corresponds mainly to the adjustment of the capital gain on businesses disposed of to Thales in 2007 (compared to € 610 million in 2007, mainly due to the capital gain on the disposal of the two joint ventures in the space sector to Thales).

Net cash provided by operating activities was € 207 million in 2008 compared to net cash used by operating activities of € 24 million in 2007. These amounts take into account the net cash used by operating working capital, vendor financing and other current assets and liabilities, which amounted to € 131 million in 2008 and € 212 million in 2007, which represents € 81 million of less cash used in 2008 compared to 2007. The change between the two periods related to the decrease in cash used by working capital, representing € 30 million in 2008 compared to € 234 million in 2007 and was partially offset by the cash used related to other current assets and liabilities of € 101 million in 2008 to be compared with cash provided by other current assets and liabilities of € 22 million in 2007.

*Net cash provided (used) by investing activities.* Net cash provided (used) by investing activities was € 726 million of net cash used in 2008 compared to € 539 million of net cash provided by investing activities in 2007. The difference is mainly due to the fact that the net cash provided by the disposal of marketable securities in 2008 was only € 12 million, compared to € 1,050 million in 2007. Capital expenditures were relatively stable in 2008 compared to 2007. On the other hand, the cash proceeds from the sale of previously consolidated and non-consolidated investments decreased materially from € 293 million in 2007 (of which € 209 million related to the disposal of our stake in Draka Comteq) to € 22 million in 2008.

*Net cash provided (used) by financing activities.* Net cash used by financing activities amounted to € 257 million in 2008 compared to net cash used of € 1,106 million in 2007. The primary changes were the decrease in the amount of repayment of short-term and long-term debt (€ 250 million in 2008 compared with € 760 million in 2007) and the dividend payment of € 366 million we made on our ordinary shares and ADSs in 2007 based on the results of the 2006 fiscal year.

*Disposed of or discontinued operations.* Disposed of or discontinued operations represented net cash provided of € 21 million in 2008 (adjustment of the selling price of businesses disposed of to Thales in 2007) compared to € 223 million in 2007 (including the proceeds of € 670 million related to the disposal of our ownership interest in two joint ventures in the space sector to Thales offset by the cash used by operating activities and financing activities of the discontinued activities during the period).

## Capital resources

*Resources and cash flow outlook.* Our capital resources may be derived from a variety of sources, including the generation of positive cash flow from on-going operations, the issuance of debt and equity in various forms, and banking facilities, including the revolving credit facility of € 1.4 billion maturing in April 2012 (with an extension until April 5, 2013 for an amount

of € 837 million) and on which we have not drawn (see "Syndicated facility" below). Our ability to draw upon these resources at any time is dependent upon a variety of factors, including our customers' ability to make payments on outstanding accounts receivable, the perception of our credit quality by lenders and investors, our ability to meet the financial covenant for our revolving facility and debt and equity market conditions generally. Given current conditions, access to the debt and equity markets may not be relied upon at this time.

Our short-term cash requirements are primarily related to funding our operations, including our restructuring program, capital expenditures and short-term debt repayments. We believe that our cash, cash equivalents and marketable securities, including short-term investments, aggregating € 4,593 million as of December 31, 2008, are sufficient to fund our cash requirements for the next 12 months, taking into account the anticipated sale of our stake in Thales for € 1.6 billion. Approximately € 678 million of our cash and cash equivalents are held in countries, primarily China, which are subject to exchange control restrictions. These restrictions can limit the use of such funds by our subsidiaries outside of the local jurisdiction. Repatriation efforts are underway to reduce that amount. We do not expect that such restrictions will have an impact on our ability to meet our cash obligations.

During 2009 the projected amount of cash outlays pursuant to our previously announced restructuring programs is expected to be in the same order of magnitude as for 2008, that is, approximately € 570 million. On the other hand, we expect a material reduction in capital expenditures compared to 2008 which amounted to € 901 million including capitalization of development expenditures. We repaid € 777 million in aggregate principal amount of our 4.375% bond that matured on February 2009. In February 2009 Lucent repurchased at a substantial discount U.S. \$ 99 million in aggregate principal amount of our 7.75% bond maturing March 2017. Later in 2009, depending upon market and other conditions, we may continue our bond repurchase program in order to redeem certain of our outstanding bonds.

Based on our current view of our business and capital resources and the overall market environment, we believe we have sufficient resources to fund our operations. If, however, the business environment were to materially worsen, the credit markets were to limit our access to bid and performance bonds, or our customers were to dramatically pull back on their spending plans, our liquidity situation could deteriorate. If we cannot generate sufficient cash from operations to meet cash requirements in excess of our current expectations, we might be required to obtain supplemental funds through additional operating improvements or through external sources, such as capital market proceeds, assets sales or financing from third parties, the availability of which is dependent upon a variety of factors, as noted above.

At March 18, 2009, our credit ratings were as follows:

Rating Agency	Long-term debt	Short-term debt	Outlook	Last update of the rating	Last update of the outlook
Moody's	B1	Not Prime	Negative	February 18, 2009	April 3, 2008
Standard & Poor's	B+	B	Negative	March 3, 2009	March 3, 2009

At March 18, 2009, Lucent's credit ratings were as follows:

Rating Agency	Long-term debt	Short-term debt	Outlook	Last update of the rating	Last update of the outlook
Moody's	Corporate Family Rating withdrawn <sup>(1)</sup>	n.a	n.a	December 11, 2006	n.a
Standard & Poor's	B+	withdrawn	Negative	March 3, 2009	March 3, 2009

(1) Except for preferred notes and bonds that continue to be rated (last update February 18, 2009).

*Moody's:* on February 18, 2009, Moody's had lowered the Alcatel-Lucent Corporate Family Rating, as well as the rating for senior debt of the Group, from Ba3 to B1. The trust preferred notes of Lucent Technologies Capital Trust were downgraded from B2 to B3. The Not-Prime rating for the short-term debt was confirmed. The negative outlook of the ratings was maintained.

On April 3, 2008, Moody's had affirmed the Alcatel-Lucent Corporate Family Rating as well as that of the debt instruments originally issued by historical Alcatel and Lucent. The outlook was changed from stable to negative.

On November 7, 2007, Moody's had lowered the Alcatel-Lucent Corporate Family Rating, as well as the rating of the senior debt of the Group, from Ba2 to Ba3. The Not-Prime rating was confirmed for the short-term debt. The stable outlook was maintained. The trust preferred notes of Lucent Technologies Capital Trust were downgraded from B1 to B2.

On March 29, 2007, the rating for senior, unsecured debt of Lucent was upgraded to Ba2, thus aligning Lucent's rating with Alcatel-Lucent at the time. The subordinated debt and trust preferred notes of Lucent Technologies Capital Trust were rated at B1. On December 11, 2006, Lucent Corporate Family Rating was withdrawn based upon the premise that the management of the two entities would be fully integrated over the following several months. Lucent's obligations were upgraded to a range of B3 to Ba3.

The rating grid of Moody's ranges from AAA, to C, which is the lowest rated class. Our B1 rating is in the B category, which also includes B2 and B3 ratings. Moody's gives the following definition of its B1 category: "obligations rated B are considered speculative and are subject to high credit risk".

*Standard & Poor's:* on March 3, 2009, Standard & Poor's lowered to B+ from BB- its long-term corporate credit ratings and senior unsecured ratings on Alcatel-Lucent and on Lucent. The ratings on the trust preferred notes of Lucent Technologies Capital Trust were lowered to CCC+. The B short-term rating on Alcatel-Lucent was affirmed. The B1 rating on Lucent was withdrawn. The outlook is negative.

On December 12, 2008, Standard & Poor's placed on Credit Watch with negative implications the long-term corporate credit ratings of Alcatel-Lucent and Lucent, as well as all issue ratings on both companies. At the same time, the long-term credit ratings were affirmed.

On July 31, 2008, Standard & Poor's revised to negative from stable its outlook on Alcatel-Lucent and Lucent long-term corporate credit ratings. At the same time, the long and short-term debt ratings of Alcatel-Lucent and of Lucent were affirmed.

On March 19, 2008, the remainder of Lucent's senior unsecured debt was raised to BB-. The trust preferred notes of Lucent Technologies Capital Trust were rated B-.

On September 13, 2007, Standard & Poor's reset the outlook of the long-term corporate credit rating of Alcatel-Lucent and of Lucent. Both outlooks were revised from Positive to Stable. At the same time, Alcatel-Lucent's BB-long term corporate rating, which had been set on December 5, 2006, was affirmed. The Alcatel-Lucent B short-term corporate credit rating and the Lucent B-1 short-term credit rating, both of which had been affirmed on December 5, 2006, were also confirmed.

On June 4, 2007, the ratings of Lucent's Series A and Series B 2.875% senior unsecured debt were raised to BB- from B+ and the B+ rating of Lucent's remaining senior unsecured debt was affirmed.

On December 5, 2006, Lucent's long-term corporate credit rating was equalized with that of Alcatel-Lucent to BB-.

The rating grid of Standard & Poor's ranges from AAA (the strongest rating) to D (the weakest rating). Our B+ rating is in the B category, which also includes B+ and B- ratings. Standard & Poor's gives the following definition to the B category: "An obligation rated "B" is more vulnerable to non-payment than obligations rated "BB" but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial or economic condition likely will impair the obligor's capacity or willingness to meet its financial commitment on the obligation."

We can provide no assurances that our credit ratings will not be lowered in the future by Standard & Poor's, Moody's or similar rating agencies. In addition, a security rating is not a recommendation to buy, sell or hold securities, and each rating should be evaluated separately of any other rating. Our current short-term and long-term credit ratings as well as any possible future lowering of our ratings may result in higher financing costs and in reduced or no access to the capital markets.

Alcatel-Lucent's short-term debt rating allows a limited access to the French commercial paper market for short periods of time.

At December 31, 2008, our total financial debt, gross amounted to € 5,095 million compared to € 5,048 million at December 31, 2007.

*Short-term Debt.* At December 31, 2008, we had € 1,097 million of short-term financial debt outstanding, which included € 777 million of 4.375% Notes due February 2009 (which were repaid in 2009, as noted earlier) and

€ 134 million of accrued interest payable, with the remainder representing other bank loans and lines of credit and other financial debt.

*Long-term Debt.* At December 31, 2008 we had € 3,998 million of long-term financial debt outstanding.

*Rating Clauses Affecting our Debt.* Alcatel-Lucent's and Lucent's outstanding bonds do not contain clauses that could trigger an accelerated repayment in the event of a lowering of their respective credit ratings.

*Alcatel-Lucent syndicated bank credit facility.* On April 5, 2007, Alcatel-Lucent obtained a € 1.4 billion multi-currency syndicated five-year revolving bank credit facility (with two one-year extension options). This facility replaced the undrawn € 1.0 billion syndicated facility, maturing in

June 2009. On March 21, 2008, € 837 million of availability under the facility was extended until April 5, 2013.

The availability of this syndicated credit facility of € 1.4 billion is not dependent upon Alcatel-Lucent's credit ratings. Alcatel-Lucent's ability to draw on this facility is conditioned upon its compliance with a financial covenant linked to the capacity of Alcatel-Lucent to generate sufficient cash to repay its net debt, and compliance is tested quarterly when we release our consolidated financial statements. Since the € 1.4 billion facility was established, we have complied every quarter with the financial covenant that is included in the facility. The facility was undrawn at the date of approval by our Board of Directors of our 2008 consolidated financial statements.

## 6.7 CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET CONTINGENT COMMITMENTS

*Contractual obligations.* We have certain contractual obligations that extend beyond 2009. Among these obligations we have long-term debt and interest thereon, finance leases, operating leases, commitments to purchase fixed assets and other unconditional purchase obligations. Our total contractual cash obligations at December 31, 2008 for these items are

presented below based upon the minimum payments we will have to make in the future under such contracts and firm commitments. Amounts related to financial debt, finance lease obligations and the equity component of our convertible bonds are fully reflected in our consolidated balance sheet included in this document.

(in millions of euros)

Contractual Payment Obligations	Payment Deadline				
	Before December 31, 2009	2010-2011	2012-2013	2014 and after	Total
Financial debt (excluding finance leases)	1,097	1,397	398	2,203	5,095
Finance lease obligations	-	-	-	-	-
Equity component of convertible bonds	-	264	272	110	646
<b>SUBTOTAL – INCLUDED IN OUR BALANCE SHEET</b>	<b>1,097</b>	<b>1,661</b>	<b>670</b>	<b>2,313</b>	<b>5,741</b>
Finance costs on financial debt <sup>(1)</sup>	259	431	364	1,190	2,244
Operating leases	238	419	288	351	1,296
Commitments to purchase fixed assets	38	-	-	-	38
Other unconditional purchase obligations <sup>(2)</sup>	144	37	-	-	181
<b>SUBTOTAL – NOT INCLUDED IN OUR BALANCE SHEET</b>	<b>679</b>	<b>887</b>	<b>652</b>	<b>1,541</b>	<b>3,759</b>
<b>TOTAL CONTRACTUAL OBLIGATIONS<sup>(3)</sup></b>	<b>1,776</b>	<b>2,548</b>	<b>1,322</b>	<b>3,854</b>	<b>9,500</b>

(1) To compute finance costs on financial debt, all put dates have been considered as redemption dates. For debentures with calls but no puts, call dates have not been considered as redemption dates. Further details on put and call dates are given in Note 24 of our consolidated financial statements included elsewhere in this document. If all outstanding debentures at December 31, 2008 were not redeemed at their respective put dates, we would incur an additional finance cost of approximately € 420 million until redemption at their respective contractual maturities (of which € 39 million in 2010-2011 and the remaining part in 2012 or later).

(2) Other unconditional purchase obligations result mainly from obligations under multi-year supply contracts linked to the sale of businesses to third parties.

(3) Obligations related to pensions, post-retirement health and welfare benefits and postemployment benefit obligations are excluded from the table. Refer to Note 25 to our consolidated financial statements for a summary of our expected contributions to these plans.

*Off-balance sheet commitments and contingencies.* On December 31, 2008, our off-balance sheet commitments and contingencies amounted to € 2,504 million, consisting primarily of € 1,232 million in guarantees on long-term contracts for the supply of telecommunications equipment and services by our consolidated and non-consolidated subsidiaries. Generally we provide these guarantees to back performance bonds issued to customers through

financial institutions. These performance bonds and counter-guarantees are standard industry practice and are routinely provided in long-term supply contracts. If certain events occur subsequent to our including these commitments within our off-balance sheet contingencies, such as the delay in promised delivery or claims related to an alleged failure by us to perform on our long-term contracts, or the failure by one of our customers to meet



its payment obligations, we reserve the estimated risk on our consolidated balance sheet under the line items "Provisions" or "Amounts due to/from our customers on construction contracts," or in inventory reserves. Not included in the € 2,504 million is approximately € 425 million in customer financing provided by us.

With respect to guarantees given for contract performance, only those issued by us to back guarantees granted by financial institutions are presented in the table below.

Off-balance sheet contingent commitments given in the normal course of business are as follows:

<i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Guarantees given on contracts made by Group entities and by non-consolidated subsidiaries <sup>(1)</sup>	1,232	1,172
Discounted notes receivables <sup>(2)</sup>	5	3
Other contingent commitments <sup>(3)</sup>	770	797
Commitments of discontinued activities <sup>(4)</sup>	-	54
<b>SUBTOTAL – CONTINGENT COMMITMENTS<sup>(5)</sup></b>	<b>2,007</b>	<b>2,026</b>
Secured borrowings <sup>(6)</sup>	24	25
Guarantee in cash pooling <sup>(7)</sup>	473	522
<b>TOTAL OFF-BALANCE SHEET COMMITMENTS, GUARANTEE IN CASH POOLING AND SECURED BORROWINGS<sup>(5)</sup></b>	<b>2,504</b>	<b>2,573</b>

- (1) This amount is not reduced by any amounts that may be recovered under recourse or similar provisions, guarantees received, or insurance proceeds, as explained more fully below. Of this amount, € 236 million as of December 31, 2008 and € 220 million as of December 31, 2007 represent undertakings we provided on contracts of non-consolidated companies.
- (2) This contingent liability relates to our obligation pursuant to the applicable law of certain jurisdictions (mainly France) to repurchase discounted notes receivable in certain circumstances, such as if there is a payment default.
- (3) Included in the € 770 million are: € 117 million of guarantees provided to tax authorities in connection with tax assessments contested by us, € 83 million of commitments of our banking subsidiary, Electro Banque, to third parties providing financing to non-consolidated subsidiaries, € 101 million of commitments related to leasing or sale and leaseback transactions, € 109 million primarily related to secondary lease obligations resulting from leases that were assigned to businesses Lucent spun-off or disposed of and € 360 million of various guarantees given by certain subsidiaries in the Group. Included in the € 797 million are: € 111 million of guarantees provided to tax authorities in connection with tax assessments contested by us, € 83 million of commitments of our banking subsidiary, Electro Banque, to third parties providing financing to non-consolidated subsidiaries, € 90 million of commitments related to leasing or sale and leaseback transactions, € 123 million primarily related to secondary lease obligations resulting from leases that were assigned to businesses Lucent spun-off or disposed of and € 390 million of various guarantees given by certain subsidiaries in the Group.
- (4) Commitments of discontinued activities correspond to guarantees on third party contracts related to the businesses sold or contributed to Thales (see "Highlights of transactions during 2007" in Section 4.2 of this document), which guarantees amounted to € 54 million as of December 31, 2007. There were no other contingent commitments as of December 31, 2007 held by entities disposed of or contributed to Thales (see Note 3 of our consolidated financial statements included elsewhere in this document). Commitments that were still in the process of being transferred to Thales as of December 31, 2007 in the context of the sale of businesses and contribution of assets to Thales, were counter-guaranteed by Thales. As of December 31, 2008, all such guarantees had been formally transferred to Thales.
- (5) Excluding our commitment to provide further customer financing, as described below.
- (6) The amounts in this item represent borrowings and advance payments received which are secured through security interests or similar liens granted by us. The borrowings are reflected in the Contractual Payment Obligations table above in the line item "Financial debt (excluding capital leases)."
- (7) This guarantee covers any intraday debit position that could result from the daily transfers between our central treasury account and our subsidiaries' accounts.

The amounts of guarantees given on contracts reflected in the preceding table represent the maximum potential amounts of future payments (undiscounted) we could be required to make under current guarantees granted by us. These amounts do not reflect any amounts that may be recovered under recourse, collateralization provisions in the guarantees or guarantees given by customers for our benefit. In addition, most of the parent company guarantees and performance bonds given to our customers are insured; therefore, the estimated exposure related to the guarantees set forth in the preceding table may be reduced by insurance proceeds that we may receive in case of a claim.

Commitments related to product warranties and pension and post-retirement benefits are not included in the preceding table. These commitments are fully reflected in our 2008 consolidated financial statements included elsewhere in this document. Contingent liabilities arising out of litigation, arbitration or regulatory actions are not included in the preceding table either, with the exception of those linked to the guarantees given on our long-term contracts.

Commitments related to contracts that have been cancelled or interrupted due to the default or bankruptcy of the customer are included in the above mentioned "Guarantees given on contracts made by Group entities and by non-consolidated subsidiaries" as long as the legal release of the guarantee is not obtained.

Guarantees given on third-party long-term contracts could require us to make payments to the guaranteed party based on a non-consolidated company's failure to perform under an agreement. The fair value of these contingent liabilities, corresponding to the premium to be received by the guarantor for issuing the guarantee, was € 2 million as of December 31, 2008 (€ 2 million as of December 31, 2007).

In connection with our consent solicitation to amend the indenture pursuant to which Lucent's 2 ¾ Series A Convertible Senior Debentures due 2023 and 2 ¾ Series B Convertible Senior Debentures due 2025 were issued, on December 29, 2006 we issued a full and unconditional guaranty of these debentures. The guaranty is unsecured and is subordinated to the prior payment in full of our senior debt and is pari passu with our other general

unsecured obligations, other than those that expressly provide that they are senior to the guaranty obligations.

*Customer Financing.* Based on standard industry practice, from time to time we extend financing to our customers by granting extended payment terms, making direct loans, and providing guarantees to third-party financing sources. More generally, as part of our business we routinely enter into long-term contracts involving significant amounts to be paid by our customers over time.

As of December 31, 2008, net of reserves, there was an exposure of approximately € 308 million under drawn customer financing arrangements, representing approximately € 305 million of deferred payments and loans, and € 3 million of guarantees. In addition, as of December 31, 2008, we had further commitments to provide customer financing for approximately € 86 million. It is possible that these further commitments will expire without our having to actually provide the committed financing.

Outstanding customer financing and undrawn commitments are monitored by assessing, among other things, each customer's short-term and long-term liquidity positions, the customer's current operating performance versus plan, the execution challenges faced by the customer, changes in the competitive landscape, and the customer's management experience and depth. When we detect potential problems we take mitigating actions, which may include the cancellation of undrawn commitments. Although by taking such actions we may be able to limit the total amount of our exposure, we still may suffer losses to the extent of the drawn and guaranteed amounts.

*Lucent's Separation Agreements.* Lucent is party to various agreements that were entered into in connection with the separation of Lucent and former affiliates, including AT&T, Avaya, LSI Corporation (formerly Agere Systems, before its merger with LSI corporation in April 2007) and NCR Corporation. Pursuant to these agreements, Lucent and the former affiliates have agreed to allocate certain liabilities related to each other's business, and have agreed to share liabilities based on certain allocations and thresholds. We are not aware of any material liabilities to Lucent's former affiliates as a result of the separation agreements that are not otherwise reflected in our consolidated financial statements included elsewhere in this document. Nevertheless, it is possible that potential liabilities for which the former affiliates bear primary responsibility may lead to contributions by Lucent.

*Lucent's Other Commitments – Contract Manufacturers.* Lucent outsources most of its manufacturing operation to electronic manufacturing service (EMS) providers. Until 2008, two EMS providers, Celestica and Solectron (acquired by Flextronics in October 2007), had exclusive arrangements with Lucent to supply most of Lucent-designed wireless and wireline products.

Although no longer exclusive suppliers, Celestica continues to manufacture most of Lucent's existing wireless products and Solectron continues to consolidate the outsourced manufacturing of Lucent's portfolio of wireline products. Lucent generally does not have minimum purchase obligations in its contract-manufacturing relationships with EMS providers and therefore the contractual obligations schedule, presented above under the heading "Contractual Obligations", does not include any commitments related to contract manufacturers.

*Lucent's Guarantees and Indemnification Agreements.* Lucent divested certain businesses and assets through sales to third-party purchasers and spin-offs to the other common shareowners of the businesses spun-off. In connection with these transactions, certain direct or indirect indemnifications were provided to the buyers or other third parties doing business with the divested entities. These indemnifications include secondary liability for certain leases of real property and equipment assigned to the divested entity and specific indemnifications for certain legal and environmental contingencies, as well as vendor supply commitments. The durations of such indemnifications vary but are standard for transactions of this nature.

Lucent remains secondarily liable for approximately U.S. \$ 105 million of lease obligations as of December 31, 2008 (U.S. \$ 131 million of lease obligations as of December 31, 2007), that were assigned to Avaya, LSI Corporation (formerly Agere) and purchasers of other businesses that were divested. The remaining terms of these assigned leases and the corresponding guarantees range from one month to 10 years. The primary obligor under assigned leases may terminate or restructure the lease obligation before its original maturity and thereby relieve Lucent of its secondary liability. Lucent generally has the right to receive indemnity or reimbursement from the assignees and we have not reserved for losses on this form of guarantee.

Lucent is party to a tax-sharing agreement to indemnify AT&T and is liable for tax adjustments that are attributable to its lines of business, as well as a portion of certain other shared tax adjustments during the years prior to its separation from AT&T. Lucent has similar agreements with Avaya and LSI Corporation. Certain proposed or assessed tax adjustments are subject to these tax-sharing agreements. We do not expect that the outcome of these other matters will have a material adverse effect on our consolidated results of operations, consolidated financial position or near-term liquidity.

*Lucent guaranty of Alcatel-Lucent public bonds.* On March 27, 2007, Lucent issued full and unconditional guaranties of our 6.375% notes due 2014 (the principal amount of which was € 462 million on December 31, 2008) and our 4.750% Convertible and/or Exchangeable Bonds due 2011 (the principal amount of which was € 1,022 million on December 31, 2008).

Each guaranty is unsecured and is subordinated to the prior payment in full of Lucent's senior debt and is pari passu with Lucent's other general unsecured obligations, other than those that expressly provide that they are senior to the guaranty obligations.

*Customer Credit Approval Process and Risks.* We engage in a thorough credit approval process prior to providing financing to our customers or guarantees to financial institutions, which provide financing to our customers. Any significant undertakings have to be approved by a central Trade and Project Finance group and by a central Risk Assessment Committee, each independent from our commercial departments. We continually monitor and manage the credit we have extended to our customers, and attempt to limit credit risks by, in some cases, obtaining security interests or by securitizing or transferring to banks or export credit agencies a portion of the risk associated with this financing.

Although, as discussed above, we engage in a rigorous credit approval process and have taken actions to limit our exposure to customer credit risks, if economic conditions and the telecommunications industry in particular were to deteriorate, leading to the financial failure of our customers, we may realize losses on credit we extended and loans we made to our customers, on guarantees provided for our customers and losses relating to our commercial risk exposure under long-term contracts, as well as the loss of our customer's ongoing business. In such a context, should customers fail to meet their obligations to us, we may experience reduced cash flows and losses in

excess of reserves, which could materially adversely impact our results of operations and financial position.

*Capital Expenditures.* We expect a material reduction in capital expenditures compared to 2008 which amounted to € 901 million including capitalization of development expenditures. We believe that our current cash and cash equivalents, cash flows, including the proceeds from the agreed sale of our shares in Thales and funding arrangements provide us with adequate flexibility to meet our short-term and long-term financial obligations and to pursue our capital expenditure program as planned. To the extent that the business environment materially deteriorates or our customers reduce their spending plans, we will reevaluate our capital expenditure priorities appropriately. We may be also required to engage in additional restructuring efforts and seek additional sources of capital, which may be difficult if there is no continued improvement in the market environment and given our limited ability to access the fixed income market at this point. In addition, as mentioned in "Capital Resources" above, if we do not meet the financial covenant contained in our syndicated facility, we may not be able to rely on this funding arrangement to meet our cash needs.

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## 6.8 OUTLOOK FOR 2009

Positive fundamentals continue to influence the market for telecommunications equipment and related services. The number of mobile subscribers is increasing, video and data traffic volumes are growing, telephony penetration is increasing as operators in emerging markets build out their communications infrastructure, and service providers everywhere are spending to transform their networks to an all IP-based architecture. There are also some region-specific pockets of strength. In China, government officials expect mobile operators to spend U.S. \$ 25 billion in 2009 as they build out their new 3G networks, and India is likely to follow suit shortly thereafter. Finally, economic stimulus packages in the U.S. and elsewhere are likely to include funding and/or other incentives for an expansion of broadband access capabilities. Overall, however, the positive fundamentals and pockets of strength are very likely to be outweighed by the deteriorating global economy in 2009. Many service providers are already seeing weakness in spending by their business customers and continued declines in their fixed access lines. Consequently, service providers are planning cuts in their 2009 capital expenditure budgets that are generally expected to affect wireline spending more than wireless. Carriers are emphasizing the need for flexible spending plans to allow them to quickly react to any additional deterioration they expect to see in end-user spending as 2009 unfolds. In many emerging markets, service provider spending is being affected not only by recession, but by deteriorating local currencies and a lack of credit. And in the emerging markets where spending may remain strong, like China and India, vendor margins will be pressured. As a result, we expect that competitive pressures will remain intense as the global telecommunications equipment and related services market declines in 2009 between 8% and 12% at constant currency rates. We expect to maintain a stable share of that market.

Against that backdrop, we are aiming to reduce our break-even point by € 1 billion per year for each of 2009 and 2010. Specifically, we aim to:

- improve gross margin by reducing manufacturing, supply chain and procurement costs, introducing stricter pricing discipline and improving the product mix;
- enhance R&D efficiency by focusing on four key segments – IP, optics, broadband and applications – while we accelerate the shift of our investments towards next-generation platforms;
- materially reduce SG&A expenses through the de-layering of our organization and the elimination of sales duplication between product groups and regions.

As a part of these initiatives, our goal is to reduce the number of managers by approximately 1,000 and the number of third-party contractors by approximately 5,000. We aim to complete our existing restructuring initiatives as well as to seek savings in real estate, support functions and discretionary spending. Our objective is that, by the fourth quarter of 2009 on an annual run rate basis, we should achieve total savings of € 750 million at a constant exchange rate, of which approximately one-third will be in cost of goods sold and two-thirds in R&D and SG&A expenses. As a result of the expected decline in volumes and given that the improvement in gross margin may only materialize towards the end of the year, our initial forecast is to achieve an operating profit before restructuring costs, impairment of assets, gain/loss on disposal of consolidated entities and post-retirement benefit plan amendments (excluding the negative non-cash impacts of Lucent's purchase price allocation) around break-even in 2009.

## 6.9 QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

### Financial instruments

We enter into derivative financial instruments primarily to manage our exposure to fluctuations in interest rates and foreign currency exchange rates. Our policy is not to take speculative positions. Our strategies to reduce exchange and interest rate risk have served to mitigate, but not eliminate, the positive or negative impact of exchange and interest rate fluctuations.

Derivative financial instruments held by us at December 31, 2008 were mostly hedges of existing or future financial or commercial transactions or were related to issued debt.

The largest position part of our issued debt is in euro and U.S. dollar. We use interest rate derivatives to convert a part of the fixed rate debt into floating rate in order to cover the interest rate risk.

### Counterparty risk

For our marketable securities, cash, cash equivalents and financial derivative instruments, we are exposed to credit risk if a counterparty defaults on its financial commitments to us. This risk is monitored daily, with strict limits based on the counterparties' rating. All of our counterparties were classified in the investment grade category as of December 31, 2008. The exposure of each market counterparty is calculated taking into account the nature and the duration of the transactions and the volatilities and fair value of the underlying market instruments.

### Foreign currency risk

Since we conduct commercial and industrial operations throughout the world, we are exposed to foreign currency risk. We use derivative financial instruments to protect ourselves against fluctuations of foreign currencies which have an impact on our assets, liabilities, revenues and expenses.

Future transactions mainly relate to firm commercial contracts and commercial bids. Firm commercial contracts and commercial bids are hedged by forward foreign exchange transactions or currency options. The duration of future transactions that are not firmly committed does not usually exceed 18 months.

### Interest rate risk on financial debt, net

In the event of an interest rate decrease, the fair value of our fixed-rate debt would increase and it would be more costly for us to repurchase it (not taking into account that an increased credit spread reduces the value of the debt).

In the table below, the potential change in fair value for interest rate sensitive instruments is based on a hypothetical and immediate one percent fall or rise for 2008 and 2007, in interest rates across all maturities and for all currencies. Interest rate sensitive instruments are fixed-rate, long-term debt or swaps and marketable securities.

	December 31, 2008				December 31, 2007			
	Booked value	Fair value	Fair value variation if rates fall by 1%	Fair value variation if rates rise by 1%	Booked value	Fair value	Fair value variation if rates fall by 1%	Fair value variation if rates rise by 1%
<i>(in millions of euros)</i>								
<b>Assets</b>								
Marketable securities	906	906	7	(7)	894	894	10	(10)
Cash and cash equivalents <sup>(1)</sup>	3,687	3,687	-	-	4,377	4,377	-	-
<b>Liabilities<sup>(2)</sup></b>								
Convertible bonds	(2,387)	(1,779)	(47)	44	(2,273)	(2,051)	(136)	123
Non convertible bonds	(2,320)	(1,555)	(42)	42	(2,381)	(2,234)	(134)	118
Other financial debt	(388)	(388)	-	-	(394)	(394)	-	-
Interest rate derivatives	71	71	40	(37)	3	3	34	(32)
Loan to co-venturer	42	42	-	-	45	45	-	-
<b>DEBT/CASH POSITION</b>	<b>(389)</b>	<b>984</b>	<b>(42)</b>	<b>42</b>	<b>271</b>	<b>640</b>	<b>(226)</b>	<b>199</b>

(1) For cash and cash equivalents, the booked value is considered as a good estimation of the fair value.

(2) Over 99% of our bonds have been issued with fixed rates. At year-end 2008, the fair value of our long-term debt was lower than its booked value due to increasing credit spread. At year-end 2007, the fair value of our long-term debt was lower than its booked value due to increasing interest rates

The fair value of the instruments in the table above is calculated with market standard financial software according to the market parameters prevailing on December 31, 2008.

## Fair value hedge and cash flow hedge

The ineffective portion of changes in fair value hedges and cash flow hedges was a profit of € 13 million at December 31, 2008, compared to a loss of € 19 million at December 31, 2007 and a loss of € 11 million at December 31, 2006. We did not have any amount excluded from the measure of effectiveness. There was no impact of contract cancellation in the income statement at December 31, 2008, 2007 and 2006.

## Net investment hedge

We have stopped using investment hedges in foreign subsidiaries. At December 31, 2008, 2007 and 2006, there were no derivatives that qualified as investment hedges.

## 6.10 LEGAL MATTERS

In addition to legal proceedings incidental to the conduct of our business (including employment-related collective actions in France and the United States) which management believes are adequately reserved against in the financial statements or will not result in any significant costs to the Group, we are involved in the following legal proceedings.

### Costa Rica

Beginning in early October 2004, we learned that investigations had been launched in Costa Rica by the Costa Rican prosecutors and the National Congress, regarding payments alleged to have been made by consultants on behalf of Alcatel CIT, a French subsidiary now called Alcatel-Lucent France ("CIT"), or other Alcatel subsidiaries to various public officials in Costa Rica, two political parties in Costa Rica and representatives of ICE, the state-owned telephone company, in connection with the procurement by CIT of several contracts for network equipment and services from ICE. Upon learning of these allegations, we commenced an investigation into this matter, which is ongoing.

We terminated the employment of the then-president of Alcatel de Costa Rica in October 2004 and of a vice president Latin America of CIT. CIT is also pursuing criminal actions in France against the latter and in Costa Rica against these two former employees and certain local consultants, based on CIT's suspicion of their complicity in a bribery scheme and misappropriation of funds. The United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") are aware of the allegations and we have stated we will cooperate fully in any inquiry or investigation into these matters. The SEC and the DOJ are conducting an investigation into possible violations of the Foreign Corrupt Practices Act ("FCPA") and the federal securities laws. In connection with that investigation, the DOJ and the SEC also have requested information regarding Alcatel's operations in other countries. If the DOJ or the SEC determine that violations of law have

## Equity risks

We may use derivative instruments to manage the equity investments in listed companies that we hold in our portfolio. We may sell call options on shares held in our portfolio and any profit would be measured by the difference between our book value for such securities and the exercise price of the option, plus the premium received.

We may also use derivative instruments on our shares held in treasury. Such transactions are authorized as part of the stock repurchase program approved at our shareholders' general meeting held on June 1, 2007.

Since April 2002, we have not had any derivative instruments in place on investments in listed companies or on our shares held in treasury.

Additional information regarding market and credit risks, including the hedging instruments used, is provided in Note 28 to our consolidated financial statements included elsewhere herein.

occurred, they could seek civil or, in the case of the DOJ, criminal sanctions, including monetary penalties against us.

In connection with these allegations, on December 19, 2006, the DOJ indicted the former CIT employee on charges of violations of the FCPA, money laundering, and conspiracy. On March 20, 2007, a grand jury returned a superseding indictment against the same former employee and the former president of Alcatel de Costa Rica, based on the same allegations contained in the previous indictment. On June 11, 2007, the former CIT employee entered into a Plea Agreement in the U.S. District Court for the Southern District of Florida and pleaded guilty to violations of the FCPA. On September 23, 2008, the former CIT employee was sentenced to 30 months' imprisonment, three years' supervised release, the forfeiture of U.S. \$ 261,500, and a U.S. \$ 200 special assessment.

French authorities are also conducting an investigation of CIT's payments to consultants in the Costa Rica matter.

We are cooperating with the U.S., French and Costa Rican authorities in the respective investigations described above.

Neither the DOJ, the SEC nor the French authorities have informed us what action, if any, they will take against us and our subsidiaries.

In connection with the aforementioned allegations, on July 27, 2007, the Costa Rican Prosecutor's Office indicted eleven individuals, including the former president of Alcatel de Costa Rica, on charges of aggravated corruption, unlawful enrichment, simulation, fraud and others. Two of those individuals have since pled guilty. Shortly thereafter, the Costa Rican Attorney General's Office and ICE, acting as victims of this criminal case, each filed amended civil claims against the eleven criminal defendants, as well as five additional civil defendants (one individual and four corporations, including CIT) seeking compensation for damages in the amounts of U.S. \$ 52 million (in the case of the Attorney General's Office) and U.S. \$ 20 million (in the

case of ICE). The Attorney General's claim supersedes two prior claims, of November 25, 2004 and August 31, 2006. On November 25, 2004, the Costa Rican Attorney General's Office commenced a civil lawsuit against CIT to seek pecuniary compensation for the damage caused by the alleged payments described above to the people and the Treasury of Costa Rica, and for the loss of prestige suffered by the Nation of Costa Rica (social damages). The ICE claim, which supersedes its prior claim of February 1, 2005, seeks pecuniary compensation for the damage caused by the alleged payments described above to ICE and its customers, for the harm to the reputation of ICE resulting from these events (moral damages), and for damages resulting from an alleged overpricing it was forced to pay under its contract with CIT. During preliminary court hearings held in San José during September 2008, ICE filed a report in which the damages allegedly caused by CIT are valued at U.S. \$ 71.6 million. No formal notice of a revised civil claim has so far been received by CIT.

We intend to defend these actions vigorously and deny any liability or wrongdoing with respect to these claims.

Additionally, in August 2007, ICE notified CIT of the commencement of an administrative proceeding to terminate the 2001 contract for CIT to install 400,000 GSM cellular telephone lines (the "400KL GSM Contract"), in connection with which ICE is claiming compensation of U.S. \$ 59.8 million for damages and loss of income. By March 2008, CIT and ICE concluded negotiations of a draft settlement agreement for the implementation of a "Get Well Plan," in full and final settlement of the above-mentioned claim. This settlement agreement was not approved by ICE's Board of Directors that resolved, instead, to resume the aforementioned administrative proceedings to terminate the operations and maintenance portion of the 400KL GSM Contract, claim penalties and damages in the amount of U.S. \$ 59.8 million and call the performance bond. CIT was notified of this ICE resolution on June 23, 2008. ICE has made additional damages claims and penalty assessments related to the 400KL GSM Contract that bring the overall exposure under the contract to U.S. \$ 64.7 million in the aggregate.

In June 2008, CIT filed an administrative appeal against the resolution mentioned above. ICE called the performance bond in August 2008, and on September 16, 2008 CIT was served notice of ICE's request for payment of the remainder amount of damages claimed, U.S. \$ 44.7 million. On September 17, 2008, the Costa Rican Supreme Court ruled on the appeal filed by CIT stating that: (i) the U.S. \$ 15.1 million performance bond amount is to be reimbursed to CIT and (ii) the U.S. \$ 44.7 million claim is to remain suspended until final resolution by the competent Court of the case. Following a clarification request filed by ICE, the Court finally decided that the U.S. \$ 15.1 million performance bond amount is to remain deposited in an escrow account held by the Court, until final resolution of the case. On October 8, 2008 CIT filed a claim against ICE requesting the court to overrule ICE's contractual resolution regarding the 400KL GSM Contract and claiming compensation for the damages caused to CIT. In January 2009, ICE filed its response to CIT's claim. At a Court hearing on March 25, 2009, ICE ruled out entering into settlement discussions with CIT. The next Court hearing regarding these legal proceedings is scheduled for June 1, 2009.

On October 14, 2008, the Costa Rican authorities notified CIT of the commencement of an administrative proceeding to ban CIT from government procurement contracts in Costa Rica for up to 5 years.

We are unable to predict the outcome of these investigations and civil lawsuits and their effect on CIT's business. If the Costa Rican authorities conclude criminal violations have occurred, CIT may be banned from participating in government procurement contracts within Costa Rica for a

certain period. We expect to generate approximately € 3 million in revenue from Costa Rican contracts in 2009. Based on the amount of revenue expected from these contracts, we do not believe a loss of business in Costa Rica would have a material adverse effect on our group as a whole. However, these events may have a negative impact on our reputation in Latin America.

We have recognized a provision in connection with the various ongoing legal proceedings in Costa Rica.

## Taiwan

Certain employees of Taisel, a Taiwanese affiliate of Alcatel-Lucent, and Siemens's Taiwanese distributor, along with a few suppliers and a legislative aide, have been the subject of an investigation by the Taipei Investigator's Office of the Ministry of Justice relating to an axle counter supply contract awarded to Taisel by Taiwan Railways in 2003. It has been alleged that persons in Taisel, Alcatel-Lucent Deutschland AG (our German subsidiary involved in the Taiwan Railway contract), Siemens Taiwan, and subcontractors hired by them were involved in a bid-rigging and illicit payment arrangement for the Taiwan Railways contract.

Upon learning of these allegations, we commenced and are continuing an investigation into this matter. As a result of the investigation, we terminated the former president of Taisel. A director of international sales and marketing development of the German subsidiary resigned during the investigation.

On February 21, 2005, Taisel, the former president of Taisel, and others were indicted in Taiwan for violation of the Taiwanese Government Procurement Act.

On November 15, 2005, the Taipei criminal district court found Taisel not guilty of the alleged violation of the Government Procurement Act. The former President of Taisel was not judged because he was not present or represented at the proceedings. The court found two Taiwanese businessmen involved in the matter guilty of violations of the Business Accounting Act. The not guilty verdict for Taisel was upheld by the Taiwan High Court and the Taiwan Prosecutor Office has stated that it will not appeal the ruling any further.

Other allegations made in connection with this matter may still be under ongoing investigation by the Taiwanese authorities.

The SEC and the DOJ are also looking into these allegations.

As a Group, we expect to generate approximately € 99 million of revenue from Taiwanese contracts in 2009, of which only a part is generated from governmental contracts. Based on the amount of revenue expected from these contracts, we do not believe a loss of business in Taiwan would have a material adverse effect on our Group as a whole.

## Kenya

The SEC and the DOJ have asked us to look into payments made in 2000 by CIT to a consultant arising out of a supply contract between CIT and a privately-owned company in Kenya. We understand that the French authorities are also conducting an investigation to ascertain whether inappropriate payments were received by foreign public officials in connection with such project. We are cooperating with the U.S. and French authorities and have submitted to these authorities our findings regarding those payments.

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## Government investigations related to Lucent

### China

In April 2004, Lucent reported to the DOJ and the SEC that an internal FCPA compliance audit and an outside counsel investigation found incidents and internal control deficiencies in Lucent's operations in China that potentially involve FCPA violations. Lucent cooperated with those agencies. On December 21, 2007, Lucent entered into agreements with the DOJ and the SEC to settle their respective investigations. Lucent signed a non-prosecution agreement with the DOJ. Pursuant to that agreement, the DOJ agreed not to charge Lucent with any crime in connection with the allegations in China. Lucent agreed to pay a U.S. \$ 1 million monetary penalty and adopt or modify its existing internal controls, policies, and procedures.

On December 21, 2007, the SEC filed civil charges against Lucent in the United States District Court for the District of Columbia alleging violations of the books and records and internal controls provisions of the FCPA. That same day, Lucent and the SEC entered into a consent agreement, resolving those charges. Pursuant to that consent agreement, Lucent, without admitting or denying the allegations in the SEC's complaint, agreed to a permanent injunction enjoining Lucent from any future violations of the internal controls and books and records provisions of the FCPA. Lucent further agreed to pay a civil penalty of U.S. \$ 1.5 million.

If Lucent abides by the terms of its agreements with the DOJ and the SEC, Lucent does not anticipate any further actions by the DOJ and the SEC with respect to allegations regarding Lucent's conduct in China.

## Lucent's employment and benefits related cases

Lucent has implemented various actions to address the rising costs of providing retiree health care benefits and the funding of Lucent pension plans. These actions have led to the filing of cases against Lucent and may lead to the filing of additional cases. Purported class action lawsuits have been filed against Lucent in connection with the elimination of the death benefit from its U.S. management pension plan in early 2003. Three such cases have been consolidated into a single action pending in the U.S. District Court in New Jersey, captioned *In Re Lucent Death Benefits ERISA Litigation*. The elimination of this benefit reduced Lucent future pension obligations by U.S. \$ 400 million. The benefit was paid out of the pension plan assets to certain qualified surviving dependents, such as spouses or dependent children of management retirees. The case alleges that Lucent wrongfully terminated this death benefit and requests that it be reinstated, along with other remedies. This case has been dismissed by the court and the appellate court. The time for the plaintiffs to have filed an appeal with the U.S. Supreme Court has expired. Another such case, *Chastain, et al. v. AT&T*, was filed in the U.S. District Court in the Western District of Oklahoma. The *Chastain* case also involves claims related to changes to retiree health care benefits. That case has also been dismissed by the court and appellate court, but an appeal to the U.S. Supreme Court is possible.

In October 2005, a purported class action was filed by Peter A. Raetsch, Geraldine Raetsch and Curtis Shiflett, on behalf of themselves and all others similarly situated, in the U.S. District Court for the District of New Jersey. The

plaintiffs in this case allege that Lucent failed to maintain health care benefits for retired management employees for each year from 2001 through 2006 as required by the Internal Revenue Code, the Employee Retirement Income Security Act, and the Lucent pension and medical plans. Upon motion by Lucent, the court remanded the claims to Lucent's claims review process. A Special Committee was appointed and reviewed the claims of the plaintiffs and Lucent filed a report with the court on December 28, 2006. The Special Committee denied the plaintiffs' claims and the case has returned to the court, where limited discovery has been completed.

By Opinion and Order, each dated June 11, 2008, the court granted in part and denied in part the plaintiffs' motion for summary judgment (as to liability) and denied Lucent's cross-motion for summary judgment (also as to liability). Specifically, the court found that Lucent had violated the Plan's maintenance of benefits requirement with respect to the 2003 plan year but that the record before the court contained insufficient facts from which to conclude whether those provisions were violated for years prior to 2003. The court also "tentatively" ruled that Lucent had not violated the Plan's maintenance of cost provisions for the years 2004 through 2006. The court ordered the parties to engage in further discovery proceedings. Finally, the Court denied, without prejudice, the plaintiff's motion for class certification. On June 26, 2008, Lucent requested the Court to certify the case for appeal to the Third Circuit Court of Appeals in its discretion. This request was denied.

Lucent believes it has meritorious defenses to the claims for each year and intends to continue to defend this case vigorously. However, as a result of the court's findings for 2003, Lucent established a provision for U.S. \$ 27 million during the second quarter of 2008. The amount was determined based on internal estimates from 2002 of the potential impact of the benefit plan changes for the 2003 plan year. Based upon a review of claims data, Lucent now believes that the impact of the 2003 benefit plan changes, during fiscal year ending September 30, 2003, is U.S. \$ 29.4 million, an increase of U.S. \$ 2.4 million over the current provision. Lucent is currently unable to determine the actual impact of the related benefit plan changes for the 2003 plan year because, even if Lucent is finally determined to be liable, the method of determining damages to participants has not been determined. Although the plaintiffs have alleged damages in excess of the amount provided for by Lucent, Lucent believes that those amounts are without merit. Because of the court's directions with respect to years other than 2003, Lucent has not reflected any provision for years other than 2003.

In September 2004, the Equal Employment Opportunity Commission (EEOC) filed a purported class action lawsuit against Lucent, *EEOC v. Lucent Technologies Inc.*, in the U.S. District Court in California. The case alleges gender discrimination in connection with the provision of service credit to a class of present and former Lucent employees who were on maternity leave prior to 1980 and seeks the restoration of lost service credit prior to April 29, 1979, together with retroactive pension payment adjustments, corrections of service records, back pay and recovery of other damages and attorneys fees and costs. The case is stayed pending the disposition of another case raising similar issues. In the related case, the U.S. Ninth Circuit Court of Appeals recently found against the defendant employer. The defendant employer in the related case has filed an appeal to the U.S. Supreme Court. The Supreme Court heard argument of this case on December 10, 2008. The Supreme Court has requested additional briefings based on the enactment of the Lilly Ledbetter Fair Pay Act.



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## Intellectual property cases

Each of Alcatel-Lucent, Lucent and certain other entities of the Group is a defendant in various cases in which third parties claim infringement of their patents, including certain cases where infringement claims have been made against its customers in connection with products the applicable Alcatel-Lucent entity has provided to them, or challenging the validity of certain patents.

### Microsoft

On February 22, 2007, after a three-week trial in the U.S. District Court in San Diego, California, a jury returned a verdict in favor of Lucent against Microsoft in the first of a number of scheduled patent trials. In this first trial involving two of Lucent's "Audio Patents", the jury found all the asserted claims of the patents valid and infringed, and awarded Lucent damages in an amount exceeding U.S. \$ 1.5 billion. On August 6, 2007, the U.S. District Court in San Diego issued a judgment as a matter of law reversing the jury verdict and entering judgment in favor of Microsoft. On September 25, 2008, the Court of Appeals for the Federal Circuit in Washington, D.C. affirmed the lower court's ruling.

Lucent, Microsoft and Dell have been involved in a number of patent lawsuits in various jurisdictions. In the summer of 2003, certain Dell and Microsoft lawsuits in San Diego, California, were consolidated in federal court in the Southern District of California. The court scheduled a number of trials for groups of the Lucent patents, including the trial described above. Additional trials in this case against Microsoft and Dell were held in 2008. In one of the additional San Diego trials, on April 4, 2008, a jury awarded us approximately U.S. \$ 368 million in damages on additional patents and the judge granted prejudgment interest on that award on April 28, 2008.

On December 15, 2008, we and Microsoft executed a settlement and license agreement whereby the parties agreed to settle the majority of their outstanding litigations. This settlement included dismissing all pending patent claims in which we are a defendant and provided us with licenses to all Microsoft patents-in-suit in these cases. Only the appeal relating to two patents involved in the February-April, 2008 trial against Microsoft and Dell remains currently pending in the Court of Appeals for the Federal Circuit. A decision on this appeal is expected in the third or fourth quarter of this year.

## Other Lucent litigation

### Winstar

Lucent is a defendant in an adversary proceeding originally filed in U.S. Bankruptcy Court in Delaware by Winstar and Winstar Wireless, Inc. in connection with the bankruptcy of Winstar and various related entities. The

trial for this matter concluded in June 2005. The trial pertained to breach of contract and other claims against Lucent, for which the trustee for Winstar was seeking compensatory damages of approximately U.S. \$ 60 million, as well as costs and expenses associated with litigation. The trustee was also seeking recovery of a payment Winstar made to Lucent in December 2000 of approximately U.S. \$ 190 million plus interest. The Trustee also sought to invalidate Lucent's priority claim to an escrow account currently worth approximately U.S. \$ 23 million. On December 21, 2005, the judge rendered his decision and the verdict resulted in a judgment against Lucent for approximately U.S. \$ 244 million, plus statutory interest and other costs. The court also ruled against Lucent's priority claim to the escrow account. As a result, Lucent has recognized a U.S. \$ 315 million provision (including related interest and other costs of approximately U.S. \$ 71 million) as of December 31, 2008. In addition, U.S. \$ 328 million of cash is collateralizing a letter of credit that was issued in connection with this matter. On April 26, 2007, the U.S. District Court for the District of Delaware affirmed the decision of the Bankruptcy Court. Lucent appealed this decision with the United States Court of Appeals. On February 3, 2009, the Court issued its opinion affirming the District Court's Order with a modification to the lower courts' subordination of Lucent's security interest in the escrow account which has no financial consequence. On February 20, 2009, Lucent and the Trustee entered into a settlement agreement, which the Court approved on March 25, 2009. Pursuant to this settlement, the Trustee received U.S. \$ 320 million, consisting of the proceeds of the letter of credit and a portion of the escrow account. The balance of the escrow was released to Lucent and the excess restricted cash securing the letter of credit was released from such restriction. This settlement resolves this matter.

## Effect of the various investigations and procedures

We reiterate that our policy is to conduct our business with transparency, and in compliance with all laws and regulations, both locally and internationally. We will cooperate with all governmental authorities in connection with the investigation of any violation of those laws and regulations.

Governmental investigations and legal proceedings are subject to uncertainties and the outcomes thereof are difficult to predict. Consequently, we are unable to estimate the ultimate aggregate amount of monetary liability or financial impact with respect to these matters. Because of the uncertainties of government investigations and legal proceedings, one or more of these matters could ultimately result in material monetary payments by us.

## 6.11 RESEARCH AND DEVELOPMENT – EXPENDITURES

### Expenditures

In 2008, in absolute value 14.8% of revenues was spent in innovation and in supporting our various product lines. These expenditures amounted to € 2.5 billion before capitalization of development expenses and capital gain (loss) on disposal of fixed assets, and excluding the impact of the purchase price allocation entries of the business combination with Lucent, as disclosed in Note 3 of the consolidated financial statements included elsewhere in this document.

### Accounting policies

In accordance with IAS 38 "Intangible Assets," Research and development expenses are recorded as expenses in the year in which they are incurred, except for development costs, which are capitalized as an intangible asset when they strictly comply with the following criteria:

- the project is clearly defined, and the costs are separately identified and reliably measured;
- the technical feasibility of the project is demonstrated;
- the intention exists to finish the project and use or sell the products created during the project;
- the ability to use or sell the products created during the project;
- a potential market for the products created during the project exists or their usefulness, in case of internal use, is demonstrated, leading to believe that the project will generate probable future economic benefits; and
- adequate resources are available to complete the project.

These development costs are amortized over the estimated useful life of the projects concerned or the products they are incorporated within. The amortization of capitalized development costs begins as soon as the related product is released.

Specifically for software, useful life is determined as follows:

- in case of internal use: over its probable service lifetime; and
- in case of external use: according to prospects for sale, rental or other forms of distribution.

Capitalized software development costs are those incurred during the programming, codification and testing phases. Costs incurred during the design and planning, product definition and product specification stages are accounted for as expenses. The amortization of capitalized software costs during a reporting period is the greater of the amount computed using (a) the ratio that current gross revenues of a product bear to the total of current and anticipated further gross revenues for that product and (b) the straight-line method over the remaining estimated economic life of the software or the product they are incorporated within.

The amortization of internal use software capitalized development costs is accounted for by function depending on the beneficiary function.

Customer design engineering costs (recoverable amounts disbursed under the terms of contracts with customers) are included in work in progress on construction contracts.

With regard to business combinations, we allocate a portion of the purchase price to in-process research and development projects that may be significant. As part of the process of analyzing these business combinations, we may make the decision to buy technology that has not yet been commercialized rather than develop the technology internally. Decisions of this nature consider existing opportunities for us to stay at the forefront of rapid technological advances in the telecommunications-data networking industry.

The fair value of in-process research and development acquired in business combinations is usually based on present value calculations of income, an analysis of the project's accomplishments and an evaluation of the overall contribution of the project, and the project's risks.

The revenue projection used to value in-process research and development is based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by us and our competitors. Future net cash flows from such projects are based on management's estimates of such projects' cost of sales, operating expenses and income taxes.

The value assigned to purchased in-process research and development is also adjusted to reflect the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the projected cost to complete the projects.

Such value is determined by discounting the net cash flows to their present value. The selection of the discount rate is based on our weighted average cost of capital, adjusted upward to reflect additional risks inherent in the development life cycle.

Capitalized development costs considered as assets (either generated internally and capitalized or reflected in the purchase price of a business combination) are generally amortized over three to ten years.

In accordance with IAS 36 "Impairment of Assets," whenever events or changes in market conditions indicate a risk of impairment of intangible assets, a detailed review is carried out in order to determine whether the net carrying amount of such assets remains lower than their recoverable amount, which is defined as the greater of fair value (less costs to sell) and value in use. Value in use is measured by discounting the expected future cash flows from continuing use of the asset and its ultimate disposal.

If the recoverable value is lower than the net carrying value, the difference between the two amounts is recorded as an impairment loss. Impairment losses for intangible assets with finite useful lives can be reversed if the recoverable value becomes higher than the net carrying value (but not exceeding the loss initially recorded).

During the year ended December 31, 2008, impairment losses of € 1,125 million were accounted for related to acquired technologies coming from the business combination with Lucent completed in December 2006, and are mainly related to the CDMA business. In 2007, impairment losses of

€ 159 million were accounted for related to the acquired technologies from Nortel's UMTS business acquired on December 2006.

Impairment losses for capitalized development costs of € 135 million were accounted for in 2008, mainly related to the adaptation of our WiMAX strategy, by focusing our WiMAX efforts on supporting fixed and nomadic broadband access applications for providers. Impairment losses for capitalized development costs of € 41 million were accounted for in 2007 mainly related to the UMTS business. In 2006, impairment losses of € 104 million and write-offs of € 197 million were accounted for in capitalized development costs, and were mainly related to the discontinuance of product lines following the acquisition of UMTS technologies from Nortel and the business combination with Lucent.

### Application of accounting policies to certain significant acquisitions

In accounting for our business combination with Lucent and our acquisition of the UMTS business of Nortel in 2006, we allocated a significant portion of the purchase price of each transaction to in-process Research and Development projects and to acquired technologies.

Set forth below is a description of our methodology for estimating the fair value of the in-process research and development of the UMTS business of Nortel at the time of their acquisition, and of Lucent at the time of the business combination. We cannot give assurances that the underlying assumptions used to estimate expected project revenues, development costs or profitability, or the events associated with such projects, as described below, will take place as estimated.

*Lucent.* At the date of the business combination, Lucent was conducting design, development, engineering and testing activities associated with the completion of numerous projects aimed at developing next-generation technologies for the telecommunications equipment market. The nature of the additional efforts required to develop these technologies into commercially viable products consists primarily of planning, designing, experimenting, and further testing activities necessary to determine whether the technologies can meet market expectations, including functionality and technical requirements.

The methodology we used to allocate the purchase price to in-process research and development involved established valuation techniques. The income approach was the primary valuation method employed. This approach discounts expected future cash flows related to the projects to present value. The discount rates used in the present value calculations are typically based on a weighted-average cost of capital analysis, venture capital surveys and other sources, where appropriate. We made adjustments to reflect the inherent risk of the developmental assets. We also employed the cost approach in certain cases, which entails estimating the cost to recreate the asset. We consider the pricing models related to the combination to be standard within the telecommunications industry.

The key assumptions employed in both approaches consist primarily of an expected completion date for the in-process projects, estimated costs to complete the projects, revenue and expense projections, and discount rates based on the risks associated with such development of the in-process technology acquired. We cannot give assurances that the underlying assumptions used to estimate expected project revenues, development costs

or profitability, or the events associated with such projects, as described below, will take place as estimated.

In the context of the combination with Lucent, we allocated approximately U.S. \$ 581 million of the purchase price to in-process research and development. An impairment charge of U.S. \$ 123 million was accounted for as restructuring costs in December 2006 in connection with the discontinuance of certain product lines. An additional impairment loss of U.S. \$ 50 million was accounted for in the context of the 2008 impairment tests of goodwill mainly in CDMA.

*UMTS business of Nortel.* Nortel had spent over U.S. \$ 1.0 billion in the five years immediately prior to our acquisition of the UMTS business on the development of the UMTS technology assets. The technology is based on current standards and architectures and is designed to allow for future enhancements. In order to proceed with the valuation of this technology asset upon the acquisition of the UMTS business, we reviewed royalty rate data for contemporary transactions in the telecommunications transmission technology market and wireless-related protocol market. The relevant range of royalty rate was 4.0% to 6.0%.

We considered it appropriate to use a royalty rate of 6.0%, to reflect the specific characteristics of the acquired UMTS technology. Certain of the comparable transactions reviewed involved restricted licensing arrangements (limited geography, markets, etc.), which, if treated as fully comparable to our acquisition, would result in underestimating the value of our unrestricted ownership for UMTS. Additionally, we and Nortel's management both considered the Nortel UMTS technology as more mature and superior to our existing products. The majority of our UMTS technology platform going forward will be comprised of Nortel UMTS assets. The acquired UMTS-developed technology was expected to contribute meaningfully to revenue generation for approximately seven years. The technology may contribute to the forthcoming long term evolution (4G) products beyond seven years, but it was unclear at the valuation date what role, if any, the acquired assets will play. The resulting cash flows were discounted to present value using a rate of 18.0% based on the UMTS technology's relative risk profile and position in its technology cycle. The present value associated with UMTS technology assets (including in-process research and development) was € 127 million.

In order to allocate this aggregate value to developed technology and in-process research and development, the expected contribution to cash flows for the in-process research and development was estimated and used as a factor for determining its share of the total UMTS value. The remaining value was ascribed to the acquired developed technology and know how. The contribution of in-process research and development was estimated based on the relative research and development costs incurred on the identified projects to the total research and development spent on the overall UMTS platform while in development at Nortel. UA 5.0 and UA 6.0 UMTS projects were identified as in-process at the valuation date. Nortel had spent approximately U.S. \$ 130 million on these projects until our acquisition of the UMTS business. In 2005, Nortel incurred U.S. \$ 24.4 million and U.S. \$ 0.2 million in development expenses for the UA 5.0 and the UA 6.0 in-process research and development projects, respectively, and U.S. \$ 102.7 million and U.S. \$ 2.1 million in 2006. Expense incurred by Alcatel-Lucent in 2007 was € 45 million for UA 5.0 and € 106 million for UA 6.0.

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UMTS development efforts from 2001 through 2006 can be characterized by a period of three years of development of base UMTS technology, followed by two years of higher value, differentiating product technology (including UA 5.0 and UA 6.0 technologies). Consequently, UA 5.0 and UA 6.0 development expenses were adjusted upwards in value to reflect their higher contribution to the overall technology platform than the base technology components. The combined value-adjusted research and development amount spent as of the valuation date was estimated at approximately U.S. \$ 188 million. Given an estimate of U.S. \$ 1.0 billion incurred on the UMTS technology platform since its inception through 2006, the in-process research and development represented 18.8% of the total amount spent. In-process research and development has therefore been valued at € 24 million (representing 18.8% of the € 127 million of the UMTS technology assets present value mentioned above).

During the second quarter of 2007, we accounted for impairment losses on tangible assets for an amount of € 81 million, on capitalized development costs and other intangible assets for an amount of € 208 million and on goodwill for an amount of € 137 million.

These impairment losses of € 426 million were related to the group of cash generating units (CGUs) corresponding to the business division UMTS/W-CDMA. The impairment charge was due to the delay in revenue generation from this division's solutions versus its initial expectations, and to a reduction in margin estimates for this business.

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# 7 CORPORATE GOVERNANCE

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## 7.1 GOVERNANCE CODE

We uphold the AFEP-MEDEF Code of corporate governance for listed companies (sometimes referred to as “the Code” – see the MEDEF website: [www.medef.fr](http://www.medef.fr)). The Code results from the consolidation of the reports of 1995, 1999 and 2002 and the Recommendations of October 2008 regarding the compensation of chief executive officers. The AFEP (“*Association française des entreprises privées*”) and the MEDEF (“*Mouvement des entreprises de France*”) are French associations gathering companies in private sector. Our Board of Directors, at its meetings on October 29 and December 11, 2008, confirmed, and then published its adherence to the AFEP and MEDEF recommendations. The principles of the Code govern, among other things, the operating rules of our Board of Directors and its Committees, as described in the Board of Directors’ Operating Rules.

In addition, since our securities are listed on the New York Stock Exchange, we make every effort to reconcile the principles referred to above with the rules of the NYSE concerning corporate governance that apply to us, as well as with the provisions of the U.S. Sarbanes-Oxley Act, which came into force in 2002. In this respect, we note, throughout this Chapter 7, the main ways in which our corporate governance practices are aligned with, or differ from, the NYSE’s corporate governance rules applicable to U.S. “domestic issuers” listed on that exchange.

The AFEP-MEDEF code is based on specific principles which our policy in terms of corporate governance largely mirrors, as outlined in this Chapter 7; we explain in the chapter our alignment with the Code, and, when applicable, the particular position of our company.

### Operating Rules

Our company operates according to the “monist” system (meaning that it has a Board of Directors, as opposed to a Supervisory Board and a Management Board).

Our Board of Directors consists of 10 Directors: two elected by the shareholders’ meeting of September 7, 2006, two co-opted Directors, such co-optation having been ratified by the shareholders’ meeting of June 1, 2007, and six Directors co-opted in 2008, subject to ratification at the shareholders’ meeting of May 29, 2009.

The duties of the Chairman of the Board of Directors, performed by Mr. Camus, co-opted as a director on September 1, 2008, and elected Chairman effective on October 1, 2008, and those of the CEO, performed by Mr. Verwaayen, co-opted as a director on September 1, 2008 and appointed CEO effective on September 15, 2008, have been separated.

The term of office of Directors as established in our Articles of Association is four years.

According to our Articles of Association, our Board of Directors must also include two observers the nomination of which must be proposed at the shareholders’ meeting and who must, at the time of their appointment, be both employees of Alcatel-Lucent or a company belonging to our Group and participants in an Alcatel-Lucent *fonds commun de placement* (mutual fund).

The membership of our Board of Directors changed fundamentally during 2008. At December 31, 2008 the Board consisted of Directors representing five different nationalities and the average age of its members was 61.

Under the Articles of Association, each Director must own at least 500 shares in the company and undertake to comply with the ethics rules of the Director's Charter. The Director's Charter invites the Directors to own a significant number of shares, and stipulates that each Director must comply with applicable securities laws concerning trading as well as the rules contained in our "Alcatel-Lucent Insider Trading Policy" designed to prevent insider trading. Under French regulatory requirements, a Director must notify the *Autorité des Marchés Financiers*, the French securities regulator, of any transactions he or she executes involving Alcatel-Lucent shares.

Information concerning the Directors and observers is found in Section 7.2, "Management".

The operation of our Board is governed by Operating Rules which are transcribed in full in Section 7.9 "Operating Rules of the Board of Directors".

### Chairman of the Board of Directors and Chief Executive Officer

At a meeting on September 1, 2008, our Board of Directors appointed Mr. Camus as Chairman of the board, effective on October 1, 2008, replacing Mr. Tchuruk, and Mr. Verwaayen as Chief Executive Officer, effective on September 15, 2008, replacing Ms. Russo.

Our Articles of Association provide that, until November 20, 2009, any decision to change the corporate governance system of separate management and to combine the functions of Chairman and CEO must be approved by a two-third majority of Directors present and represented.

The removal and replacement of either the Chairman or the CEO may now be decided by a simple majority vote of the Directors present or represented. The Board meeting of October 29, 2008 revised the Board of Directors' Operating Rules, which set forth, among other things, the distribution of powers between the Board of Directors and the CEO in the context of the general principles defined by law. These Rules differ only slightly from the preceding version adopted on November 30, 2006, and define broadly the Board's powers, confirming the existing limits to the new CEO, who must therefore submit the following decisions to the Board of Directors for prior approval:

- the update of the Group's annual strategic plans, and any significant strategic operation not envisaged by these plans;
- the Group's annual budget and annual capital expenditure plan;
- acquisitions or divestitures in an amount per transaction higher than € 300 million (enterprise value);

- capital expenditures in an amount per transaction higher than € 300 million;
- offers and commercial contracts of strategic importance in an amount higher than € 1 billion;
- any significant strategic alliances and industrial and financial cooperation agreements with annual projected revenues in excess of € 200 million, particularly if they involve a significant shareholding by a third party in the capital of our company;
- financial transactions having a significant impact on the accounts of the Group, in particular the issuance of securities in excess of € 400 million;
- any amendments to the National Security Agreement ("NSA") among Alcatel, Lucent Technologies Inc. and certain United States governmental entities.

In addition, the existing specific delegations of power have been renewed in favor of Mr. Verwaayen, in his capacity as CEO, concerning the issuance of debt securities, for up to € 1 billion (which is a temporary exception to the € 400 level concerning financial transactions), stock option grants, trading in our shares and guarantees and security granted by our company.

The Board of Directors has also renewed in favor of Mr. Camus a delegation of power giving the Chairman the authority to represent the Group in its high-level relations, particularly vis-à-vis government representatives.

### Selection criteria and independence of the Directors

The appointment of new Directors must comply with selection rules which are applied by our Corporate Governance and Nominating Committee. Members of the Board must be competent in the Group's high-technology businesses, have sufficient financial expertise to make informed, independent decisions about financial statements and compliance with accounting standards, and be entirely independent of the company's management based on the criteria set out below.

The independence criteria applied by the Board of Directors are specified in Article 4 of the Board of Directors' Operating Rules discussed below. They comply with the definition provided in the AFEP-MEDEF Code and are based on the general principle that Directors are independent so long as they have no direct or indirect relationship of any kind with our company, its subsidiaries or senior management that could prevent them from exercising free judgment.

Our Board of Directors also includes at least one independent Director who has financial expertise, as recommended in Article 5 of its Operating Rules.

In February 2009, our Board of Directors conducted a detailed review of its independence criteria. Based on all of these criteria, the Board determined that Lady Jay, Mr. Bernard, Mr. Blount, Mr. Eizenstat, Mr. Hughes, Mr. Monty, Mr. Piou and Mr. Spinetta, that is, eight of its 10 members, are independent.

The company also complies with the rules of the NYSE and the provisions of the Sarbanes-Oxley Act on this subject. These rules stipulate that the majority of members of the Board of Directors in a U.S. listed company must be independent and that the Board must determine whether the independence criteria are met. Our Board did this at its meeting of February 3, 2009.

### Conflicts of interest

To our knowledge, there are no potential conflicts of interest between our Directors' fiduciary duties and their private interests. In accordance with the Director's Charter, a Director must notify the Board of any conflict of interest, even potential.

There are no family relationships between the members of our Board of Directors and the other senior executives of our company.

There are no service agreements between a member of the Board of Directors and our company or any of its affiliates.

To our knowledge, there is no arrangement or agreement with a shareholder, client, supplier or any third party pursuant to which a member of our Board of Directors or of our Management Committee has been nominated to their respective position or as CEO.

To our knowledge, no member of the Board of Directors of our company has been convicted of fraud during the last five years; has been charged and/or received an official public sanction pronounced by a statutory or regulatory authority; or has been banned by a court from holding office as a member of an administrative, management or supervisory body of an issuer, or from being involved in the management or conduct of the business of an issuer in the last five years.

To our knowledge, no member of the Board of Directors of our company has been a Director or executive officer of a company involved in a bankruptcy, court escrow or liquidation in the last five years, with the exception of Mr. Hughes, in his capacity as non-executive chairman of the American company Outperformance Inc., which was wound up voluntarily ("Chapter 7" of the U.S. Bankruptcy Code) in October 2008; and Mr. Monty, in his capacity as director of the Canadian company Teleglobe Inc., which was liquidated in 2002, with respect to which liquidation there are legal proceedings still in progress.

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## 7.2 MANAGEMENT

As of March 31, 2009

### BOARD OF DIRECTORS

**Philippe Camus**

Chairman of the Board of Directors

**Ben Verwaayen**

Chief Executive Officer and director

**Daniel Bernard**

Independent director  
Chairman of Provestis

**W. Frank Blount**

Independent director  
Chairman and Chief Executive Officer  
of JI Ventures Inc.

**Stuart E. Eizenstat**

Independent director

**Louis R. Hughes**

Independent director  
Chairman and Chief Executive Officer  
of GBS Laboratories Inc.

**Sylvia Jay**

Independent director  
Vice-Chairman of L'Oréal UK Ltd

**Jean C. Monty**

Independent director

**Olivier Piou**

Independent director  
Chief Executive Officer of Gemalto

**Jean-Cyril Spinetta**

Independent director  
President of the Board of Directors  
of Air France-KLM

**Jean-Pierre Desbois**

Board observer  
President of the supervisory board of FCP  
"Actionnariat Alcatel-Lucent"

**Patrick Hauptmann**

Board observer  
Member of the supervisory board of FCP  
"Actionnariat Alcatel-Lucent"

**Pascal Durand-Barthez**

Secretary to the Board of Directors

**Nathalie Trolez-Mazurier**

Deputy Secretary to the Board of Directors

### AUDIT AND FINANCE COMMITTEE

**Jean Monty, President**

Daniel Bernard  
W. Frank Blount  
Jean-Cyril Spinetta  
Jean-Pierre Desbois (Board observer)

### CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

**Daniel Bernard, President**

W. Frank Blount  
Stuart E. Eizenstat  
Sylvia Jay

### COMPENSATION COMMITTEE

**Jean-Cyril Spinetta, President**

Sylvia Jay  
Olivier Piou  
Stuart E. Eizenstat

### TECHNOLOGY COMMITTEE

**Louis R. Hughes, President**

Olivier Piou  
Jeong Kim  
Philippe Keryer  
Jean-Pierre Desbois (Board observer)  
Patrick Hauptmann (Board observer)

### STATUTORY AUDITORS

**Deloitte & Associés**

Represented by Antoine de Riedmatten

**Ernst & Young et Autres**

Represented by Jean-Yves Jégourel

### MANAGEMENT COMMITTEE

**Ben Verwaayen**

Chief Executive Officer

**Tom Burns**

President Enterprise Products Group

**Janet Davidson**

President Quality and Customer Care

**Sean Dolan**

President Asia Pacific Region

**Kenneth Frank**

President Solutions and Marketing

**Adolfo Hernandez**

President Europe, Middle East and Africa Region

**Philippe Keryer**

President Carrier Products Group

**Jeong Kim**

President Bell Labs

**Claire Pedini**

Executive Vice President Human Resources

**Michel Rahier**

President Operations

**Paul Segre**

President Applications Software Group

**Paul Tufano**

Chief Financial Officer

**Robert Vrij**

President Americas Region

**Andy Williams**

President Services Group

**Outgoing members of management committee in 2008 and 2009**

F. Rose was a member until August 2008  
P. Russo and C. Christy were members until September 2008  
H. de Pesquidoux was a member until December 2008  
E. Fouques was a member until January 2009

**Appointment as member of management committee 2008 and 2009**

B. Verwaayen became member in September 2008  
P. Tufano became member in December 2008  
T. Burns, J. Davidson, S. Dolan, K. Frank, A. Hernandez, Ph. Keryer, J. Kim, P. Segre and R. Vrij became members in January 2009



## Information on the current Directors and board observers

### Philippe CAMUS

Chairman of the Board of Directors  
Born on June 28, 1948, French citizen  
Appointed October 2008, to 2010  
Business address:  
Alcatel-Lucent  
54, rue La Boétie – 75008 Paris  
France

#### Career

- Philippe Camus graduated from the École normale supérieure and the Institut d'études politiques of Paris. He began his career in the Finance Department of Caisse des Dépôts et Consignations. In 1982, he joined the General Management team of Lagardère Group and in 1993 was appointed CEO and Chairman of the Finance Committee. He controlled the preparatory work that led to the founding of EADS, where he served as President and Chief Executive Officer from 2000 to 2005. He has been co-managing Partner of Lagardère Group since 1998 and Senior Managing Director of Evercore Partners Inc. since 2006. On October 1, 2008, he was appointed Chairman of the Board of Directors of Alcatel-Lucent.
- Expertise: 30 years in banking, finance, insurance and 8 years in the industrial sector.

#### Current Directorships and professional positions

- In France: Chairman of the Board of Directors of Alcatel-Lucent, co-managing Partner of Lagardère Group, Director, Chairman of the Compensation Committee and member of the Audit Committee of Crédit Agricole, Director and member of the Audit and Finance Committees of Schlumberger, Director of Éditions P. Amaury, Honorary Chairman of Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS), Permanent Representative of Lagardère SCA to the Board of Directors of Hachette SA, Permanent Representative of Hachette SA to the Board of Directors of Lagardère Services, member of the Supervisory Board of Lagardère Active.
- Abroad: Chairman and CEO of Lagardère North America, Inc., Senior Managing Director of Evercore Partners Inc., Director of Cellfish Media, LLC.

#### Directorships over the last 5 years

- In France: Chairman of EADS France and of GIFAS, Director of: Accor\*, Dassault Aviation, La Provence, Nice Matin and Hachette Filipacchi Médias, Permanent Representative of Lagardère Active to the Board of Directors of Lagardère Active BroadCast (Monaco), member of the Compensation Committee, member of the Airbus Partners Committee and member of the Supervisory Board of Hachette Holding.
- Abroad: Joint Executive President of EADS NV (The Netherlands) and of EADS Participations BV (The Netherlands).

#### Company shareholding

- 50,000 ordinary shares of Alcatel-Lucent.

\* Term of office expired in 2008.

### Ben VERWAAYEN

CEO and Director  
Born on February 11, 1952, Dutch citizen  
Appointed September 2008, to 2010  
Business address:  
Alcatel-Lucent  
54 rue La Boétie – 75008 Paris  
France

#### Career

- Ben Verwaayen graduated from the State University of Utrecht, the Netherlands, where he received a Master's degree in law and international politics. Ben Verwaayen held several positions in business development, HR and public relations, before being appointed General Manager of ITT Nederland BV where he worked from 1975 to 1988. Ben Verwaayen was then President and General Manager of PTT Telecom, a KNP subsidiary in the Netherlands, from 1988 to 1997. International Vice-President, Executive Vice-President and Chief Operating Officer of Lucent Technologies from 1997 to 2002, Ben Verwaayen was also Vice-Chairman of the Management Board. He was President General Manager of BT from 2002 to June 2008. In 2006, Ben Verwaayen was made an officer of the Order of Orange-Nassau and an Honorary Knight of the British Empire by the Queen and Chevalier de la Légion d'honneur in France. Ben Verwaayen was appointed CEO of Alcatel-Lucent on September 1, 2008, with effect on September 15, 2008.
- Expertise: 33 years in the industry sector.

#### Current Directorships and professional positions

- In France: CEO of Alcatel-Lucent, Director of Alcatel-Lucent.
- Abroad: Non-executive Director of UPS.

#### Directorships over the last 5 years

- Abroad: CEO and Director of BT Group Plc\*.

#### Company shareholding

- 50,000 ordinary shares of Alcatel-Lucent.

\* Term of office expired in 2008.

**Daniel BERNARD**

Independent Director

Born on February 18, 1946, French citizen

Appointed November 2006<sup>(1)</sup>, to 2010

Business address:

Provestis  
14, rue de Marignan – 75008 Paris  
France

**Career**

- A graduate of the École des hautes études commerciales, Mr. Bernard worked with Delcev Industries (1969-1971), Socam Miniprix (1971-1975) and La Ruche Picarde (1975-1980) and was CEO of the Metro France group (1981-1989), member of the Management Board with responsibility for the commercial activities of Metro International AG (1989-1992), Chairman of the Management Board (1992-1998) and later Chairman and CEO of Carrefour (1998-2005). He is currently Deputy Chairman of Kingfisher Plc London and Chairman of Provestis.
- Expertise: 39 years in industry, retail and services.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent, Chairman of Provestis, Director of Cap Gemini.
- Abroad: Deputy Chairman of the Board of Directors of Kingfisher Plc (UK).

**Directorships over the last 5 years**

- In France: Chairman and CEO of Carrefour, Director of Saint-Gobain and of Erteco, Manager of SISF.
- Abroad: Vice-Chairman of DIA SA (Spain) and of Vicour (Hong Kong), Director of: Carrefour Comercio e Industria (Brazil), Grandes Superficies de Colombia (Colombia), Carrefour Argentina (Argentina), Centros Comerciales Carrefour (Spain), Finiper (Italy), GS (Italy) and Presicarre (Taiwan).

**Company shareholding**

- 141,125 ordinary shares of Alcatel-Lucent.

**W. Frank BLOUNT**

Independent Director

Born on July 26, 1938, U.S. citizen

Appointed November 2006<sup>(1)</sup>, to 2010

Business address:

1040 Stovall Boulevard N.E. – Atlanta, Georgia 30319  
USA

**Career**

- Master of Science in Management at the Massachusetts Institute of Technology (MIT) Sloan School, management MBA at Georgia State University and Bachelor of Science in Electrical Engineering at the Georgia Institute of Technology. Between 1986 and 1992, he was group President at AT&T Corp., in charge of the Group's network operations and communications products. He then became Chief Executive from 1992 to 1999 of Telstra Corporation in Australia. Director of FOXTEL Corp. (Australia) (1995-1999), of IBM-GSA Inc. (Australia) (1996-1999), of the Australian Coalition of Service Industries (1993-1999) and the Australian Business Higher Education Roundtable (1993-1999); he was also Chairman and Chief Executive Officer of Cypress Communications Inc. (2000-2002). In 1991 he was interim Chief Executive of the New American Schools Development Corporation at the request of President George Bush. He is member of the Advisory Board of China Telecom. From 2004 through 2007, he was Chairman and CEO of TTS Management Corp. He is currently Chairman and CEO of JI Ventures Inc.
- Expertise: 48 years in industry and telecommunications.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent.
- Abroad: Chairman of JI Ventures Inc., Director of Entergy Corporation USA, of Caterpillar Inc. USA and of KBR Inc.

**Directorships over the last 5 years**

- Abroad: Chairman and CEO of TTS Management Corp., Director of Adtran Inc. and of Hanson Plc. UK.

**Company shareholding**

- 3,668 American Depositary Shares of Alcatel-Lucent.

(1) Originally appointed to the Alcatel Board of Directors in 1997.

(1) Originally appointed to the Alcatel Board of Directors in 1999.

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**Stuart E. EIZENSTAT**

Independent Director

Born on January 15, 1943, U.S. citizen

Appointed December 2008, to 2010

Business address:

Covington & Burling  
1201 Pennsylvania Avenue, N.W., Suite 1117C  
Washington, DC 20004  
USA

**Career**

- Stuart E. Eizenstat graduated in political science from the University of North Carolina and later graduated from Harvard University's Law School. He holds seven honorary doctorate degrees from various universities and academic institutions. During his college years, he served as a White House staff aid. He then served as Chief Domestic Policy Advisor (1976) and Executive Director of the White House Domestic Policy Staff (1977-1981) under President Jimmy Carter's term of office. Stuart E. Eizenstat was nominated U.S. Ambassador to the European Union (1993-1996) while a Partner and Vice Chairman of Powell, Goldstein, Frazer & Murphy law firm. At the time, he was also Adjunct Lecturer at the John F. Kennedy School of Government of Harvard University and a Guest Scholar at the Brookings Institution in Washington. He served as Under Secretary of Commerce for International Trade (1996-1997), Under Secretary of State for Economic, Business and Agricultural Affairs (1997-1999) and Deputy Secretary of the Treasury (1993-2001) while continuing to work as the Special Envoy for Property Claims in Central and Eastern Europe. During the Clinton Administration, he had a prominent role in the development of key international initiatives. He is Partner and Head of International Trade and Finance Practice at Covington & Burling LLP law firm. Moreover, he is a member of the Boards of Directors of United Parcel Service, BlackRock Funds, Chicago Climate Exchange and Globe Specialty Metals. Stuart E. Eizenstat is the author of several publications, which have been translated into German, French, Czech and Hebrew.
- Expertise: 28 years in law and 13 years in governmental affairs.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent.
- Abroad: Independent Director of United Parcel Service, of BlackRock Funds, of Chicago Climate Exchange and of Globe Specialty Metals.

**Company shareholding**

- 500 American Depositary Shares of Alcatel-Lucent.

**Louis R. HUGHES**

Independent Director

Born on February 10, 1949, U.S. citizen

Appointed December 2008, to 2010

Business address:

GBS Laboratories  
2325 Dulles Corner Blvd, Suite 500  
Herndon, VA 20171  
USA

**Career**

- Louis R. Hughes graduated from Harvard Business School (MBA, 1973) and from Kettering University, B.S. (Mechanical Engineering, 1971). He received his Bachelor of Mechanical Engineering from the General Motors Institute. Louis R. Hughes has been Chairman Chief Executive Officer and Chairman of GBS Laboratories LLC since 2005. Louis R. Hughes is also Executive Advisor Partner of Wind Point Partners and a member of the British Telecom U.S. Advisory Board. Moreover, Mr Hughes has been a member of the Boards of Directors of ABB (since 2003), Akzo Nobel (The Netherlands), and Sulzer (Switzerland). He served as President and Chief Operating Officer of Lockheed Martin Corp. His prior experiences also include positions of Chief of Staff Afghanistan Reconstruction Group, U.S. Department of State, from 2004 to 2005, Executive Vice President of General Motors Corporation from 1992 to 2000, President of General Motors International Operations from 1994 to 1999, President of General Motors Europe from 1992 to 1994 and Managing Director of Adam Opel AG from 1989 to 1992. He was non-executive Chairman of Maxager (renamed Outperformance in 2008) from 2000 to 2008. He has also served on several Boards, including: British Telecom (United Kingdom) from 2000 to 2006, Electrolux AB (Sweden) from 1996 to 2008, MTUAero Engines GmbH (Germany) from 2006 to 2008, Deutsche Bank from 1993 to 2000, Saab Automobile AB from 1992 to 2000 and Adam Opel AG from 1989 to 1992.
- Expertise: 35 years in the industry sector.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent.
- Abroad: Chairman and Chief Executive Officer of GBS Laboratories (USA), Independent Director of ABB (Switzerland), Akzo Nobel (Netherlands), Sulzer (Switzerland).

**Directorships over the last 5 years**

- Abroad: Independent Director of Electrolux\* (Sweden), MTU Aero Engines GmbH\* (Germany), Non-executive Chairman of Maxager\* (USA). Member of the Advisory Board of Directors of British Telecom (United Kingdom).

**Company shareholding**

- 5,000 ordinary shares of Alcatel-Lucent.

\* Term of office expired in 2008.

**Sylvia JAY**

Independent Director

Born on November 1, 1946, British citizen

Appointed November 2006, to 2009

Business address:

L'Oréal (UK) Ltd.  
255 Hammersmith Road – W6 8AZ London  
UK

**Career**

- Lady Jay, CBE was educated at the University of Nottingham (United Kingdom) and the London School of Economics. She held various positions as a senior civil servant in the British civil service between 1971 and 1995, being involved in particular in financial aid to developing countries. She was seconded to the French Ministry of Co-operation and the French Treasury, and later helped set up the European Bank for Reconstruction and Development, before spending again several years in Paris as wife of the British ambassador. She entered the private sector in 2001, as Director General of the UK Food and Drink Federation until 2005. She was made a *Chevalier de la Légion d'honneur* in 2008.
- Expertise: 8 years in industry and 32 years in public service.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent and Independent non-executive Director of Compagnie de Saint-Gobain.
- Abroad: Vice Chairman of L'Oréal UK Ltd, Chairman of Food From Britain, Independent non-executive Director of Lazard Limited, Chairman of the Pilgrim Trust, Trustee of the Prison Reform Trust, of the Entente Cordiale Scholarships Scheme and of The Body Shop Foundation.

**Directorships over the last 5 years**

- In France: Non-executive Director of Carrefour.
- Abroad: Director General of the UK Food and Drink Federation.

**Company shareholding**

- 500 ordinary shares of Alcatel-Lucent.

**Jean C. MONTY**

Independent Director

Born on June 26, 1947, Canadian citizen

Appointed December 2008, to 2010

Business address:

1050 Côte du Beaver Hall, 19<sup>e</sup> étage – Montreal (Québec)  
Canada

**Career**

- Jean Monty holds a Bachelor of Arts degree from Collège Sainte-Marie of Montréal, a Master of Arts in economics from the University of Western Ontario, and a Master of Business Administration from the University of Chicago. Jean C. Monty began his career at Bell Canada in 1974 and held numerous positions in the BCE group. He joined Nortel Networks Corporation in October 1992 as President and Chief Operating Officer before being nominated President and Chief Executive Officer in March 1993. On April 24, 2002, Mr. Monty, then Chairman of the Board and Chief Executive Officer of Bell Canada Enterprises (BCE Inc.), retired after a 28-year career. He is a member of the Board of Directors of Bombardier Inc. since 1998, and a member of the Board of Directors of Centria Inc., Fiera Capital Inc., Centria Capital and Centria Commerce. He is also a member of the International Advisory Board of the École des hautes études commerciales. He was appointed a member of the Order of Canada for his contribution to business, public interests and community affairs. In recognition of these achievements, he was elected Canada's Outstanding CEO of the Year for 1997. In addition, he was inducted into the Académie des Grands Montréalais.
- Expertise: 28 years in telecommunications and 4 years in finance.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent.
- Abroad: Director of Bombardier\*.

**Directorships over the last 5 years**

- Abroad: Director of Emergis\*.

**Company shareholding**

- 200,000 American Depositary Shares of Alcatel-Lucent (via Libermont Inc.).

\* Term of office expired in 2008.

**Olivier PIOUS**

Independent Director

Born on July 23, 1958, French citizen

Appointed December 2008, to 2010

Business address:

Gemalto  
6, rue de la Verrerie – 92190 Meudon  
France

**Career**

- Olivier Piou graduated in Engineering from the École centrale de Lyon (1980). He joined Schlumberger in 1981 as a production engineer, and held numerous management positions in the areas of technology, marketing and operations in France and the United States. In May 2004, he successfully introduced Axalto, at the time a division of Schlumberger Limited, to the stock market through an IPO. He was CEO of Axalto from 2004-2006 and conducted the merger with Gemplus which formed Gemalto. From 2003 to 2006, he was President of Eurosmart (the international non-profit association based in Brussels, which represents the chip card industry). Currently, he is a member of the Board of Directors of INRIA, the French National Institute for Research in Computer Science and Control and has been CEO of Gemalto since its creation in 2006.
- Expertise: 28 years in the industry sector.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent.
- Abroad: CEO of Gemalto, Director of Gemalto and of INRIA (Institut national de recherche en informatique et en automatique).

**Directorships over the last 5 years**

- Abroad: Director of Axalto and Chairman of Eurosmart.

**Company shareholding**

- 10,000 ordinary shares of Alcatel-Lucent.

**Jean-Cyril SPINETTA**

Independent Director

Born on October 4, 1943, French citizen

Appointed November 2006, to 2009

Business address:

Air France-KLM  
45, rue de Paris – 95747 Roissy Charles de Gaulle Cedex  
France

**Career**

- A graduate in public law and from the Institut d'études politiques de Paris, Jean-Cyril Spinetta began his career as assistant lecturer and later central administration *attaché* (1961-70). After moving to the École nationale d'administration, he held a number of positions within the National Education Ministry. He was several times seconded to other Departments, as Auditor of the Conseil d'État (1976-78), *chargé de mission* to the General Secretariat of the Government (1978-81), head of the Information Department of Prime Minister Pierre Mauroy (1981-83), chief of staff to Michel Delebarre when Minister for Employment, Minister of Social Affairs, Minister of Transport and later Minister of Equipment (1984-86 and 1988-90), *chargé de mission* and industrial advisor to the Office of the President of the Republic (1994-95), *préfet* (1995), technical advisor to the cabinet of Édith Cresson, EU Commissioner (1996), and expert for France seconded to the European Commission (1997). After a period as Chairman and CEO of Compagnie Air Inter (1990-93), he was Chairman and CEO of Air France (1997-2008), Chairman and CEO of Air France-KLM (2004-2008) and he is currently Chairman of the Board of the Air France-KLM. Mr. Spinetta has also been Chairman of the Board of Governors of the International Association of Air Transport (IATA) since 2004 and Director of Compagnie de Saint-Gobain since 2005, Director of La Poste and Gaz de France Suez since 2008.
- Expertise: 15 years in air transport and 37 years in public service.

**Current Directorships and professional positions**

- In France: Independent Director of Alcatel-Lucent, Chairman of Air France-KLM, of Société Air France, Director of the Compagnie de Saint-Gobain, of La Poste and of Gaz de France Suez, Permanent Representative of Air France-KLM to the Board of Directors of Le Monde des Entreprises.

**Directorships over the last 5 years**

- In France: Chairman and CEO of Air France-KLM\*.
- Abroad: Director of Alitalia and of Unilever, Chairman of the Board of Governors of IATA.

**Company shareholding**

- 500 ordinary shares of Alcatel-Lucent.

\* Term of office expired in 2008.

**Jean-Pierre DESBOIS**

Board observer

Born on April 14, 1954, French citizen

Appointed November 2006, to 2010

Business address:

Alcatel-Lucent France  
Centre de Villarceaux, Route de Villejust – 91620 Nozay  
France

**Career**

- Mr. Desbois has been an engineer with Alcatel-Lucent France (ex-Alcatel CIT) since 1986. He began his career in 1974 in the deployment of telephone systems. From 1981, he was put in charge of software developments in R&D teams. From 2000 to 2007, he became head of "Applications" Contract Management and Supply Chain in the Business Division. Now he is in charge of process improvement for the Payment product group.
- Expertise: 34 years in telecommunications.

**Current Directorships and professional positions**

- In France: Engineer with Alcatel-Lucent France, Board observer of the Board of Directors of Alcatel-Lucent, Chairman of the Supervisory Board of Actionnariat Alcatel-Lucent mutual fund (FCP 2AL).

**Company shareholding**

- 100 ordinary shares of Alcatel-Lucent and 2,140 units in FCP 2AL.

**Patrick HAUPTMANN**

Board observer

Born on June 28, 1960, French citizen

Appointed November 2008, to 2010

Business address:

Alcatel-Lucent Enterprise  
1, route du Docteur Albert Schweitzer – 67400 Illkirch  
France

**Career**

- Having received a Master of electronics, electrotechnics and automatism from the University of Upper Alsace (France) (1982), he began his career in 1983 as a design engineer at Telic and then at Alcatel-Lucent Enterprise. He has been technical manager in charge of hardware developments within R&D teams since 2001.
- Expertise: 24 years in telecommunications.

**Current Directorships and professional positions**

- In France: Engineer with Alcatel-Lucent Enterprise, Board observer of the Board of Directors of Alcatel-Lucent\*, Member of the Supervisory Board of Actionnariat Alcatel-Lucent mutual fund (FCP 2AL).

**Company shareholding**

- 1,847 units in FCP 2AL.

\* Appointed in 2008.

## 7.3 POWERS OF THE BOARD OF DIRECTORS

Our Board, in addition to matters that come under its responsibility under law or regulation, regularly decides on the Group's strategic direction and the key decisions affecting its activities. It fully exercises its authority and tries to ensure that each Director's contribution is entirely effective, in accordance with the principles of corporate governance described above and the provisions of its Operating Rules described in Section 7.9.

Our Board of Directors also makes sure that its activities are transparent to our shareholders by reporting generally in our annual report on its activities and those of its Committees during the previous year and on its procedures.

Finally, the Board performs an annual evaluation of the manner in which it performs its work and of the performance of the Chairman and the CEO. At least once every three years, its performance is evaluated by an outside consultant.

### Information regarding Board Meetings (Preparation of meetings, organization and functioning of the Board of Directors)

Our Operating Rules govern the manner in which our Board of Directors functions. The Board meets at least once each quarter either at our head office or at any other location indicated in the notice of meeting, whether in France or abroad (see Article 9 of the Operating Rules, section 7.9 "Operating Rules of the Board of Directors").

We provide our Directors with the information they need to perform their duties. Board members regularly receive relevant information concerning our company, such as press articles and financial analysts reports. They may also seek the opinion of senior officers within the Group on any subject they deem appropriate.

The documentation provided at Board meetings supports the items on the agenda and includes the documents sent to the Directors prior to the meeting as well as additional documents. In general, each item on the agenda is supported by internal and/or external documentation, depending on the nature of the topic discussed and, if applicable, is accompanied by a draft of the proposed resolution of the Board. Where appropriate in light of the agenda, the documentation also includes a draft press release, which is generally published the day after the meeting and before Euronext Paris opens, in accordance with the AMF's recommendations. Lastly, the documentation contains a list of the main contracts and agreements signed since the previous meeting as well as information about changes in our share price.

The work of the Board is generally based on presentations made by our senior management, which generate open discussions among the Directors. However, certain portions of some Board meetings are not attended by our CEO or employees, or sometimes even the Chairman, pursuant to the recommendations of the AFEP-MEDEF Code.

In this respect, we also comply with the NYSE rules, which stipulate that the Board must meet regularly without its executive members in attendance. Most particularly, Article 11 of the Operating Rules provides that the Board should meet without executive Directors or company employees in attendance so that the performance of the executive officers may be evaluated.

Directors may participate in Board meetings by videoconference or by means of telecommunication through which they can be identified. Directors participating in this manner are deemed in attendance for determining the quorum and the majority of votes unless the matters being discussed are prohibited by law from being considered by these means.

Directors must notify the Chairman of the Board of any conflict of interest, even potential. Moreover, if this conflict concerns a particular matter, they must refrain from voting on such matter.

Depending on the Board's agenda and the nature of the topics discussed at the meeting, Board meetings may be preceded by a meeting of one or more of its four specialized committees.

Except in case of an emergency, all information required for the Board's discussions is sent prior to the meeting in a manner that is consistent with the confidentiality to be respected when delivering insider information, and this allows the Directors to carefully review the documents prior to the meeting. This also applies to the specialized committees created by the Board of Directors.

Board meetings called to prepare the year-end, half-year and quarterly financial statements are systematically preceded by a review of the financial statements by the Audit and Finance Committee.

### Activity of the Board in 2008 and early 2009

Our Board of Directors met 16 times in 2008. To the meeting schedule for the year 2008 set in the prior year, were added numerous extraordinary meetings, in view of new developments. The average attendance rate of the Board members at these meetings was 93%.

In early 2009, our Board of Directors met twice, in February and March, and the attendance rate of its members was 100%.

The Board meetings were held at the company's head office in Paris or in Murray Hill, New Jersey. They lasted two hours forty minutes on average and were often preceded or followed by informal meetings with members of the Management Committee (apart from the occasional attendance of Management Committee members at the Board meetings in relation to subject matters they are responsible for), which allowed the Directors to discuss on a periodic basis with the Group's main operating executives our strategic and technological direction.

In 2008, the Board met on eight occasions without the CEO and employees being in attendance and on one occasion without the Chairman being in attendance. During the two meetings held in early 2009, the Board met twice without the CEO and our employees being in attendance and twice without the Chairman being in attendance.

The main topics addressed by the Board of Directors in 2008 and early 2009 were as follows:

### Accounts and financial position

In 2008, our Board reviewed and approved the year-end Alcatel-Lucent and consolidated financial statements for the year ended December 31, 2007, which were given final approval at the shareholders' meeting on May 30, 2008. After requesting an amendment, our Board approved the budget forecast for 2008. It proposed the appropriation of results (that is, the appropriation of the profit and loss of the year to legal reserves, statutory reserves or retained earnings) and the suspension of the distribution of dividends for the 2007 results.

In addition, it reviewed and approved the quarterly and half-year consolidated financial statements for the year ended December 31, 2008. At each of these meetings, the accounts were examined in the presence of our Statutory Auditors and a report was presented on the work of the Audit and Finance Committee. Through the year, our Board monitored changes in the Group's results, orders and cash flow as well as the progress of restructuring and cost reduction plans. This led to a detailed consideration of the conditions concerning the successive depreciation of assets, the financial situation of the two main activities that generate high R&D expenditures in research (W-CDMA and NGN), and the policy for covering project risks.

Moreover, on several occasions the Board addressed the specific question of Lucent's pension fund management and reappointed the members of the advisory committee responsible for overseeing the fund's management (Pension Benefits Investment Committee).

In its first meeting of 2009, our Board reviewed and approved the corporate and consolidated financial statements for the year ended December 31, 2008, to be submitted to the shareholders at the annual meeting to be held on May 29, 2009 for their final approval. It approved a budget forecast for 2009 (a preliminary version of the budget was examined in December 2008), and proposed an appropriation of results and the suspension of the distribution of dividends for the 2008 results.

### The Group's strategic direction

Our Board of Directors reviewed regularly our position in the market and focused at length on the Group's strategic direction, including by considering the reports on the matters addressed by the Strategy and Investments Committee. In the first semester, this Committee held two meetings which were open to all the Board members (see section 7.4 "Committees of the Board"). In this context, our Board monitored the implementation of the action plan adopted in October 2007 with the goal of improving the Group's profitability, and focused on the medium-term strategic direction. In particular, it reviewed in detail the adequacy of the Group's product portfolio and the need to develop the services sector.

During the second semester, the Board reviewed the proposals for a change in strategic direction made by the new CEO, and approved the overall approach.

More specifically, our Board approved the conditions for the sale of the Thales shares held by Alcatel-Lucent, and monitored the developments in

the legal proceedings between Alcatel-Lucent and Microsoft concerning intellectual property.

### Compensation policy

In 2008, our Board approved a stock option plan in favor of employees under customary conditions, and fixed performance criteria for the variable portion of the remuneration for executives subject to the "Global Annual Incentive Plan" (see section 7.5 "Compensation"), for fiscal year 2008.

Our Board of Directors considered the recommendations of the Compensation Committee regarding the compensation of the members of the Management Committee. It examined Ms. Russo's departure conditions in depth following the end of her duties as CEO, and fixed the conditions for the compensation of the new Chairman and the new CEO (see section 7.5 "Compensation").

Finally, after discussing a change in the amount of Directors' fees, which are below international standards, our Board decided not to submit a resolution to change the fees at the Shareholders' meeting to be held on May 29, 2009, neither in 2008 nor in 2009.

### Business ethics

Our Board of Directors reviewed the reports of the Audit and Finance Committee, which was informed at regular intervals of pending investigations and legal proceedings following allegations made against employees of companies within the Group, in Costa Rica, Taiwan and Kenya, regarding business practices. On several occasions, it was briefed by the General Counsel on this matter, and reviewed the training program aimed at employees of the Group, called "Alcatel-Lucent's Anti-corruption Program".

### Independence of the Directors

On March 25, 2008 the Board of Directors reviewed the independence of the members of the Board at the time, and confirmed the independence criteria such as they were adopted by the Board in November 2006 and the individual status of the members of the Board. Another review took place on February 3, 2009, after the Board had been reconstituted and, based on the recommendation of the Corporate Governance and Nominating Committee, it determined that eight out of the 10 members of our Board are independent, as described in section 7.1 "Governance Code".

### Operating Rules

Our Board's normative work concerning our corporate governance rules mainly consisted in the revision, at the end of 2008 and beginning of 2009, of our Board's Operating Rules and those of some of the Committees. These revisions consisted, among other things, in removing provisions that were outdated and adjusting practical operating procedures.

### Shareholders' meeting

In 2008, our Board of Directors set May 30, 2008 as the date for a combined shareholders' meeting, for which it prepared the agenda and related documents. The Board answered questions that had been submitted in writing prior to the shareholders' meeting by certain shareholders or that arose out of discussions between senior management and certain institutional shareholders. In particular, it adopted a declaration relating to Resolution no. 11 of the shareholders' meeting. This concerned the application of performance conditions to the allocation of options to purchase or subscribe to shares to Management Committee members.



In early 2009, the Board of Directors set May 29, 2009 for the combined shareholders' meeting to approve the financial statements for the fiscal year ended December 31, 2008, for which it prepared the agenda and related documents.

### Evaluation of the Board

An evaluation of our Board of Directors' operations was carried out at the beginning of 2008 by an independent firm, Spencer Stuart. The report of the expert, which highlighted the need to make improvements to the way the Board functions, was reviewed and discussed extensively by the Corporate Governance and Nominating Committee and the Board decided to hold a specific meeting on this topic. After detailed reviews by an independent director and an external well-known figure, our Board of Directors recognized the need to change the management model and corporate governance rules.

This led to important changes affecting the membership of our Board and the management team.

Consequently, Mr. Tchuruk, non-executive Chairman of the Board of Directors, and Ms. Russo, CEO, announced their departure from the company on July 28, 2008. Our Board of Directors immediately asked its Corporate Governance and Nominating Committee, chaired by Mr. Bernard, to find a new non-executive Chairman and a new CEO. At the same time, it commenced modification of its own membership, with the intention of reducing the number of Directors and integrating new members, particularly experts in the telecommunications industry. This was the context for the Directors' resignations and co-optations, the election of the new Chairman and the appointment of the new CEO.

## 7.4 COMMITTEES OF THE BOARD

For most of 2008, our Board of Directors had the following four committees: the Audit and Finance Committee, the Corporate Governance and Nominating Committee, the Compensation Committee and the Strategy and Investment Committee. At its meeting of October 29, 2008, the Board decided to dissolve the Strategy and Investment Committee and create a Technology Committee.

Each Committee has its own Operating Rules. Each committee reports to the Board of Directors, which has the sole authority to make decisions concerning the subjects presented to it. The Chairman of the Board and the CEO may attend all meetings of the committees of the Board in an advisory capacity, with the exception of Compensation Committee meetings that concern their personal situation.

In this context, the NYSE rules stipulate that U.S. listed companies must have an audit committee, a nominations/corporate governance committee and a compensation committee. Each committee must be composed exclusively of independent board members and must have a written charter addressing certain subjects specified in the NYSE rules. Alcatel-Lucent has set up an Audit and Finance Committee, a Corporate Governance and Nominating Committee, a Compensation Committee and a Technology Committee. The first three are composed exclusively of independent Directors and each such Committee has a charter which defines its powers and covers most of the subjects provided for in the NYSE rules.

### Audit and Finance Committee

#### Members

This Committee consists of no less than four members, at least one of whom must have proven financial expertise.

All the Directors who serve on this Committee must be independent in accordance with the Committee's Operating Rules. Therefore, neither the Chairman nor the CEO may be members. Similarly, Directors who hold other executive positions at our company may not be members of this Committee.

Early 2008, the Audit and Finance Committee was chaired by Mr. Denham, with Mr. Halbron, Mr. Lebègue and Mr. Krapek as members.

Since December 11, 2008, the Committee has been chaired by Mr. Monty, with Mr. Bernard, Mr. Blount and Mr. Spinetta as members, all independent. Mr. Desbois also participates in the works of the Committee as an observer.

#### Responsibilities

The Audit and Finance Committee's role and operation meet the requirements of the French order of December 8, 2008 and the Sarbanes-Oxley Act, and follow the key recommendations of the various reports on corporate governance. Its main areas of activity concern the company's accounts, internal controls, financial position and relations with our Statutory Auditors.

#### Financial statements

The role of our Audit and Finance Committee, as defined by the Board of Directors' Operating Rules, is to review the accounting standards applied by the company, the company's risks and significant off-balance sheet risks and commitments, and all financial or accounting matters presented to it by the CEO or the Chief Financial Officer.

The Committee reviews and ensures the appropriateness and consistency of the accounting methods used to prepare the consolidated and parent company financial statements and that significant transactions receive proper accounting treatment at the Group level.

The Committee examines the consolidation scope and, where relevant, the reasons why certain companies should not be included in this scope.

It reviews the accounting standards that are applicable to and applied by our Group, both according to IFRS and French GAAP (the latter with respect to the parent company's financial statements, as required by French law) as well as their effects and the resulting differences in accounting treatment.

It examines the quarterly, half-year and year-end parent company and consolidated financial statements and the Group's budgets.

**Internal control**

The Audit and Finance Committee verifies that internal procedures for collecting and reviewing financial information are in place to ensure the reliability of this information. The head of internal audit within the Group periodically reports to the Committee on the results of the work of his department. In addition, twice a year the Committee reviews the Group's internal audit plan and the operation and organization of the Internal Audit Department. The Committee is consulted when necessary on the selection of the internal audit manager and on his potential replacement.

The Committee examines all complaints, alerts or other reports, including those made on an anonymous basis, that reveal a potential malfunction in the financial and consolidation processes set up within the Group.

Our Audit and Finance Committee meets periodically with our Chief Compliance Officer to check the adequacy of our compliance programs, any significant violations of these programs and the corrective measures taken by us.

**Financial position**

Our Audit and Finance Committee also reviews our indebtedness and our capitalization and possible changes in this capitalization, as well as all financial or accounting matters presented to it by the Chairman of the Board or the Chief Financial Officer (such as risk hedging or centralized cash management).

It examines the risks to which the Group may be exposed and the Group's significant off-balance sheet commitments. It also reviews financial transactions having a significant impact on the Group's accounts, such as issuance of securities in excess of € 400 million, which must be approved by the Board of Directors.

**Statutory Auditors**

Our Audit and Finance Committee oversees the selection process for our Statutory Auditors and makes a recommendation on such auditors to the Board.

Assignments that do not pertain to the audit of our accounts, or that are neither incidental nor directly supplemental to our audit, but which are not incompatible with the functions of the Statutory Auditors, must be authorized by the Audit and Finance Committee, regardless of their scope. The Committee ensures that these assignments do not violate, among others, the provisions of article L. 822.11 of the French Commercial Code.

It also reviews and determines the independence of the Statutory Auditors and expresses an opinion on the amount of their fees for the audit of the accounts.

Based on the total amount of the fees paid for the audit of our accounts during a given fiscal year, our Committee sets the level(s) of fees beyond which the Committee must give a specific authorization for previously approved assignments.

**The Committee's work in 2008 and early 2009**

The members of the Audit and Finance Committee met six times in 2008. The attendance rate was 100%.

In 2008, the Audit and Finance Committee conducted a review of the year-end consolidated financial statements for the year ended December 31, 2007 and the half-year consolidated financial statements for 2008 prepared under IFRS. It also reviewed the quarterly financial statements for the Group based on IFRS and the year-end parent company financial statements based

on French GAAP. To prepare for this review, it relied on the work of the Disclosure Committee created to meet the requirements of the Sarbanes-Oxley Act in order to ensure the disclosure of reliable information about the Group. At each of its meetings, the Audit and Finance Committee was briefed by the Chief Financial Officer and the Statutory Auditors and examined, in the Auditors' presence, the key points discussed with the Chief Financial Officer at the time of preparation of the financial statements. At the beginning of the year, the budget and financial forecasts for 2008 were presented. On several occasions, the Committee also discussed the risks specific to certain large contracts.

Our Audit and Finance Committee received the Internal Audit department's annual report for 2007 as well as the internal audit plan for 2008. In the context of its review of the internal audits, the Committee was briefed by the Internal Audit department and, in coordination with it, analyzed the department's resources. At regular intervals, the Committee monitored the progress made regarding the certification required by Article 404 of the Sarbanes-Oxley Act. On several occasions, it was briefed by the General Counsel about developments in the Costa Rica, Taiwan and Kenya matters (see Section 6.10 "Legal matters").

Our Audit and Finance Committee gave prior authorization for assignments carried out by our Statutory Auditors which are not related to statutory audits. After presentations by the Chief Financial Officer and the Statutory Auditors, the committee also set the Auditors' fees for 2008.

Our Audit and Finance Committee met twice in the first quarter of 2009, with an attendance rate of 100%, to conduct a review of the results and financial statements for the year ended December 31, 2008 and of the annual report of the Internal Audit department for 2008, as well as the internal audit plan for 2009. It reviewed the draft annual report on Form 20-F and the "reference document" to be filed with the French securities regulatory authorities, and the internal and external auditors' reports on internal control procedures in place within our Group.

The NYSE Rules contain detailed requirements for the audit committees of U.S. listed companies. However, with respect to foreign private issuers, the NYSE Rules limit the requirements to compliance with the rules for audit committees prescribed by the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Since July 31, 2005, foreign private issuers are required to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

One of the requirements under Rule 10A-3 is that each member of the Audit Committee be independent under the SEC definition of independence. Each of the current four members of our Audit and Finance Committee is independent under the criteria established by Rule 10A-3. In addition, Rule 10A-3 requires that the Audit Committee have direct responsibility with respect to the appointment, compensation, retention and oversight of the Company's Auditors, over complaint management, and for engaging advisors. Also, direct funding for the committee must be provided. We believe that our Audit and Finance Committee's practices are currently fully compliant with Rule 10A-3. It should be noted that French law provides that the election of a company's Auditors is the responsibility of the shareholders and must be elected by the shareholders at our Annual General Meeting. Additionally, French law imposes a legal requirement that two sets of Statutory Auditors are appointed. The Auditors are designated for a period of six years, and they may only be removed by a court on grounds of professional negligence or the incapacity to perform their mission. Rule 10A-3 allows for such a practice when required by local law.

While we are not required to comply with the other NYSE Rules governing Audit Committees, many of the requirements under such other NYSE Rules and under Rule 10A-3 overlap, and we believe that our practices are substantially aligned with such additional NYSE Rules.

## Corporate Governance and Nominating Committee

### Members

The Corporate Governance and Nominating Committee consists of no less than three members, at least two-thirds of whom must be independent.

At the beginning of 2008, the Committee members were Mr. Bernard (Chairman), Ms. Deily (until October 29), Mr. Schacht (until July 29), Mr. Blount and Mr. Spinetta. From December 11, 2008 onwards, its members are Mr. Bernard, who continues as Chairman, Lady Jay, Mr. Blount and Mr. Eizenstat. All are independent Directors.

### Responsibilities

The role of our Corporate Governance and Nominating Committee, as defined by the Board of Directors' Operating Rules, is to:

- review questions related to the composition, organization and operation of the Board of Directors and its committees;
- identify and propose to the Board individuals who are qualified to hold the position of Director and serve on committees;
- develop and recommend to the Board a set of corporate governance principles applicable to the company;
- oversee the evaluations of the Board and its committees;
- examine the succession plans for the Chairman of the Board, the CEO and our Group's other senior executives (Management Committee).

### The Committee's work in 2008 and early 2009

Our Corporate Governance and Nominating Committee met five times in fiscal year 2008 and the attendance rate was 96%. The members met each other informally on numerous occasions during the period when they were looking for a new Chairman, a new CEO and new Directors.

Firstly, the Committee supervised the Board's self-evaluation procedure, performed in early 2008 by a specialized firm. It prepared the Board of Directors' review of the independence of the members of the Board (in its previous configuration), and recommended confirming the independence criteria and the individual status of members, such as they were adopted by the Board in November 2006. It reviewed the proposal submitted to the shareholders for a resolution renewing the observers' designation.

The Committee led the process that resulted in the important changes mentioned above, affecting the membership of the Board and the management team. It asked one of its members, an independent director, to perform in-depth reviews, then selected a well-known figure to continue the work and hold an informal meeting of the Board of Directors concerning corporate governance. With a view to implementing the decisions taken by the Board after this meeting, the Committee led the search for a new non-executive Chairman and a new CEO. After they had been chosen and appointed pursuant to the Committee's recommendation, the Committee selected four other new Directors who were co-opted by the Board on December 11, 2008. The Committee examined the Board's Operating Rules and recommended amendments.

The Committee met once in early 2009 and the attendance rate was 100%. It reviewed, among other things, the independence of the Directors (see paragraph "Independence of the Directors" in Section 7.3), proposed amendments to the Board's Operating Rules and its own Operating Rules and organized its future work.

Although the Charter of the Corporate Governance and Nominating Committee provides that two thirds of its members must be independent, the Board noted that all of the committee's members are independent in compliance with the criteria of the NYSE rules.

## Compensation Committee

### Members

The Compensation Committee consists of no less than three members, at least two-thirds of whom must be independent.

Early 2008, the members of this Committee were Mr. Hagenlocker (Chairman until September 17), Ms. Deily and Mr. Halbron, (both until October 29), and Lady Jay. Since December 11, 2008, the members are Mr. Spinetta (Chairman), Lady Jay, Mr. Eizenstat and Mr. Piou. All are independent Directors.

### Responsibilities

The role of our Compensation Committee, as defined by the Board of Directors' Operating Rules, is to study and make proposals to the Board regarding compensation of the Directors, the Chairman, the CEO and the key senior executives, to review policies related to the grant of stock options and bonus shares to senior managers and employees, and to examine proposals to increase the company's capital in the form of an issuance of shares reserved for employees.

### The Committee's work in 2008 and early 2009

Our Compensation Committee met nine times in 2008 and the attendance rate was 100%.

It reviewed the application of the criteria for the variable portion of compensation for fiscal year 2007, for executives subject to the "Global Annual Incentive Plan" which also applied to the former CEO.

The Committee reviewed the proposed performance criteria for defining the variable compensation of the former CEO and that of senior executives for 2008 (see Section 7.5, "Compensation"). It also made recommendations to the Board concerning the allocation of bonus shares and Restricted Cash Units to the CEO, both subject to performance criteria.

It reviewed the draft resolutions submitted to the shareholders' meeting held on May 30, 2008 concerning the authorization relating to the allocation of stock options and bonus shares, the performance criteria to which the commitments made to the former CEO, Ms. Russo, were subject in the context of the termination of or change in her duties, as well as Directors' fees.

The Committee considered in great detail the conditions concerning the departure of the former CEO, taking into account legal advice provided by a law firm on several occasions.

It made recommendations relating to the compensation granted to the new Chairman of the Board of Directors and to the new CEO. It checked the compliance of the Group's practices with the AFEP-MEDEF Recommendations

concerning the compensation of chairmen and chief of executive officers of listed companies.

It gave its opinion on the compensation of certain executive officers who were promoted, and on the allocation of stock options to new executive officers recruited externally. Finally, it discussed the reassessment of Directors' fees (see section 7.3, "Powers of the Board of Directors").

Our Compensation Committee met twice in early 2009 (the attendance rate was 100%), among other things to establish that the performance levels affecting the determination of the variable part of compensation pursuant to the Global Annual Incentive Plan for 2008 and the acquisition of the bonus shares allocated to the Chairman in 2008 had been met, to examine the Plan's criteria for 2009, to recommend grants of stock options and of Performance shares, and to make some minor amendments to its Operating Rules.

The Board of Directors noted the independence of the members of the Compensation Committee, in compliance with the requirements of the NYSE rules.

## Strategy and Investment Committee

### Members

Pursuant to the Board's Operating Rules adopted on November 30, 2006, the Committee consisted of at least four members and was chaired by the Chairman of the Board of Directors. The Chairman was Mr. Tchuruk and the other members, who were independent Directors, were Mr. Cornu, Mr. Hagenlocker and Mr. Schacht.

### Responsibilities

The role of our Strategy and Investment Committee, as defined by the Board of Directors' Operating Rules, was to review our Group's proposed strategic direction and investments, the related internal restructuring activities, the proposed investments and sales of assets, and in particular,

to monitor, on the Board's behalf, the integration of historical Alcatel and Lucent units and the creation of synergies.

### The Committee's work in 2008

Our Strategy and Investment Committee held two meetings in 2008, both of which were open to all Directors and to the observers and the attendance rate was 100%. In these meetings, the Committee discussed the budget for 2008, relations with investors and the current strategic projects. It analyzed the Group's portfolio of activities with regard to the key changes affecting its markets, and reviewed specifically the development of digital home networks.

As mentioned earlier, at its meeting of October 29, 2008, the Board decided to dissolve the Strategy and Investment Committee and to create a Technology Committee.

### Technology Committee

The role of the Technology Committee is to review key technological strategies that underlie R&D and the launch of new products. It must stay up to date with the progress of our scientific and technical projects in cooperation with university and research centers.

Our Technology Committee consists of Mr. Hughes (Chairman) and Mr. Piou as well as Mr. Kim, President of Bell Labs and Mr. Keryer, President of our "Carrier" Group, and Mr. Desbois and Mr. Hauptmann, observers. Other highly-qualified people from the telecommunications industry who do not work for the company are currently being considered by Mr. Hughes, who will make a proposal to the Board.

The Committee met three times in early 2009 and the attendance rate was 94%. At these meetings, the Group's technologies, activities in mobile networks (at the world convention in Barcelona) and the current research projects at Bell Labs, were presented to the Board of Directors and observers.

## 7.5 COMPENSATION

### Compensation policy for Executive Directors\* of the company

\* For purposes of this document, Executive Directors are our Chairman of the Board and our Chief Executive Officer.

The Compensation Committee is responsible for making proposals to the Board regarding compensation of the Directors, the Chairman, the CEO and the key senior executives. It evaluates all of the compensation paid or granted to them, including compensation relating to retirement and benefits of any nature. It also reviews the policies relating to the grant of stock options and Performance shares to executives of the Group and particularly to senior executives.

The Committee's recommendations concern the annual evaluation of our management and the setting of the fixed and variable compensation paid to key executives. This includes the rules for setting the variable part of the

compensation based on their performance and our medium-term strategy, as well as the targets retained for evaluating their performance.

The remuneration of the Chairman of the Board of Directors and the Chief Executive Officer is set by decision of the Board of Directors on the basis of these proposals.

The Compensation Committee was consulted in particular in the context of the arrival of the new Executive Directors of the Group, to set their compensation. The principles governing the recommendations were based both on the analysis of practices observed by other issuers in the same business as Alcatel-Lucent and in reference markets, including Europe and the United States.

The Compensation Committee and the Board of Directors have ensured that the commitments made by Alcatel-Lucent comply with the law and

with the AFEP-MEDEF Recommendations of October 2008 concerning compensation of executive Directors of listed companies.

### Chairman of the Board of Directors

Mr. Camus receives € 200,000 of fixed annual compensation in his capacity as Chairman of the Board of Directors. For fiscal year 2008, this amount was calculated on a pro-rata basis starting on the date on which he took office, October 1, 2008 and amounted to € 50,000.

His cash compensation does not include a variable portion and he does not receive any director's fees in his capacity as director or member of one of the Board's committees.

Mr. Camus benefits from the resources required for the execution of his duties, that is, the use of a visitor's office, part-time secretarial services, and reimbursement of costs relating to professional expenses and travel for the purposes of representing the company.

### Chief executive officer

The annual cash compensation of Mr. Verwaayen, like that of all the Group's executives, including senior executives, consists of a fixed part and a variable part. The variable portion set each year by the Board takes into account the prospects for development and results of the Group for the following year, according to specified stable criteria. It is paid during the year following the fiscal year to which it relates.

Mr. Verwaayen receives € 1.2 million fixed annual compensation in his capacity as CEO.

For fiscal year 2008, this amount was calculated on a pro-rata basis starting on the date on which he took office, September 15, 2008, and amounted to € 350,000.

The Board of Directors decided on September 17, 2008, that Mr. Verwaayen's variable compensation will be based on performance targets reviewed on a yearly basis upon the proposal of the Compensation Committee. The target bonus is 150% of his fixed compensation if he meets 100% of his performance targets. If the actual performance exceeds the

performance targets, the variable compensation may amount to up to 200% of his target bonus.

The performance criteria and the amount of variable compensation, which depend on the achievement of performance targets, will be set each year on this basis by the Board of Directors, acting upon the proposal of the Compensation Committee.

The variable compensation to be paid to Mr. Verwaayen for 2009 will be based on the performance related criteria concerning our Group described below, which apply to all of the senior executives as well as to a large portion of the executives of the Group.

The Board of Directors, meeting on February 3, 2009, set these criteria in relation to Revenues, Operating income and Operating cash flow minus restructuring cash outlays and capital expenditures, the criteria counting respectively for 33%, 33%, and 34% in the determination of the variable compensation.

In addition, he receives as benefits in kind a monthly impatriation allowance of € 10,000 and the use of a company car with a driver.

For the year 2008, Mr. Verwaayen was to receive, in accordance with the commitment made to him by the Board of Directors, compensation equal to 150% of his fixed compensation on a pro-rata basis, that is, € 525,000 instead of his variable compensation. Given the very low bonuses awarded to employees for 2008, in line with the Group's performance, and the freeze of compensation for 2009, Mr. Verwaayen has decided to forego the € 525,000 that had been decided by the Board.

Mr. Verwaayen does not receive any Directors' fees in his capacity as Director of the Company.

### Table summarizing the compensation of the Chairman of the Board and the CEO

The compensation and benefits in kind with respect to the year 2008, which have been paid or were due to the Chairman of the Board and the CEO, both of whom started their respective functions during fiscal year 2008, are summarized below.

Gross sums paid and due in € for fiscal year 2008	Philippe Camus Chairman of the Board of Directors		Ben Verwaayen CEO	
	Due	Paid	Due	Paid
Fixed remuneration	-	50,000	-	350,000
Variable remuneration	-	-	-	-
Exceptional remuneration <sup>(1)</sup>	-	-	-	35,000
Directors' fees	-	-	-	-
Benefits in kind <sup>(2)</sup>	-	-	-	491
<b>TOTAL</b>	<b>-</b>	<b>50,000</b>	<b>-</b>	<b>385,491</b>

(1) Impatriation allowance referred to above.

(2) Company car.

## Stock options and Performance shares

When they started their respective functions, both Mr. Camus and Mr. Verwaayen were granted Performance shares (also called restricted stock units) and Mr. Verwaayen also received stock options, in each case under the terms and conditions of the authorizations approved by the company's extraordinary general meeting, which took place on May 30, 2008.

The grants decided by the Board of Directors upon the proposal of the Compensation Committee generally included performance-related conditions. The Board of Directors set the number of shares to be retained by executive officers resulting from the exercise of stock options and Performance shares as well as the number of shares to be bought, in compliance with AFEP-MEDEF Recommendations on grants made after their publication in October 2008.

### Chairman of the Board of Directors

*2008 Performance shares.* On September 17, 2008, the Board of Directors decided to grant a maximum of 100,000 Performance shares to Mr. Camus with effect on October 1, 2008 on the condition that the presence and performance conditions are met. The vesting period is two years, followed by a two-year holding period, which results in an availability date of October 1, 2012 at the earliest. Vesting will be subject to the Alcatel-Lucent group performance conditions and the conditions linked to attaining targets specific to the duties of the Chairman of the Board throughout the two-year vesting period.

The vesting of Performance shares can only occur if Mr. Camus remains in his capacity as executive director at the end of the two-year vesting period. This condition will be deemed to be fulfilled if the Chairman of the Board of Directors is removed from office for reasons other than cause and in the event that he resigns from his office of Chairman of the Board of Directors for a reason other than personal reasons or in the event of a change in the control of the company.

The Board of Directors set presence and Alcatel-Lucent group performance conditions on the basis of the criteria used for the variable compensation part of the Global Annual Incentive Plan (AIP) applicable to some 43,000 employees in the Group. The performance criteria are the evolution of revenues and operating income. The achievement of performance conditions is evaluated by the Board of Directors at the end of three separate periods: fourth quarter of fiscal year 2008, the end of fiscal year 2009 and the first three quarters of fiscal year 2010. The Board of Directors will set performance targets for the revenues and operating income-related criteria, for each of the three periods.

The attainment of targets specific to the duties of the Chairman of the Board will be evaluated over a two-year period running from October 1, 2008, through September 30, 2010. It will be assessed in stages defined by

the Board of Directors, and include the Board of Directors' reorganisation, the implementation of corporate governance best practices, and the performance by the Board of Directors of its mission to define our strategic orientation. These targets and their different stages were specified at the Corporate Governance and Nominating Committee meeting held on March 17, 2009.

*2009 Performance shares.* The Board of Directors, which met on March 18, 2009, decided to award a maximum of 200,000 Performance shares to Mr. Philippe Camus. The vesting period of these shares is two years followed by a holding period of an additional two years, meaning that these shares are available for sale at the earliest on March 18, 2013. The conditions of award include, in particular, a presence and performance conditions relating to the performance of the Alcatel-Lucent Group and to the achievements of targets specific to the responsibilities of Chairman of the Board during the two-year vesting period. With respect to the performance of the Group, as is the case for all Group employees who are beneficiaries of Performance shares, there are three performance criteria: Revenues, Operating income and Operating cash flow minus restructuring cash outlays and capital expenditures.

The assessment of whether the targets specific to the duties of the Chairman of the Board have been met will occur over a two-year period beginning March 2008. The targets include: implementing adequate measures regarding the organization of the Board of Directors at the expiry of the term of office of the majority of the Board members in 2010, implementing the best corporate governance principles and leading the Board of Directors in its mission of defining the strategic direction of the Group.

The Board of Directors noted that this grant of Performance shares to the Chairman would represent 0.9% of the global authorization approved by the shareholders' meeting held on May 30, 2008 and 2.9% of the total number of Performance shares granted to beneficiaries on March 18, 2009.

Pursuant to the decision of the Board of Directors of September 17, 2008 and March 18, 2009, the number of shares which Mr. Camus must retain until the end of his duties, resulting from the grant of Performance shares, must equal 100% of his annual compensation. The share price to be used is the closing price on the day of trading preceding the vesting date of the Performance shares.

In addition, the grant of these 200,000 Performance shares in 2009 are subject to an obligation to purchase new shares under the same conditions applicable to the grant of Performance shares to the CEO decided by the Board of Directors held on October 29, 2008 as described further below.

### Summary table

The grant of Performance shares to the Chairman of the Board of Directors is summarized below.

Mr. Camus	Plan	Maximum number of shares	Vesting date <sup>(2)</sup>	Availability date <sup>(2)</sup>	Performance conditions	Unit valuation <sup>(1)</sup>
Performance shares	09/17/2008	100,000	10/01/2010	10/01/2012	Over 2 years see above	€ 3.05
Performance shares	03/18/2009	200,000	03/18/2011	03/18/2013	Over 2 years see above	€ 1.19

(1) Unit valuation, to the nearest tenth of a Euro, is the valuation given in the consolidated financial statements as of the date of grant. This value results from theoretical computations. Gains actually realized will depend on the share price on the date on which the shares are sold. On March 18, 2009, on the basis of a share price of 1.228 euro, the valuation of each Performance share amounts to 1.19 euro.

(2) The earliest that vesting may occur is on this date, and will occur on the first business day following the acknowledgment by the Board of Directors of the fulfillment of the presence and performance conditions when the vesting period expires.

## The CEO

### Stock options

*2008 Stock options grant.* On September 17, 2008, the Board of Directors decided to grant 250,000 Alcatel-Lucent stock options to Mr. Verwaayen at an exercise price of € 3.90.

The conditions of this grant are based on the principles applicable to the annual stock-option plan. The exercise price for the stock options does not include any discount or exemption in relation to the average price of the share over a period of twenty days preceding the grant. It is an eight-year plan with a four-year holding period. Its rules provide that one quarter of the rights over the stock options are acquired each year.

In compliance with the commitment made by the Board of Directors at the shareholders' General Meeting of May 30, 2008, this grant is subject to a condition linked to the performance of Alcatel-Lucent shares. Consistent with the discretion left to the Board of Directors by the terms of this commitment, the Board has decided that this condition applies to 50% of the total number of stock options awarded, that is, 125,000 stock options.

The performance of Alcatel-Lucent shares will be measured regularly in comparison to a representative sample of 14 solution and service providers in the telecommunications equipment sector which has been determined by the Board of Directors (the number of solution and service providers composing this representative sample may be revised depending on the evolution of these companies (mergers, bankruptcies), so as to create a ranking among Alcatel-Lucent and the other issuers. Rights over the stock options subject to a performance condition are acquired depending upon Alcatel-Lucent's position in the ranking at the end of each 12-month period during the four year vesting period. At its first meeting following the end of each period, and after review by the Compensation Committee, the Board of Directors will determine, on the basis of an analysis approved each year by a consulting firm appointed by the Board of Directors, the fulfillment or non-fulfillment of the performance condition.

The rights attached to the stock options granted by the Board of Directors will be acquired on the condition that Mr. Verwaayen retains his capacity of Executive Director at the end of the four-year vesting period. This condition will be deemed to be satisfied if the CEO is removed from office for reasons other than cause and in the event that he resigns from his office as CEO for reasons other than personal reasons, or in the event of a change in the control of the company.

Mr. Verwaayen must retain, until the end of his duties, 100% of the capital gains resulting from the exercise of the options, net of tax, any other mandatory deductions and the value of any gain used in a cashless exercise of such options. This obligation will be suspended while he holds Alcatel-Lucent shares of a value at least equal to the total amount of his fixed and variable compensation, assuming attainment of 100% of the targets fixed for him by the Board for the year preceding the exercise of the stock options.

*2009 Stock options grant.* The Board of Directors' meeting held on March 18, 2009 granted Mr. Verwaayen 1 million performance-related stock options, at an exercise price of € 2.00, that is, 84% above the average opening price of the share on the stock market over the 20 trading days preceding the date of the Board meeting granting the stock options. The performance conditions are the same as those for the 2008 grant as described above and will apply to the acquisition of 50% of the total number of stock options awarded.

The Board of Directors noted that the grant of stock options in favor of the CEO represents 1.1% of the global authorization approved by the

shareholders' meeting held on May 30, 2008 and 1.9% of the total grant of stock options decided on March 18, 2009.

In addition, the Board of Directors has declared that Mr. Verwaayen will, in principle, benefit from an annual grant of stock options for a value comparable to the 2009 grant throughout the duration of his term of office as CEO.

### Performance shares

On October 29, 2008, the Board of Directors decided to award a maximum of 250,000 Performance shares to Mr. Verwaayen, subject to presence and performance conditions. The vesting period is two years, followed by another two-year holding period, giving an earliest availability date of January 1, 2013.

The Board of Directors set presence and Alcatel-Lucent group performance conditions on the basis of the criteria used for the variable compensation part of the Global Annual Incentive Plan (AIP) applicable to some 43,000 employees in the Group. The performance criteria are the evolution of revenues and of operating income. A third criteria is linked to achieving targets specific to the duties of the CEO according to stages defined by the Board of Directors, including the definition of the Group's strategy and the design and implementation of the structural model that corresponds to the proposed strategy.

The vesting of Performance shares can only occur if Mr. Verwaayen remains in his capacity as Executive Director at the end of the two-year vesting period. This condition will be deemed to be satisfied if the CEO is removed from office for reasons other than cause and in the event that he resigns from his office of CEO for reasons other than personal reasons, or in the event of a change in the control of the company.

Mr. Verwaayen must hold, until the end of his duties, a proportion of shares resulting from the grant of Performance shares equal to 40% of his annual fixed and variable remuneration net of tax, assuming attainment of 100% of his targets as defined by the Board of Directors for the year preceding the vesting of the Performance shares. However, this obligation will be suspended while he holds Alcatel-Lucent shares of a value at least equal to 40% of this remuneration. The share price used is the closing price on the day of trading preceding the vesting date of the Performance shares.

Moreover, these 250,000 Performance shares will vest on the condition that two Alcatel-Lucent shares are bought per five shares vested at the end of the vesting period, i.e., 100,000 shares if 100% of the performance criteria are met over two years, and at the latest at the end of the period during which the shares must be retained by law. However, this obligation will be suspended while Mr. Verwaayen holds Alcatel-Lucent shares of a value at least equal to 40% of the annual fixed and variable compensation net of tax, assuming attainment of 100% of the targets defined by the Board of Directors for the year preceding the vesting of the Performance shares. The Alcatel-Lucent share price used is the closing price of the day of trading preceding the vesting date of the Performance shares.

### Summary tables

The grant of stock options and of Performance shares to the CEO are summarized below.

Mr. Ben Verwaayen	Plan	Number of stock options granted	Exercise price	Exercise period	Performance conditions	Unit valuation <sup>(1)</sup>
Stock options	09/17/2008	250,000	€ 3.90	09/17/2012 to 09/16/2016	Share performance for 50% of the grant over 4 years	€ 2.13
Stock options	03/18/2009	1,000,000	€ 2.00	03/18/2013 to 03/17/2017	Share performance for 50% of the grant over 4 years	€ 0.57

(1) Unit valuation, to the nearest tenth of a Euro, is the valuation given in the consolidated financial statements as of the date of the grant. This value results from theoretical computations. Gains actually realized will depend on the share price on the dates on which the shares resulting from the exercise of stock options are sold. On March 18, 2009, on the basis of a share price of 1.228 euro, the valuation of stock options granted in September 2008 amounts to € 0,39, and that of stock options granted in March 2009 amounts to € 0,57.

Mr. Ben Verwaayen	Plan	Number of shares awarded	Vesting date <sup>(2)</sup>	Availability date <sup>(2)</sup>	Performance conditions	Unit valuation <sup>(1)</sup>
Performance shares	10/29/2008	250,000	01/01/2011	01/01/2013	Over 2 years see above	€ 1.63

(1) Unit valuation, to the nearest tenth of a Euro, is the valuation given in the consolidated financial statements as of the date of grant. This value results from theoretical computations. Gains actually realized will depend on the date of the sale for Performance shares. On March 18, 2009, on the basis of a share price of € 1.228, the valuation of each Performance share amounts to € 1.19.

(2) The earliest that vesting may occur is on this date, and will occur on the first business day following the acknowledgment by the Board of Directors, when the vesting period expires, of the fulfillment of the presence and performance conditions.

## Commitments concerning retirement

Commitments relating to retirement were made to Mr. Verwaayen by Alcatel-Lucent when he was appointed CEO.

He benefits from the same private pension plan applicable to French senior executives in the Alcatel-Lucent group (AUXAD plan), and may exercise his right to retirement from the age of 60. We have undertaken to top up the CEO's rights as necessary in the event that, on exercising his rights from the age of 60, he does not, on the basis of the total rights acquired throughout his career, including by virtue of AUXAD, benefit from a replacement of 40% of the average compensation of the two most highly-remunerated years in the last five years of his career. In addition, in contrast to the other executives in the company, his rights under AUXAD are capped and stop increasing from the moment when the total rights acquired throughout his career (including under AUXAD) reach this 40% replacement.

AUXAD, a retirement plan created in 1976 and applicable to approximately 360 beneficiaries within the Group, does not require that the beneficiaries be employees or Executive Directors of Alcatel-Lucent at the time they exercise their retirement rights, and accordingly we do not conform on this specific point to the AFEP-MEDEF Recommendations on the Compensation of Executive Directors in Listed Companies, which were issued after the appointment of Mr Verwaayen. Indeed, like other executives coming from abroad, whose retirement is mostly dependent on company pension plans, Mr. Verwaayen has not contributed throughout his career to the French mandatory plans (CNAV, AGIRC-ARRCO). Consequently this recommendation did not seem appropriate to his situation.

Also, in contrast with the terms applicable to our other executive officers, the grant of this private pension is subject to performance-related criteria, which will be assessed throughout Mr. Verwaayen's term of office, namely the evolution of revenues and operating income analyzed in relation to a representative sample of companies in the sector, as well as the evolution of

our share price compared to previous years. The Board of Directors has also defined qualitative criteria, including our strategic repositioning, the review of our business portfolio, and the evolution of our customer satisfaction index.

The capping and the performance criteria mentioned above provide a safeguard for us and our shareholders' interests.

Mr. Verwaayen was also eligible for a pension arrangement pursuant to his employment contract with Lucent Technologies Inc. from 1997 until 2002. The Lucent pension arrangements were to be offset by pensions provided by KPN and Dutch Social Security.

The specific provisions relating to commitments concerning retirement, to the extent that the pension benefits may be due upon or after termination of or change in the duties of Mr. Verwaayen, are subject to the regulated agreements procedure as provided in Article L. 225-42-1 of the French Commercial Code and will be subject to the approval of the shareholders' meeting.

## Commitments upon termination of the CEO's functions

The CEO does not benefit from any severance package as a result of the termination of his functions, and was not bound by an employment contract with us or one of our subsidiaries prior to his becoming our CEO.

Mr. Camus does not benefit from any commitment from us applicable upon or after the end of his functions as Chairman of the Board.



## Summary table of the global compensation situation of the Chairman and the CEO

The tables below summarize the position of the executive Directors for fiscal year 2008, the year in which they started their respective functions:

Gross amounts paid in 2008 (in euros)	Philippe Camus	Ben Verwaayen
Remuneration due for the fiscal year	50,000	385,491
Valuation of stock options granted	-	532,500
Valuation of Performance shares awarded	305,000	407,500
<b>TOTAL</b>	<b>355,000</b>	<b>1,325,491</b>

	Employment contract	Additional pension schemes	Termination payments or benefits payable or likely to become payable resulting from the termination or change of position	Indemnification paid pursuant to a non-competition clause
<b>Mr. Camus</b> Chairman of the Board of Directors Appointed on October 1, 2008 Up for renewal at the 2010 shareholders' meeting	Not applicable	Not applicable	Not applicable	Not applicable
<b>Mr. Verwaayen</b> Chief Executive Officer Appointed on September 15, 2008 Up for renewal at the 2010 shareholders' meeting	Not applicable	Yes Please refer to paragraph "Commitments concerning retirement", above, for more details	Not applicable	Not applicable

## Executive Directors whose duties terminated in 2008

### Mr. Tchuruk, Chairman of the Board of Directors until September 30, 2008

The Board of Directors, meeting on September 1, 2008, acknowledged the termination of the duties of Mr. Tchuruk in his capacity as Chairman of the Board of Directors and company Director effective as of October 1, 2008.

By virtue of the office that he had held since November 30, 2006, and in compliance with the Board of Directors' decision of the same date, he received double the amount of Directors' fees paid to all of the other Directors.

In addition, Mr. Tchuruk benefited from a company car with a driver and the services of a secretary until the termination of his duties as Chairman.

### Summary table of compensation

The table below summarizes the various elements of the compensation of Mr. Serge Tchuruk at December 31 of each year, for fiscal years 2007 and 2008.

Mr. Tchuruk (gross amounts in euros)	2007		2008	
	Due	Paid	Due	Paid
Fixed remuneration	-	-	-	-
Variable remuneration <sup>(1)</sup>	-	244,544	-	-
Exceptional remuneration <sup>(2)</sup>	-	5,675,540	-	-
Directors' fees	-	96,890	-	76,712
Benefits in kind	-	-	-	6,840
Valuation of stock options granted	-	-	-	-
Valuation of Performance shares granted	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>6,026,094</b>	<b>-</b>	<b>83,552</b>

- (1) Amount of the portion of variable remuneration due by virtue of his duties as CEO for the first 11 months of 2006, calculated on the basis of criteria applicable to all senior executives during fiscal year 2006.
- (2) Commitments were made to Mr. Tchuruk in 1995, when the company called on him to take on the duties of Chairman and CEO, as a result of the Board of Directors' decisions of May 30 and December 13, 1995. These commitments were further specified in the meetings of October 30, 2001 and December 11, 2002. They provided that, in the event the CEO's duties were terminated, an indemnity would be paid equal to twice the average of the two highest annual fixed and variable remunerations paid in the 5-year period preceding his departure. On November 30, 2006, the Board of Directors determined the amount of the indemnity, that is, € 5,675,540.

**Summary table of stock options and other securities available for exercise**

The table below summarizes the stock options that were granted to Mr. Tchuruk and that were still outstanding on December 31, 2008:

Mr. Tchuruk	Grant date	Number of stock options granted	Exercise price	Exercise period	Exercised
Stock options	03/10/2004	400,000	€ 13.20	From 03/10/2008 to 3/9/2012	-
Stock options	03/07/2001	400,000	€ 50	From 03/07/2005 to 03/06/2009	-

The company has no other commitments to Mr. Tchuruk.

**Ms. Russo, CEO until September 14, 2008**

The Board of Directors, meeting on September 1, 2008, acknowledged the termination of the duties of Ms. Russo as company CEO effective September 15, 2008.

Ms. Russo's gross fixed annual compensation was € 1.2 million for fiscal year 2008. The fixed portion paid for fiscal year 2008 calculated on a pro-rata basis up to September 15, 2008, was € 850,000.

The Board of Directors, meeting on March 18, 2009, noted the amount of variable compensation to be paid to Ms. Russo for fiscal year 2008, i.e., € 255,000. The amount was calculated according to the performance-related targets set by the Board on March 25, 2008, pro-rated for the period between January 1 and September 15, 2008. These criteria were also applicable to all senior executives, as well as to approximately 43,000 executives in the Group. These criteria relate to the Group's consolidated revenue and operating profit, counting for 40% and 60%, respectively, in the calculation of the variable compensation.

During the year 2008, Ms. Russo also received reimbursement of part of her housing expenses in Paris, as well as a company car with a driver.

**Commitments made by the company**

The Board, at its meeting of November 30, 2006, decided to assume the terms of Ms. Russo's employment contract with Lucent Technologies Inc., that pertained to the termination of Ms. Russo's duties as our CEO. This Board decision was the subject of a Statutory Auditors' report and was approved by the Shareholders' meeting of June 1, 2007.

Ms. Russo's employment agreement and the Officer Severance Policy to which the document refers, provide for the payment of an indemnity and an acceleration of current stock option grants in the event of dismissal without cause, a change of control of the company, or resignation for good reason, each as defined in the Policy. This Officer Severance Policy applies to certain executives of Lucent.

The definition of "good reason" provides for a number of situations, including a significant reduction of the chief executive's duties. The Board of Directors Meeting held on July 28, 2008, acknowledged that Ms. Russo could consider that the nature of the relations that had developed between herself and the Board led to a reduction with regard to the duties that she exercised previously under her employment contract with Lucent Technologies Inc.

In the event of the termination of her duties, Ms. Russo was entitled to the continuation of the payment of the fixed portion of her compensation for a "continuation period" of two years and to the payment, in each of the

two Decembers within the said period, of a bonus equal to the target bonus of her variable compensation.

This commitment made by us was subject to a performance condition, effective on January 1, 2009, which was approved by the shareholders' meeting held on May 30, 2008. The performance condition would be deemed to be met if, over the period running from January 1, 2009 up until the termination of her duties as CEO, at least 90% of the performance target with respect to revenue or 75% of the performance target in respect of operating profit, as set by the Board of Directors for the determination of Ms. Russo's variable compensation, was met. As the duties of Ms. Russo were terminated before January 1, 2009, this condition did not apply.

**Other benefits and long-term incentive compensation**

In addition, Ms. Russo is entitled to the same benefits as those applicable to many of Alcatel-Lucent's North American employees, generally calculated, with respect to most benefits, on the basis of the annual fixed and variable compensation paid by the Group as described above. These benefits include the Lucent pension plan and the disability insurance programs. Ms. Russo also benefits from life insurance.

Pursuant to Ms. Russo's employment contract with Lucent in 2002, Ms. Russo is entitled to a retirement benefit equal to the greater of U.S. \$ 740,000 per year, or the amount that would be allocated to her under the Alcatel-Lucent Retirement Income Plan providing general coverage for most of the "non-represented" employees (a beneficiary who is not represented by a trade union) of Lucent. Under this pension plan, each participant hired prior to January 1, 1999, like Ms. Russo, receives an amount equal to 1.4% of the sum of (a) the average annual compensation of the beneficiary over the five-year period ending on December 31, 1998 (excluding the variable compensation paid in December 1997) multiplied by the number of years of service at that date, (b) the total compensation received by the participant after 1998 and (c) the variable part of his/her compensation received in December 1997. The average annual compensation includes both fixed and variable components of the compensation paid to Ms. Russo.

**Stock options and other securities available for exercise**

The Board of Directors, meeting on April 4, 2008, decided to grant Ms. Russo 800,000 Alcatel-Lucent stock options at the price of € 3.80. These options were awarded under conditions identical to the annual stock-option plan dated March 25, 2008. For more information, see paragraph "Stock options" in Section 5.13 "Human Resources".

**Summary table**

The table below shows the position regarding stock options and other securities held by Ms. Russo at the date of the termination of her duties, that is, September 14, 2008.

Ms. Russo	Grant date	Number of stock options granted	Exercise price	Exercise period	Number of stock options exercisable	Unit valuation <sup>(1)</sup>
Alcatel Lucent stock-option plan	04/04/2008	800,000	€ 3.80	60 days running from 4/4/2012	483,333 <sup>(2)</sup>	€ 1.47
Alcatel Lucent stock-option plan	03/28/2007	800,000	€ 9.10	60 days running from 03/28/2011	683,333 <sup>(2)</sup>	€ 3.01
Lucent stock-option plans	Between 1999 and 2006		€ 33.58 <sup>(3)</sup>		2,982,203	
Lucent RSUs <sup>(4)</sup>	11/01/2006		-	-	73,913	

(1) Unit valuation, to the nearest tenth of a Euro, is the valuation given in the consolidated financial statements as of the date of grant. This value results from theoretical computations. Gains actually realized will depend on the share price on the dates on which the shares resulting from the exercise of stock options are sold.

(2) These options will vest definitively on 09/15/2010.

(3) Average exercise price.

(4) RSU: Restricted Stock Units entitling the holder to one Alcatel Lucent share. Such RSU vested on November 1, 2008.

#### Termination conditions for Ms. Russo

The termination conditions for Ms. Russo involve the application of the policy described above which was referred to in her Lucent Technologies Inc. Chairman & Chief Executive Officer Employment Agreement.

As a consequence of the commitments described above concerning the continuation by Alcatel-Lucent of the provisions in her initial employment agreement with Lucent Technologies Inc., Ms. Russo's rights following the termination of her duties as company CEO were as follows:

- payment of the sum of € 6 million as severance package in satisfaction of the two-year continuation payment obligation;
- in compliance with Lucent's Officer Severance Policy and starting on September 15, 2010, private pension benefit in the form of an annuity equal to the difference, where applicable, between \$ 740,000 and the

annual amount to which she is entitled on the basis of all the pension plans of Lucent and its affiliated companies;

- vesting up until September 15, 2010, of the rights pursuant to the stock options granted under the plans as described above.

Ms. Russo forfeited the 366,300 Restricted Cash Units granted to her by decision of the Board of Directors on April 4, 2008, which were subject to the eligibility condition of two years' presence from the date of grant of the Restricted Cash Units, and the 278,000 bonus Alcatel-Lucent shares stipulated by the board decision of November 30, 2006.

The obligation by Ms. Russo to retain the Alcatel-Lucent shares originating from exercising the stock options awarded in 2007 and 2008 no longer applies as a consequence of the termination of her duties as company CEO.

#### Summary table

The table below summarizes the composition of Ms. Russo's remuneration, at December 31 of each year, over the years 2007 and 2008.

Ms. Russo	2007		2008	
	Due	Paid	Due	Paid
<b>Gross amounts (in euros)<sup>(1)</sup></b>				
Fixed remuneration	-	1,200,000		850,000
Variable remuneration <sup>(2)</sup>	-	344,284	255,000	635,400
Exceptional remuneration <sup>(3)</sup>	-	-	6,000,000	154,909
Director's fees	-	-		-
Exceptional remuneration <sup>(4)</sup>	-	107,953		257,378
Benefits in kind	-	164,480		140,774
<b>TOTAL</b>		<b>1,816,717</b>		<b>2,038,461</b>
Valuation of stock options granted in 2008		2,408,000		1,176,000
Valuation of bonus shares distributed in 2008		-		-
<b>TOTAL</b>		<b>4,224,717</b>	<b>6,255,000</b>	<b>3,214,461</b>

(1) 2007 rate of exchange: € 1.00 = U.S. \$ 1.37096; 2008: € 1.00 = U.S. \$ 1.4710.

(2) 2007: The variable part by virtue of her duties as Chairman and CEO of Lucent, during the period October through December 2006 (representing about 26% of Ms. Russo's annual target bonus). The criteria set by the Lucent Compensation Committee were based on Lucent's operating income and revenue and on individual performances. The three-month period of October 1 through December 31, 2006 included two months of Lucent's 2007 fiscal year (October and November) before the closing of the business combination and one month of Alcatel-Lucent's 2006 fiscal year (December) after the closing of the business combination.

2008: the variable part for 2007, i.e. € 635,400, represented 35.3% of the target bonus. The criteria were defined by the Board of Directors, meeting on March 28, 2007, namely the consolidated revenue, operating profit, and the net change in the free cash flow (operational cash flow minus capital expenditures), these criteria counting respectively for 50%, 25% and 25% in the determination of the variable remuneration. The variable portion related to fiscal year 2008 amounts to € 255,000.

(3) These amounts are the severance package the payment of which was made during the first quarter of 2009 (€ 6,000,000 in satisfaction of the two-year continuation payment obligation) and amounts due in relation to unused paid leave (€ 154,909).

(4) 2007 and 2008 amounts correspond essentially to an adjustment to take into account social security payments in France as well as an adjustment in 2008 for the reimbursement of the fiscal and social payments linked to her partial residency in France.

## Remuneration of Directors and observers

### Year 2008

The aggregate Directors' fees approved at the Shareholders' Meeting on June 1, 2007 amounted to € 700,000.

Directors' fees for fiscal year 2008 were distributed based on the following principle: one half of the total fee was divided among the Board members equally, and the remaining amount was allocated among the Board members according to their attendance at meetings of the Board and Committees to which they belonged.

However, those rules did not apply to Ms. Russo (as well as to Messrs Camus and Verwaayen from the time they became Directors), who did not receive any Director's fees, or to Mr. Tchuruk, who received proportionately twice the amount received by the other Directors.

Fixed fees and variable fees were determined for each Director. Fixed fees, calculated on the basis of half of the overall Directors' fees budget, was of an equal amount for each Director. Mr. Tchuruk received twice the equivalent of a Director's fixed fees. Variable fees were calculated on the basis of the Directors' attendance at Committee and Board meetings. Each Director received part of the variable fees according to the number of Committee and Board meetings he or she attended. Mr. Tchuruk received twice the equivalent of the amount of his variable fees.

The Directors' fees were paid in two installments, one after the Annual Meeting of Shareholders and the other at the end of the year.

The observers receive a fee set at the Shareholders' Meeting divided equally between them and paid in the same way as the Directors' fees. The Combined Shareholders' Meeting of June 1, 2007 set the total amount of observers' fees, which remains unchanged, at € 100,000.

### Year 2009

On February 3, 2009, the Board of Directors approved the new manner in which Directors' fees will be distributed in 2009.

The total amount of the fees is still halved, with distribution of a fixed portion according to the following rules:

- the Chairman of the Audit and Finance Committee receives an annual amount of € 25,000;
- the other members of the Audit and Finance Committee each receive an annual amount of € 15,000;
- the Chairman of each of the other three committees receives an annual amount of € 15,000;
- the members of these other three committees each receive an annual amount of € 10,000;
- the remaining amount is distributed equally among all the Directors.

The second portion is a variable amount allocated among the Board members according to their attendance at meetings of the Board and of the Committees to which they belong.

The newly-appointed Chairman and CEO of the company, as well as the Directors holding office within the Company's management structure do not receive Directors' fees. The Directors who take part in meetings of Committees of which they are not members are not compensated for such attendance.

The total amount of observers' fees remains unchanged, at € 100,000.

The table below shows the allocation of Directors' fees and the compensation of the observers in respect of their attendance for fiscal years 2007 and 2008.

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**The Directors***(gross amount in euros)*

	2007	2008
Mr. Bernard	46,770	53,660
Mr. Blount	46,770	56,197
Mr. Cornu <sup>(1)</sup>	46,770	46,052
Ms. Deily	56,818	57,407
Mr. Denham	50,120	48,530
Mr. Eizenstat		3,833
Mr. Hagenlocker	58,493	45,965
Mr. Halbron <sup>(2)</sup>	53,469	58,675
Mr. Hughes		3,833
Lady Jay	51,794	58,733
Mr. Krapek	50,120	48,530
Mr. Lebegue	50,120	52,392
Mr. Monty		3,833
Mr. Piou		5,101
Mr. Schacht	53,469	31,958
Mr. Spinetta	38,397	48,588
Mr. Tchuruk	96,890	76,713
<b>TOTAL</b>	<b>700,000</b>	<b>700,000</b>
<b>The Observers</b>		
Mr. de Loppinot	50,000	25,967
Mr. Jean-Pierre Desbois	50,000	49,375
Mr. Patrick Hauptman		24,658
<b>TOTAL</b>	<b>100,000</b>	<b>100,000</b>

(1) Mr. Cornu also received in 2008 and 2007 respectively € 32,211 and € 57,775 relating to his position as director of Alcatel-Lucent Holding GmbH and Alcatel-Lucent Deutschland AG.

(2) Mr. Halbron also received in 2008 and in 2007 € 2,565 and € 3,118 in respect of his position as Director of Electro Banque, a Group subsidiary.

The remuneration specified in the table above represents the only fees paid to the Directors during fiscal years 2007 and 2008.

**Stock options and other securities available for exercise**

The table below shows the stock options and other securities giving access

to the capital held by the Directors in relation to fiscal year 2008, except for of Messrs Camus, Verwaayen and Tchuruk and Ms. Russo:

Beneficiaries	Plan	Average exercise price	Number of stock options allocated	Exercise period Expiration date	Exercised in 2008	Number of stock options exercisable on 12/31/2008
Mr. Cornu	Alcatel stock option plan	€ 50.00	30,000	2009	-	30,000
Mr. Denham	Lucent stock option plans	€ 11.23	2,082	2012-2013	-	2,082
Mr. Hagenlocker	Lucent stock option plans	€ 9.39	976	2013	-	976
Mr. Halbron	Alcatel stock option plan	€ 50.00	200,000	2009	-	200,000
Mr. Krapek	Lucent stock option plans	€ 7.05	976	2013	-	976
Mr. Schacht	Lucent stock option plans	€ 63.40	395,863	2009-2013	-	395,863

The details of their shareholdings in the Alcatel-Lucent are disclosed in Section 7.2 "Management".

## Retirement benefits for certain Directors

As mentioned above, Mr. Verwayeen, CEO, benefits from the same private pension plan applicable to approximately 80 other Alcatel-Lucent senior executives of companies presently within the Group with their registered office in France (AUXAD plan) on the condition that he meets his specific performance targets.

Certain Directors whose duties ended during fiscal year 2008 (Messrs Josef Cornu, Jean-Pierre Halbron and Serge Tchuruk), and who were part of the management of the company, benefit from this private pension plan applicable to approximately 80 senior executives of the Group.

Ms. Russo benefits from the Lucent Retirement Income Plan.

Except for the contractual commitments described above, we have no commitments towards the Directors or the CEO that constitute remuneration, allowances or benefits due or likely to be due on account of termination or change of duties, subsequent to such termination or change of duties.

## Compensation and commitments made to Senior Management

### Compensation

The total amount of the gross compensation and benefits paid in 2008 to senior management, excluding extraordinary items, amounted to € 9.1 million (compared to a total of € 8.5 million in 2007), the fixed portion of which amounted to € 5.3 million. The senior management encompasses the members of the Management Committee as described below. The amount of the fixed portion of the compensation includes the compensation of Mr. Camus as Chairman of the Board of Directors.

Extraordinary items (severance pay resulting from contractual commitments) relating to the senior management amounted to € 8.1 million for fiscal year 2008 (compared to a total of € 6.8 million in 2007).

The fixed portion of the compensation paid to senior management in 2008 also includes the benefits in kind and, where applicable, the impatriation and expatriation premium and housing allowances for expatriates.

The variable portion is based on the company's performance and on the individual performance of senior management, pursuant to criteria reviewed by the Compensation Committee.

The variable portion, paid in 2008, which includes the retention payments, is linked, for fiscal year 2007, to the Group's consolidated revenue, the operating profit and the net change in the free cash flow (operational cash minus capital expenditure), these criteria counting respectively for 50%, 25% and 25% in the calculation of the variable remuneration.

Only individuals who were members of the Management Committee between January 1 and December 31, 2008 are covered by this information, that is, a total of 12 individuals (compared to 11 individuals in 2007).

The compensation taken into account is calculated for the period during which the senior manager was a member of the Management Committee for fiscal year 2008, namely:

- for the entire fiscal year: Étienne Fouques, Claire Pedini, Michel Rahier and Andy Williams;
- since they started in their position: Ben Verwaayen (09/15/2008), Adolfo Hernandez (12/01/2008), Paul Tufano (12/01/2008) and Robert Vrij (10/29/08);
- until the end of their duties: Patricia Russo (09/14/2008), Cindy Christy (11/05/2008), Hubert de Pesquidoux (11/30/2008) and Frédéric Rose (09/30/2008).

The variable portion of the compensation to be paid in 2009 for fiscal year 2008 is based on the following criteria: the Group's consolidated revenue and operating profit, these criteria counting, for 40% and 60%, respectively in the calculation of the variable remuneration.

The Directors' fees received by the senior managers for their participation in meetings of the Board of Directors of Group companies, if any, are deducted from the salary paid.

## Stock options and other securities available for acquisition

The table below specifies the stock options and other securities available for acquisition by all the members of the Management Committee whether or not present during the full year 2008:

Management Committee	Plan	Average exercise price	Number allocated	Exercise period Expiration date	Exercised in 2008	Number outstanding on 12/31/2008
Alcatel Lucent Stock options	2000/2008	€ 7.64	6,573,284	From 01/01/2009 to 12/30/2016	-	4,645,894
Lucent plans		€ 11.53	703,542	From 01/01/2009 to 10/30/2016	-	440,022
Lucent RSUs <sup>(1)</sup>	01/11/2006			-	-	4,566

(1) RSU: Restricted Stock Units entitling the holder to one Alcatel-Lucent share. Such RSU vested on November 1, 2008.

### Pension plan

The private pension plan benefit applies to approximately 80 senior executives currently employed by the Group. Such executives are employees of Alcatel-Lucent or of its French subsidiaries that are more than 50% controlled by Alcatel-Lucent and are members of this plan.

This defined benefit plan set up in 1976 supplements, for each beneficiary, the private plan of the French General Association of Pensions Institutions for Managerial Staff (AGIRC), offering benefits exceeding the upper limit provided for by that plan, according to a system and method of calculation similar to those of the AGIRC plan.

The Group is party to a contract with an insurance company that pays the benefits with funds from Alcatel-Lucent received at the time of determination of the retirement benefit for each beneficiary and within the limit of the pension obligations.

### Amount reserved for pension and other benefits

The aggregate amount of the benefit obligation related to pension or similar benefits at December 31, 2008 for our Directors and our Management Committee was reduced to € 11.2 million (compared to € 40.2 million in 2007) due to the termination of duties of some Directors or members of the Management Committee in 2008. Of this amount, € 1.1 million relate to the Directors including Mr. Verwaayen (compared to € 28.1 million in 2007) and € 10.1 million relate to the members of the Management Committee (compared to € 12.1 million in 2007).

The amount of reserve corresponding commitments undertaken for the benefit of the members of the Board of Directors and of the Management Committee of our company amounted to € 2.6 million as of December 31, 2008.

## 7.6 STATEMENT OF BUSINESS PRINCIPLES AND CODE OF ETHICS

Our Statement of Business Principles is a code of conduct that defines our vision of appropriate business behavior. It covers many areas, from business ethics and corporate governance to human rights and environmental concerns. Our Statement of Business Principles provides that our policy is to conduct our worldwide operations in accordance with the highest business ethical standards, to comply with the laws of the countries in which we operate and to be a good corporate citizen.

In addition, we have adopted a code of business ethics that applies to our CEO, Chief Financial Officer and Corporate Controller entitled "Code of Ethics for Senior Financial Officers", which is also available on our website.

In 2006, we established the position of Chief Compliance Officer. The Chief Compliance Officer is charged with overseeing regulatory compliance with respect to applicable international laws and standards and our corporate governance and business practices.

We also established an Ethics and Compliance Council to, among other things, ensure our compliance with the Statement of Business Principles and with the Code of Ethics for Senior Financial Officers.

In this respect, the NYSE rules stipulate that all U.S. listed companies must adopt and implement a statement of business principles aimed at the Chairman and the chief executive officers, executive officers and employees. Although this rule is not mandatory for us, our "Statement of business principles" covers all the subjects included in the NYSE rules, except that it does not expressly specify a mechanism allowing the Chairman and the CEO, the executive officers and the employees to obtain a waiver of the application of any aspect of such Statement, and that it does not expressly specify that the employees, the executive officers, the Chairman and the CEO undertake to use company property only for legitimate purposes.

## 7.7 REGULATED AGREEMENTS, COMMITMENTS AND RELATED PARTY TRANSACTIONS

"Regulated" agreements under French law are agreements between a company and its CEO, deputy chief executive officers, if any, a director or a shareholder who owns more than 10% of the voting rights which, while authorized by French law, do not involve transactions in the ordinary course entered into under normal terms and conditions.

These agreements, as well as any new commitment made to a Chairman of the Board of Directors or a CEO in the event of termination of their duties, must be authorized in advance by the Board of Directors through a specific

legal procedure, the subject of a special Statutory Auditors' report and presented for consultation to the Shareholders' Meeting.

Related party agreements and transactions (under U.S. law) include, among others, agreements entered into with the company's Directors and senior executives, shareholders who hold more than 5% of the company's capital, or these individuals' close family members. They are not subject to the prior authorization procedure required by French law, unless they fall under the rules applicable to regulated agreements.

## Regulated agreements and commitments

In 2008, the procedure of regulated agreements was resorted to, and one regulated agreement previously approved through this procedure continued in 2008.

The list of regulated agreements, which is available to shareholders at our registered office, does not include any agreement that is likely to have a significant impact on our financial position.

### Agreements relating to Thales

The agreements signed in December 2006 and which became effective in January 2007 replaced existing agreements entered into in 1998-1999. They are the following:

- a memorandum of understanding with Groupe Industriel Marcel Dassault (GIMD), TSA and Thales, terminating the 1998 and 1999 shareholders' agreements;
- a new shareholders' agreement with TSA;
- an agreement with the French government on the protection of the national strategic interests in Thales;
- a cooperation agreement with Thales and TSA; and
- a "Master Agreement" between Alcatel-Lucent Participations, our subsidiary, and Thales concerning the transfer to Thales of our assets in space activities, railway signals and security systems.

For more information on these agreements, see "Material contracts" in Section 4.5 of this annual report.

## Related party transactions

There are no agreements between us and any of our shareholders who hold more than 5% of our capital.

Details about related party transactions, as defined by IAS 24, entered into by our Group's companies in 2006, 2007 and 2008 are presented in Note 32, "Transactions with related parties", to the consolidated financial statements included elsewhere in this document.

These transactions mainly concern jointly controlled entities (consolidated using proportionate consolidation) and companies consolidated using the equity method.

## Commitments in favor of the Chairman of the Board and the CEO

The Board took specific measures with respect to the commitments made regarding pensions and the grant of stock options and Performance shares in favor of Mr. Ben Verwaayen, our CEO. Since such advantages may become due by reason of the termination or the change of function of Mr. Verwaayen, such commitments are subject to the regulated agreement procedure pursuant to Article L. 225-42-1 of the French Commercial Code.

On October 29, 2008 the Board of Directors decided to grant a private pension (AUXAD) in favor of Mr. Verwaayen, subject to performance-related criteria which will be assessed throughout his term of office.

For more details, see paragraph "Commitments concerning retirements" in section 7.5 "Compensation".

On October 29, 2008 the Board of Directors further decided to grant Mr. Verwaayen a maximum of 250,000 Performance shares, subject to presence and performance conditions.

The acquisition of Performance shares may only occur if Mr. Verwaayen remains in his capacity as CEO at the end of the two-year vesting period. This condition will be deemed to be satisfied if the CEO is removed from office for reasons other than fault and in the event that he resigns from his office of CEO for reasons other than personal reasons, or in the event of a change in the control of the company's capital.

The Board of Directors, on September 17, 2008 decided to grant Mr. Verwaayen 250,000 stock options. This stock option plan contains a condition linked to the performance of Alcatel-Lucent shares and provides that one-quarter of the rights over stock options are acquired definitively per year and over a period of four years.

The rights attached to the stock options granted by the Board of Directors will be acquired on the condition that Mr. Verwaayen retain his capacity of CEO at the end of the acquisition period. This condition will be deemed to be satisfied if the CEO is removed from office for reasons other than fault and in the event that he resigns from his office of CEO for reasons other than personal reasons, or in the event of a change in the control of the company's capital.

Separately, the Board of Directors, on September 17, 2008 decided to grant a maximum of 100,000 Performance shares to Mr. Camus, Chairman of the Board, subject to presence and performance conditions.

The acquisition of Performance shares may only occur if Mr. Camus remains in his capacity as Chairman of the Board at the end of the two-year vesting period. This condition will be deemed to be fulfilled if the Chairman of the Board of Directors is removed from office for reasons other than fault and in the event that he resigns from his office of Chairman of the Board of Directors for a reason other than personal reasons or in the event of a change in the control of the company's capital.

The above mentioned elements are included in Section 7.5 "Remuneration".



## 7.8 MAJOR DIFFERENCES BETWEEN OUR CORPORATE GOVERNANCE PRACTICES AND NYSE REQUIREMENTS

The main ways in which our corporate governance practices are aligned with, or differ from, the NYSE's corporate governance rules applicable to U.S. "domestic issuers" listed on the NYSE are explained above in

sections 7.1 "Governance Code", 7.3 "Powers of the Board of Directors", 7.4 "Committees of the Board", and 7.6 "Statement of Business Principles and Code of Ethics".

## 7.9 OPERATING RULES OF THE BOARD OF DIRECTORS

### Full transcription of our Board's Operating Rules

#### Preamble

The Directors of Alcatel-Lucent (hereafter the "Company") have enacted the following which constitutes the internal regulation of the Board of Directors, in order to define its operating procedures and its role according to the rules of corporate governance in force.

These rules, approved at the Board of Directors' meeting held on October 29, 2008, are primarily intended to:

- define the role of the board vis-à-vis the shareholders meeting on the one hand, and of the Chief Executive Officer ("*Directeur Général*") on the other hand, by clarifying the existing provisions of the law and of the Company's bylaws and the position of its members;
- maximize the efficiency of meetings and debates, in particular by specifying the role of the Chairman, and develop the proper procedures of the bodies that oversee the administration of the Company, in the spirit of the Company's corporate governance policy.

These rules are purely internal and are not intended to be a substitute for the applicable provisions of the law and the Company's bylaws, but, rather, are intended to implement the bylaws in a practical manner, and consequently may not be held against the Company, third parties and against the shareholders.

These rules will be disclosed to the shareholders as part of the report of the Board at the shareholders meeting.

### Section I The Board's role

#### Article 1

##### *Deliberations of the Board*

In addition to matters related to its legal or regulatory function, the Board shall regularly decide upon, among other things, the Group's strategic

orientations and the main decisions affecting its activities. This relates in particular to the projects of important investments of organic growth and the operations of internal reorganizations, major acquisitions and divestitures of shares and assets, transactions or commitments that may significantly affect the financial results of the group or considerably modify the structure of its balance sheet and the strategic alliances and financial cooperation agreements.

#### Article 2

##### *Decisions subjected to the prior approval of the Board*

The Chief Executive Officer must submit to the prior approval of the Board the following decisions:

- the update of the group's annual strategic plans, and any significant strategic operation not envisaged by these plans;
- the Group's annual budget and annual capital expenditure plan;
- acquisitions or divestitures in an amount higher than € 300 million (enterprise value);
- capital expenditures in an amount higher than € 300 million;
- offers and commercial contracts of strategic importance in an amount higher than € 1 billion;
- any significant strategic alliances and industrial and financial cooperation agreements with annual projected revenues in excess of 200 million euros, in particular if they imply a significant shareholding by a third party in the capital of the Company;
- financial transactions having a significant impact on the accounts of the group, in particular the issuance of debt securities in amounts greater than € 400 million;
- amendments to the National Security Agreement ("NSA") between Alcatel, Lucent Technologies, Inc. and certain United States Government parties.

**Article 3****Information of the Board**

The Board of Directors shall be regularly informed, either directly or through its Committees, of any significant occurrence in the Company's operations.

The Board is also entitled at all times, including between meetings focused on the review of the financial statements, to become acquainted with any significant change affecting the Company's financial condition, cash position and commitments.

**Section II The members****Article 4****Independence**

The Board of Directors shall define the criteria that a Director must meet in order to be deemed "independent", this definition to be in accordance with the principles of corporate governance applicable to the Company. The Board of Directors shall ensure that the proportion of "independent" Directors is at all times greater than half the members of the Board and shall take action as soon as possible to replace Directors, if necessary.

By definition, an "independent" Director has no direct or indirect relationships of any nature whatsoever with the Company, its group or its management of a nature that could compromise the free exercise of his or her judgment.

**Article 5****Expertise**

Board members will be selected so as to bring a diversity of competencies, especially with respect to technology, finance, human resources, the emerging markets, as well as a connection with academia and the government agencies community in view of the Company's highly classified work. At least one of the "independent" members of the Board of Directors shall have financial expertise.

The members of the Board will participate in training programs regarding the specificities of the Company, its activities and its industry sector, that may be arranged by the Company from time to time.

In order for the Directors to have and dedicate the time and attention necessary to carry out their responsibilities, the Board of Directors shall ensure that none of its members violates the legal restrictions regarding the holding of multiple offices. The number of additional Directorships that a Director of the Company may hold in limited liability companies which are part of different groups, in any countries, may not exceed four.

**Article 6****Compensation**

The Directors will receive attendance fees in amounts determined by the shareholders meeting. Such fees will be divided into two equal portions. The first portion will be a fixed amount and will be divided equally amounts

among all of the Directors. The second portion will be a variable amount and will be divided among the Directors in accordance with their attendance at Board meetings and at any meetings of the Committees of which they are members. Attendance fees will be paid in two installments. The first installment will be paid after the annual shareholders meeting and the second will be paid at the end of the year.

The Chairman, the Chief Executive Officer and any Directors who are executive officers of the Company will not receive any attendance fees.

The board observers will receive a compensation as determined by the Shareholders annual meeting, to be divided between them and paid according to the same rules as applicable to the Directors' fees.

**Section III The Chairman****Article 7****Role of the Chairman**

The Chairman of the Board (hereafter "the Chairman") shall organize and manage the tasks of the Board and announce the outcome thereof at the general shareholders' meeting. He shall watch over the correct operations of the corporate bodies of the Company and especially those of the Board's Committees. He shall ensure that the Directors are able to perform their assignments, in particular those that stem from the Committees to which they belong.

He shall take care that the formulation and implementation of the principles of the corporate governance of Company are of the highest standard.

The Chairman is the only person who can act and speak on behalf of the Board of Directors.

With the approval of the Chief Executive Officer, he may represent the group in high level relationships, in particular with the authorities, in national and international arenas.

**Article 8****Information of the Chairman – office of the Chairman**

The Chairman shall be regularly informed by the Chief Executive Officer of the significant events and positions regarding the activities of the group; he shall receive all useful information for the performance of the Board's tasks and those necessary for the establishment of the internal audit report.

The Chairman may meet with the auditors.

The Chairman may attend as advisor the meetings of the Committees of the Board in which he is not member, and may seek their advice on any question that falls within their jurisdiction.

The General Counsel, in his Board Secretary mission, will report to the Chairman. He or she will assist the Chairman in organizing board meetings, shareholders' meetings and discharging any other duties associated with governance items linked to the legal incorporation of the Company.

## Section IV Operating procedures of the Board

### Article 9

#### *Meetings*

The Board of Directors shall meet on notice of the Chairman, at least once during each quarter, at the registered office of the Company or at any other place, in France or abroad, as shall be set forth in the applicable notice of meeting, in order to consider collectively the matters that are submitted to it.

In principle, there will be six main board meetings, four of them primarily dedicated to the review of financial statements, one to strategy matters and one to the yearly budget. On a regular basis, the Board will meet in "executive sessions" attended by non-executive Directors only.

### Article 10

#### *Participation*

The Directors may participate in the meetings of the Board by means of telecommunication as authorized by the bylaws. In such event, they will be considered to be present for the purpose of calculating the applicable quorum and majority requirements except with respect to votes regarding the Company's statutory financial statements, the yearly consolidated financial statements and the annual report.

As prescribed by the applicable legal requirements, board meetings that are held by video-conference or other telecommunication media must be carried through technical means that ensure the proper identification of the parties, the confidentiality of the discussions and the real-time effective participation of all the Directors present at any such meetings of the Board, and the transmission of the discussions shall be done in a continuous manner.

The secretary of the Board of Directors shall initial the attendance sheet on behalf of the Directors who attend meetings of the Board via video-conference or other telecommunication media (as well as for the Directors for whom they act as proxy).

### Article 11

#### *Evaluation of the Board*

The Board shall meet once a year to discuss its operating procedures, after each Board member having answered an evaluation questionnaire. It shall also meet once a year to consider the performance of the executive officers of the Company, and no Directors who are either officers or employees of the Company shall attend such meetings.

The Board of Directors may, at any time, and at least once every two years, engage an outside consultant to evaluate its performance.

### Article 12

#### *Expenses*

The members of the Board shall be reimbursed, upon presentation of receipts, for travel expenses as well as for other expenses incurred by them in the interests of the Company. The Chief Financial Officer will sign all of them.

## Section V Information of the Board

### Article 13

#### *The Committees*

In the course of carrying out its various responsibilities, the Board of Directors may create specialized Committees, composed of Directors appointed by the Board, that review matters within the scope of the Board's responsibilities and submit to the Board their opinions and proposals, in accordance with the internal rules governing such Committees. The Board of Directors shall have the following standing Committees: the Corporate Governance and Nominating Committee, the Compensation Committee, the Audit and Finance Committee and the Technology Committee.

Each Committee shall have no less than three Directors, and shall be chaired by such Director among the members of the Committee as shall be appointed by the Board of Directors.

Each Committee shall submit reports regarding the matters reviewed by it to the Board of Directors, which is the only body that can make any decision regarding such matters.

The Chief Executive Officer may attend as advisor the meetings of the Committees of the Board in which he or she is not member (except meetings of the Compensation Committee dealing with his or her compensation).

### Article 14

#### *Right to information from the executive officers*

In order to efficiently oversee the management of the Company, the members of the Board may, through the Chairman or after having informed him, request the opinion of the executive officers of the group on any matter they deem appropriate. They may, under the same conditions, meet such officers without the presence of any Directors who are executive officers.

The members of the Board shall have the right to require the Chief Executive Officer, through the Chairman or after having informed him, to provide them, within a reasonable period of time, with such information as shall be necessary to permit such members to comply with their assignment.

In order to assist them in the fulfillment of their duties, the members of the Board shall receive all relevant information regarding the Company, including press articles and reports by financial analysts.

### Article 15

#### *Transparency*

The Board of Directors shall ensure the openness of its activities to the shareholders of the Company by presenting each year, in the annual report, a statement regarding its activities during the fiscal year just ended, and regarding the operation of the Board and its Committees.

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## Section VI Role and actions of the Committees

### Article 16

#### *Corporate Governance and Nominating Committee*

The mission of the Corporate Governance and Nominating Committee shall be to review matters relating to the composition, organization and operation of the Board of Directors and its Committees, to identify and make proposals to the Board regarding individuals qualified to serve as Directors of the Company and on Committees of the Board of Directors; to develop and recommend to the Board of Directors a set of corporate governance principles applicable to the Company; and to oversee the evaluations of the Board of Directors and Committees thereof.

The Corporate Governance and Nominating Committee will also review succession plans for the Chief Executive Officer as well as other senior executive officers of the Company (Management Team).

### Article 17

#### *Compensation Committee*

The mission of the Compensation Committee shall be to review matters relating to and make proposals to the Board regarding the compensation of the Directors, the Chairman, the Chief Executive Officer and the senior executive officers members of the Management Committee, to consider the general policies with respect to the grant of options, bonus shares and variable compensation, and to examine any proposal to increase the share capital of the Company by an offering made exclusively to its employees.

The Chairman and the majority of the members of the Compensation Committee shall be independent Directors.

### Article 18

#### *Audit and Finance Committee*

The Audit and Finance Committee shall review the accounts to be submitted to the Board, the accounting norms used by the Company and shall ensure the proper and consistent use of accounting methods. It shall verify the internal control mechanisms and shall examine significant risks including off-balance sheet obligations as well as any other matter of a financial or accounting nature that shall be submitted to the Committee by the Chief Executive Officer or the Chief Financial Officer of the Company.

The Audit and Finance Committee shall carry out the procedure for the selection of the Company's auditors and any reappointment of such auditors, and shall decide what engagements may be undertaken by the auditors in addition to auditing the accounts of the Company.

The Audit and Finance Committee shall examine the Company's debt and equity capitalization and any significant changes related to it.

### Article 19

#### *Technology Committee*

The mission of the Technology Committee is to review, on behalf of the Board, the major technological options that are the basis of R&D work and the launching of new products. The Technology Committee will be kept informed of the development of Alcatel-Lucent's scientific and technical co-operation projects with the academic and research environment.

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# 8 INFORMATION CONCERNING OUR CAPITAL

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## 8.1 SHARE CAPITAL AND VOTING RIGHTS

Our capital at December 31, 2008 was € 4,636,083,522 represented by 2,318,041,761 ordinary shares, each with a nominal value of € 2, fully paid.

There are no more class 0 shares as they have been transformed into ordinary shares. Furthermore, there are no shares which do not represent capital.

The total number of voting rights, as published by Alcatel-Lucent pursuant to Article L. 233-8-11 of the French Commercial Code, and Article 223-3 of the General Regulations of the AMF, was 2,350,325,756 at December 31, 2008 (including the treasury stock held by the parent company and by its subsidiaries).

To allow shareholders to determine whether they have exceeded an ownership threshold, we post the total number of voting rights monthly on our website. For the discussion of ownership thresholds, see Section 10.2, "Specific provisions of the by-laws and of law."

Information on voting rights, which is considered regulated information under the General Regulation of the AMF, may be reviewed at the following address: [www.alcatel-lucent.com](http://www.alcatel-lucent.com), under "Shareholders and Investors" and then "Regulated Information".

## 8.2 DILUTED CAPITAL AT DECEMBER 31, 2008

	<b>Total number of shares</b>
<b>Capital at December 31, 2008</b>	<b>2,318,041,761</b>
Alcatel-Lucent stock options	177,898,780
ORANE notes	1,869,130
4.75% OCEANE June 2003	63,192,019
Convertible bonds	55,716,010
Convertible debt securities issued by Lucent Technologies Inc.*	143,687,638
<b>Diluted capital at December 31, 2008**</b>	<b>2,760,405,338</b>

\* Warrants expired December 10, 2007

\*\* For a description of the dilutive instruments, see the Section 8.7, "Outstanding instruments giving right to shares".

## 8.3 DELEGATIONS OF AUTHORITY AND AUTHORIZATIONS

Currently, we have the following authorizations to issue capital, which authorizations were approved at our Shareholders' Meetings on June 1, 2007 and May 30, 2008:

At December 31, 2008	Expiration date	Total duration	Maximum authorized amount <sup>(1)</sup>	Use
<b>I. Issues with pre-emptive rights</b>				
Shares or convertible bonds with pre-emptive rights including increase by capitalization of reserves created as permitted by French law	08/01/2009	26 months	20% of the capital, representing approximately € 920 million or 460 million shares € 6,000 million in debt securities	None
<b>II. Issues without pre-emptive rights</b>				
Shares or convertible bonds issue without pre-emptive rights	08/01/2009	26 months	5% of the capital, representing approximately € 230 million or 115 million shares € 6,000 million in debt securities	None
Issue of securities in consideration of contributions in kind	08/01/2009	26 months	10% of the capital representing approximately 230 million shares	None
			€ 920 million or 460 million shares	None
Overall limitation for issuances pursuant to I and II			for ordinary shares for debt securities	None € 6,000 million
<b>III. Issues reserved for employees</b>				
Share issue reserved for members of an employee savings plan	07/30/2010	26 months	3% of the capital	None
Stock options (price without discount)	07/30/2011	38 months	4% of the capital	0.1%
Bonus shares	07/30/2011	38 months	1% of the capital	0.01%
<b>IV. Share repurchase program</b>				
Share repurchase	11/30/2009	18 months	10% of the capital	None
Share cancellation	11/30/2009	18 months	10% of the capital	None

(1) Nominal amount based on the share capital at the date of the shareholders' meeting which gave the authorization.

### Elements which could have an impact in case of public tender offer (information listed at article L. 225-100-3 of the French Commercial Code)

Pursuant to Article L. 225-100-3 of the French Commercial Code, the following elements could have an impact in case of public tender offer:

- see in Section 9.4 "Breakdown of capital of voting rights" the structure of the share capital ;
- see in Section 5.13 paragraph "Employee share ownership stock option plans and performance shares": "[...] in the event a third party tries to

launch a takeover of Alcatel-Lucent, a tender offer for our shares [...], our Board of Directors may decide to immediately vest all outstanding options (excluding those held by individuals who were Directors on the option grant date or on the date of the Board's decision) and this notwithstanding any restricted period";

- the manner in which the employee shareholding system functions when they do not exercise their rights directly: pursuant to Article L. 214-40 of the French Monetary and Financial Code, the Supervisory Board of the *Fonds Commun de Placements «Actionnaire Alcatel-Lucent»* (FCP 2AL) decides whether to bring the shares to the tender or exchange offer.

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## 8.4 USE OF AUTHORIZATIONS

### Stock options

The Board of Directors currently has an authorization given by the Shareholders' Meeting of May 30, 2008 to grant options to subscribe for or purchase shares up to 4% of our company's share capital.

In compliance with the commitment made by the Board of Directors in the presence of the shareholders at the General Meeting of May 30, 2008, grants made to members of the Management Committee contain a condition linked to the performance of the Alcatel Lucent share (See in section 5.13 paragraph "Employee share ownership, stock option plans and performance shares")

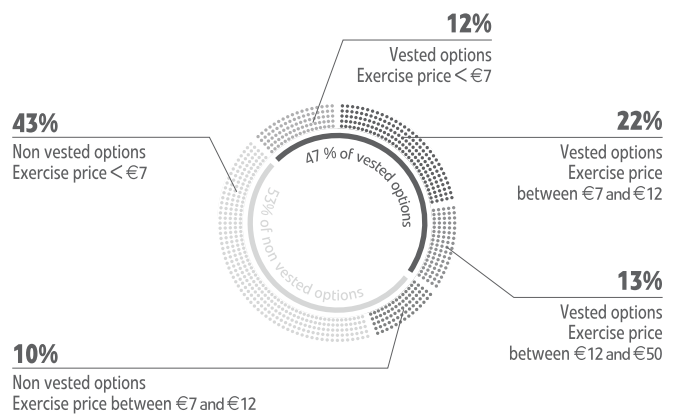
The total number of options granted pursuant to this authorization at March 18, 2009 is 54.9 million, representing 2.37% of our company's share capital.

### Performance shares

Also, the Board of Directors currently has an authorization given by the Shareholders' Meeting of May 30, 2008 to grant up to 1% of the company's share capital in performance shares. Those grants contain a condition linked to the performance of the Alcatel Lucent share (See in section 5.13 paragraph "Employee share ownership, stock option plans and performance shares").

The total number of shares granted pursuant to this authorization at March 18, 2009 is 7.3 million, representing 0.32% of our company's share capital.

The graph below shows the breakdown at March 18, 2009 of stock options granted to employees by historical Alcatel (between January 1, 2000 and November 30, 2006) and by Alcatel-Lucent (after December 1, 2006) to employees of the Group between 2000 and 2009.



## 8.5 CHANGES IN OUR CAPITAL OVER THE LAST FIVE YEARS

Type of transaction	Number of shares	Amount of capital (in euros)	Share premium (in euros)
<b>Capital at 12/31/2003</b>	<b>1,284,410,224</b>		
Stock options exercised	1,508,728	3,017,456	6,856,478.00
Redemption into historical Alcatel shares of bonds issued by Coralec in the context of the following transactions:			
• acquisition of Astral Point Communications Inc.	300,000	600,000	4,323,000.00
• acquisition of Telera Inc.	400,000	800,000	1,304,000.00
• acquisition of iMagic TV Inc.	50,000	100,000	272,000.00
• acquisition of TiMetra Inc.	1,000,000	2,000,000	6,080,000.00
• acquisition of Spatial Wireless	17,783,297	35,566,594	176,268,039.86
Redemption of historical Alcatel 7.917% bonds	3,212	6,424	10,728.08
Losses charged against additional paid-in capital			(14,156,675,224.11)
<b>Capital at 12/31/2004</b>	<b>1,305,455,461</b>	<b>2,610,910,922</b>	<b>7,757,527,030.92</b>
Stock options exercised	1,855,913	3,711,826	8,316,745.80
Redemption into historical Alcatel shares of bonds issued by Coralec in the context of the following transactions:			
• acquisition of iMagic TV Inc.	50,000	100,000	272,000.00
• acquisition of Spatial Wireless	400,000	800,000	3,964,800.00
Redemption of historical Alcatel 7.917% bonds	120,780,266	241,560,532	403,406,088.44
<b>Capital at 12/31/2005</b>	<b>1,428,541,640</b>	<b>2,857,083,280</b>	<b>8,173,486,665.15</b>
Stock options exercised	2,697,886	5,395,772	13,528,427.68
Redemption into historical Alcatel shares of bonds issued by Coralec in the context of the acquisition of Spatial Wireless	300,000	600,000	2,973,600
Issue of Alcatel-Lucent shares in a number equivalent to the number of Alcatel ADSs granted to shareholders of Lucent Technologies Inc. in connection with the business combination with the latter	878,139,615	1,756,279,230	7,163,619,258.40 <sup>(1)</sup>
<b>Capital at 12/31/2006</b>	<b>2,309,679,141</b>	<b>4,619,358,282</b>	<b>15,353,607,951.24</b>
Allocation of expenses related to the business combination with Lucent			86,523.34
Stock options exercised	2,726,675	5,453,350	13,262,790.90
Exercise of warrants issued by Lucent Technologies Inc.	28,612	57,224	224,468.53
Convertible securities issued by Lucent Technologies Inc.	4,506,992	9,013,984	36,236,215.68
Redemption into Alcatel-Lucent shares of bonds issued by Coralec in the context of the acquisition of TiMetra Inc. transactions:	500,000	1,000,000	3,040,000
<b>Capital at 12/31/2007</b>	<b>2,317,441,420</b>	<b>4,634,882,840</b>	<b>15,406,457,949.69</b>
Stock options exercised	6,100	12,200	11,195.00
Convertible securities issued by Lucent Technologies Inc.	544,241	1,088,482	4,375,697.64
Redemption into Alcatel-Lucent shares of bonds issued by Coralec in the context of the acquisition of Spatial Wireless	50,000	100,000	495,600.00
<b>Capital at 12/31/2008</b>	<b>2,318,041,761</b>	<b>4,636,083,522</b>	<b>15,411,679,263.71<sup>(2)</sup></b>

(1) This amount takes into account the expenses related to the business combination.

(2) Merger premium following restructuring.



## 8.6 PURCHASE OF ALCATEL-LUCENT SHARES BY THE COMPANY

In 2008, we did not effect any transactions pursuant to our share repurchase program. At December 31, 2008, the number of shares held directly by Alcatel-Lucent was 25,343,255, representing 1.09% of the capital. At that date, our subsidiaries held shares representing 1.43% of our capital. At December 31, 2008, these shares were booked as a deduction from consolidated shareholders' equity.

The Combined Shareholders' Meeting of May 30, 2008 authorized the Board of Directors (or pensions delegated under French law) to repurchase Alcatel-Lucent shares up to a maximum of 10% of the capital of the company. This authorization will expire in 18 months.

The maximum purchase price per share may not exceed € 20 and the minimum selling price per share may not be less than € 2. This program has not been implemented.

At its meeting of March 18, 2009, the Board of Directors proposed a resolution to be voted upon at our next Shareholders' Meeting, to be held on May 29, 2009, where the existing authorization for a share repurchase program would be cancelled and a new authorization for an 18-month repurchase program be established.

### Description of the repurchase program pursuant to Articles 241-1 and following of the AMF rules

#### **Date of the Shareholders' Meeting authorizing the program**

The purchase by the company of its own shares will be submitted for approval at the Combined Shareholders' Meeting on May 29, 2009.

#### **Number of shares and percentage of capital held directly or indirectly by the company**

At February 28, 2009, the company held 25,343,255 shares directly and 33,044,140 shares indirectly.

#### **Goals of the repurchase program**

The goals of the repurchase program are:

- to cancel shares by means of a capital reduction within the limits prescribed by law and in accordance with the authorization to be submitted for approval at the Shareholders' Meeting to be held on May 29, 2009;
- to use the shares in fulfilling grants of stock or options to the Group's employees, directors and CEO under the terms and conditions prescribed

by law (stock options, employee profit-sharing plans, bonus shares, etc.);

- to comply with obligations related to the issue of securities giving access to our capital;
- to hold the shares and, at a later stage, to deliver such shares in exchange or as payment, including in connection with external growth transactions pursued by the company;
- to ensure the liquidity of Alcatel-Lucent's shares and stimulate the secondary market of the shares through a liquidity contract made with an investment service provider which complies with an ethics charter recognized by the AMF; and
- to implement any market practice that may come to be recognized by the AMF, and more generally, any transaction that complies with current regulations.

#### **Repurchase terms and conditions**

Shares may, at any time and within the limits of the regulations in force, be purchased, sold, exchanged or transferred, whether on the market, privately or otherwise, by any means, including in particular by transfers of blocks, options transactions or the use of derivative instruments.

#### **Maximum share of capital, maximum number and characteristics of shares, maximum purchase price**

The program concerns the shares of Alcatel-Lucent (ISIN FR 0000130007) listed on the Euronext Paris stock exchange – Compartment A.

The maximum percentage that may be purchased under the authorization to be proposed at the Combined Shareholders' Meeting of May 29, 2009 is 10% of the total number of shares comprising the capital on the date of purchase. In view of the number of shares that comprise our capital at December 31, 2008, this limit represents 231,804,176 shares or, based on the maximum authorized purchase price, a maximum theoretical amount of 4,636,083,520 shares, not including the shares already held by the company.

The maximum purchase price per share is set at € 20.

#### **Duration of the program**

In accordance with the resolution to be submitted for approval to the Combined Shareholders' Meeting of May 29, 2009, the share repurchase program would be implemented over a period of 18 months following the date of this meeting and would therefore expire on November 29, 2010.

## 8.7 OUTSTANDING INSTRUMENTS GIVING RIGHT TO SHARES

### Convertible debt securities issued by Lucent Technologies Inc.

#### Convertible bonds

Lucent Technologies Inc. had issued debt securities convertible into Lucent Technologies Inc. shares. As of the date of the business combination between historical Alcatel and Lucent, in accordance with the Board of Directors' decision of November 30, 2006, these securities entitled holders to:

- 44,463,075 Alcatel-Lucent shares, concerning the 7.75% convertible bonds maturing on March 15, 2017;
- 43,832,325 Alcatel-Lucent shares, concerning the Series A convertible bonds (2.75% increased to 2.875%) maturing on June 15, 2023;
- 55,087,690 Alcatel-Lucent shares, concerning the Series B convertible bonds (2.75% increased to 2.875%) maturing on June 15, 2025; and
- 15,988,842 Alcatel-Lucent shares, concerning the 8% subordinated convertible bonds maturing on August 1, 2031 (early redemption in March 2007).

The unit price of the Alcatel-Lucent shares issued through conversion of the above convertible debt securities is equal to the conversion or exercise price of these securities divided by the exchange ratio set in connection with the business combination between historical Alcatel and Lucent (that is, 0.1952 Alcatel share for one Lucent share), namely:

- the equivalent in euros, the day of the conversion of U.S. \$ 24.80 for the 7.75% convertible bonds;
- the equivalent in euros, the day of the conversion, of U.S. \$ 17.11 for the Series A convertible bonds;
- the equivalent in euros, the day of the conversion, of U.S. \$ 15.98 for the Series B convertible bonds;
- the equivalent in euros, the day of the conversion, of U.S. \$ 30.43 for the 8% subordinated convertible bonds.

During the fourth quarter of 2008, 2,913,055 convertible bonds were repurchased and cancelled (see Note 24 to our consolidated financial statements).

At December 31, 2008, € 1.912 billion of these convertible bonds were outstanding, giving right to 143,687,638 shares of Alcatel-Lucent.

### Stock options and other stock-based compensation instruments issued by Lucent Technologies Inc.

As part of the business combination with Lucent, we agreed to issue Alcatel-Lucent shares to holders of stock options and other stock-based compensation instruments (restricted stock units, performance shares and Directors' deferrals) granted by Lucent Technologies Inc., in the event of such holders' exercise or conversion of the rights attached to their instruments.

As of November 30, 2006, the date of the business combination between historical Alcatel and Lucent, these instruments entitled holders to a total of 311,307,596 common shares of Lucent Technologies Inc.

Consequently, and in accordance with the decision made by our Board of Directors on November 30, 2006, acting on the authority granted by the Shareholders' Meeting of September 7, 2006, Alcatel-Lucent's Coralec subsidiary issued to Lucent 60,767,243 bonds, each of which may be converted into one Alcatel-Lucent share.

When the Lucent stock options or other stock-based compensation instruments are exercised by their holders, Lucent requests conversion of the corresponding number of convertible bonds and immediately delivers the number of Alcatel-Lucent shares resulting from the conversion to those holders who have exercised their rights.

At December 31, 2008, there was a total of 55,716,010 outstanding bonds convertible into Alcatel-Lucent shares. However only a maximum of 31,984,610 of these bonds may still be converted, given the cancellation of stock options on that same date.

These bonds are not listed on any stock exchange.

### Redeemable notes (ORAs)

#### Issues related to acquisitions

In 2004, we authorized the issuance by our subsidiary Coralec of debt represented by notes redeemable for Alcatel-Lucent shares (ORAs), in order to allow for the acquisition of Spatial Wireless (United States).

In connection with this acquisition, 18,988,334 notes redeemable for Alcatel-Lucent shares were issued to historical Alcatel at a unit price of € 11.91. During 2008, 50,000 shares were issued in exchange for these notes, thus bringing the number of Alcatel-Lucent shares issued since the issuance of the ORAs to repay these notes to 18,533,297.

In 2003, we authorized the issuance by Coralec of debt represented by notes redeemable for Alcatel-Lucent shares, in order to allow for the acquisition of iMagic TV Inc. (Canada) and TiMetra Inc. (United States).

In connection with the acquisition of iMagic TV Inc., 3,717,254 notes redeemable for Alcatel-Lucent shares were issued to historical Alcatel at a unit price of € 7.44. There were no redemptions in 2008. The number of Alcatel-Lucent shares issued since the issuance of the ORAs to repay these notes is 3,631,332.

In connection with the acquisition of TiMetra Inc., 17,979,738 notes redeemable for Alcatel-Lucent shares were issued to historical Alcatel at a unit price of € 8.08. There were no redemptions in 2008. The number of Alcatel-Lucent shares issued since the issuance of these notes to repay the ORAs is 17,034,934.

In 2002, we authorized the issuance by Coralec of debt represented by notes redeemable for Alcatel-Lucent shares, in order to allow for the acquisition of Astral Point Communications Inc. (United States).

In connection with the acquisition of Astral Point Communications Inc., 9,506,763 notes redeemable for Alcatel-Lucent shares were issued to historical Alcatel at a unit price of € 16.41. There were no redemptions in 2008 and the number of Alcatel-Lucent shares issued since issuance of the ORAs to repay these notes is 9,123,396.

At December 31, 2008, there was a total of 1,869,130 outstanding notes redeemable for Alcatel-Lucent shares.

These bonds are not listed on any stock exchange.

### Issues related to financial transactions

#### *June 2003 OCEANE (bonds convertible into new or existing shares)*

In accordance with the authorization granted at our Combined Shareholders' Meeting of April 17, 2003, on June 12, 2003 historical Alcatel issued debt represented by bonds with a conversion and/or exchange option for new or existing shares. The issue concerned a principal amount of € 1.022 billion, represented by 63,192,019 bonds with a unit value of € 16.18 each convertible into new or existing Alcatel-Lucent shares.

The bonds, which have a term of seven and a half years, bear an annual interest rate of 4.75%.

The proceeds from this issue were intended primarily for the partial retirement, via a tender offer, of three bond issues maturing in 2004 (5.75% February 2004 and 5% October 2004) and 2005 (5.87% September 2005). Upon completion of this offer, we retired bonds in a nominal amount of € 342 million.

At December 31, 2008, there was a total of 63,192,019 outstanding OCEANEs, listed on Euronext Paris.

### Securities not convertible into equity

These securities concern the following two bond issues of Alcatel-Lucent:

- the 4.375% bond issue in the amount of € 777 million (maturing in February 2009) traded on Euronext Paris;
- the 6.375% bond issue in the amount of € 462 million (maturing in April 2014) traded on the Luxembourg Stock Exchange.

At December 31, 2008, these issues were outstanding. However, on February 17, 2009, the 4.375% bonds were entirely redeemed as they had reached maturity.

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# 9 STOCK EXCHANGE AND SHAREHOLDING

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## 9.1 LISTING

Our shares are traded on Eurolist by Euronext, which represents the principal trading market for our ordinary shares. Our ordinary shares have been traded on the Euronext Paris SA since June 3, 1987. Our shares have been delisted from the Tokyo Stock Exchange on December 18, 2008, and from Euronext Brussels and Euronext Amsterdam on March 2, 2009. Delisting from Six Swiss Exchange and from the Frankfurt Stock Exchange will be final beginning of May 2009. However, in addition to Eurolist, our ordinary shares remain listed on SEAQ (Stock Exchange Automated Quotation) International in London.

Since May 1992, our shares have been listed on The New York Stock Exchange (NYSE) in the form of American Depository Shares (ADSs).

The Bank of New York is the depository of the ADSs. Each ADS represents one ordinary share.

### ISIN Code

Since June 30, 2003, all securities quoted on the Euronext Paris stock market are identified by an International Securities Identification Number (ISIN).

Alcatel-Lucent: FR0000130007.

Mnemonic: ALU.

### Indexes

Our shares are included on the CAC 40. They are no longer included in the DJ Euro Stoxx 50 since September 1, 2008.

## 9.2 TRADING OVER THE LAST FIVE YEARS

### Trading on Euronext Paris

The following table sets forth, for the periods indicated, the high and low prices on Euronext Paris SA for our ordinary shares:

	Price per share (in euros)	
	High	Low
<b>2004</b>	<b>14.82</b>	<b>8.77</b>
<b>2005</b>	<b>11.70</b>	<b>8.14</b>
<b>2006</b>	<b>13.82</b>	<b>8.27</b>
<b>2007</b>	<b>11.86</b>	<b>4.87</b>
First Quarter	11.86	8.51
Second Quarter	10.71	8.76
Third Quarter	10.73	6.11
Fourth Quarter	7.41	4.87
<b>2008</b>		
First Quarter	5.15	3.24
Second Quarter	4.98	3.62
Third Quarter	4.42	2.25
Fourth Quarter	2.99	1.44
<b>2008</b>		
October	2.99	1.44
November	2.49	1.45
December	1.98	1.48
<b>2009</b>		
First quarter (as of March 30, 2009)	1.81	0.87
<b>2009</b>		
January	1.81	1.41
February	1.60	1.02
March (as of March 30, 2009)	1.49	0.87

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## Trading on The New York Stock Exchange

The following table sets forth, for the periods indicated, the high and low prices on The New York Stock Exchange for our ADSs:

	Price per share (in U.S. \$)	
	High	Low
<b>2004</b>	<b>18.32</b>	<b>10.76</b>
<b>2005</b>	<b>15.75</b>	<b>10.44</b>
<b>2006</b>	<b>16.51</b>	<b>10.63</b>
<b>2007</b>	<b>15.43</b>	<b>7.15</b>
First Quarter	15.43	11.41
Second Quarter	14.09	11.71
Third Quarter	14.57	10.10
Fourth Quarter	10.47	7.15
<b>2008</b>		
First Quarter	7.40	5.08
Second Quarter	7.67	5.73
Third Quarter	6.54	3.57
Fourth Quarter	4.05	1.74
<b>2008</b>		
October	4.05	1.84
November	3.25	1.74
December	2.52	1.87
<b>2009</b>		
First Quarter (as of March 30, 2009)	2.38	1.09
<b>2009</b>		
January	2.38	1.83
February	1.96	1.29
March (as of March 30, 2009)	2.00	1.09

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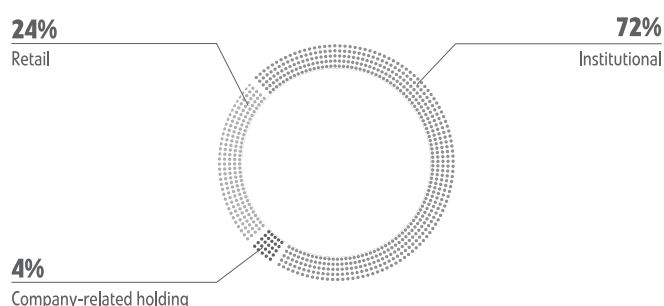
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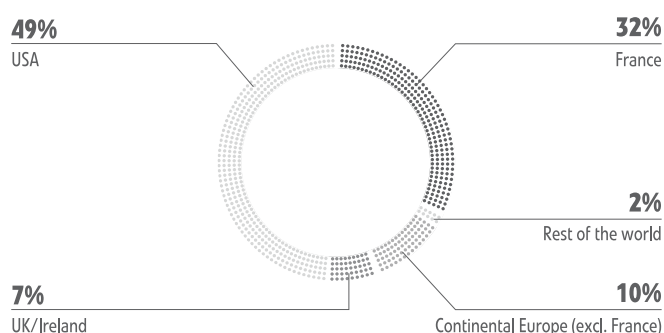
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## 9.3 SHAREHOLDER PROFILE

Breakdown of the capital by type of shareholder at December 31, 2008



Breakdown of the capital by location of record owner at December 31, 2008



\* Source: Ipreo.

Number of shares at December 31, 2008: 2,318,041,761.

## 9.4 BREAKDOWN OF CAPITAL AND VOTING RIGHTS

Situation on December 31, 2008	Shares	% Capital	Voting rights	%
Brandes Investment Partners, L.P. <sup>(1)</sup>	218,669,618	9.44	218,669,618	9.31
Pzena Investment Management <sup>(2)</sup>	115,571,100	4.99	115,571,100	4.92
Dodge & Cox <sup>(2)</sup>	96,753,500	4.17	96,753,500	4.12
Tradewinds Global Investors <sup>(2)</sup>	80,918,800	3.49	80,918,800	3.44
Other institutional investors in France <sup>(2)(4)</sup>	68,397,800	2.95	68,397,800	2.91
Caisse des Dépôts et Consignations (CDC) <sup>(2)</sup>	48,001,700	2.07	48,288,650	2.05
Crédit Agricole Asset Management <sup>(2)</sup>	46,833,600	2.02	46,833,600	1.99
BT Pension Scheme/Hermès <sup>(2)</sup>	42,367,500	1.83	42,367,500	1.80
BNP PARIBAS Asset Management <sup>(2)</sup>	41,079,700	1.77	41,079,700	1.75
Mutual Fund FCP 2AL <sup>(1)</sup>	32,633,071	1.41	59,092,054	2.51
Treasury stock held by the parent company	25,343,255	1.09	-	-
Treasury stock held by the subsidiaries	33,050,604	1.43	-	-
Public	1,468,421,513	63.34	1,473,850,893	65.20
<b>TOTAL</b>	<b>2,318,041,761</b>	<b>100.00</b>	<b>2,350,325,756<sup>(3)</sup></b>	<b>100.00</b>

(1) Source: shareholders.

(2) Source: Alcatel-Lucent (TPI as of at December 31, 2008).

(3) Total gross number of voting rights, published by Alcatel-Lucent, including the treasury stock held by the parent company and the treasury stock held by the subsidiaries.

(4) Other institutional investors in France holding more than 1% of the capital.



At December 31, 2008, shareholders benefiting from double voting rights had a total of 32,283,995 votes, representing 1.37% of the voting rights.

the voting rights of Alcatel-Lucent (see details of their holding in Section 7.2, "Management").

The members of the Board of Directors and of the Management Committee together held, as of March 31, 2009, 689,972 shares of Alcatel-Lucent (including ADSs) and 703 parts of FCP 2AL, that is, 0.03% of the capital and

**HOLDING BY MEMBERS OF THE BOARD OF DIRECTORS AND OF THE MANAGEMENT COMMITTEE IN THE SHARE CAPITAL<sup>(1)</sup>**

<b>March 31, 2009</b>	<b>Alcatel-Lucent shares</b>	<b>ADSs</b>	<b>FCP 2AL units<sup>(4)</sup></b>	<b>Total</b>	<b>% of share capital</b>
Board of Directors <sup>(2) (3)</sup>	257,125	204,168	0	461,293	0.02
Management Committee	194,134	34,545	703	229,382	0.01
<b>TOTAL</b>	<b>451,259</b>	<b>238,713</b>	<b>703</b>	<b>690,675</b>	<b>0.03</b>

(1) See details regarding the directors' holding in Section 7.2.

(2) Excluding the two observers.

(3) Securities held directly or indirectly by directors.

(4) Part in the mutual fund FCP 2AL.

**Transactions by Officers and Directors in Alcatel-Lucent securities**

Summary statement at March 31, 2009 communicated pursuant to Article 223-23 of the AMF General Regulations

Mr. Philippe Camus, Chairman of the Board, declared one transaction, on the following date:

<b>Nature of the operation</b>	<b>Date</b>	<b>Quantity*</b>	<b>Unit price</b>
Acquisition	09/12/2008	50,000	€ 3.53

Mr Ben Verwaayen, CEO, declared one transaction, on the following date:

<b>Nature of the operation</b>	<b>Date</b>	<b>Quantity*</b>	<b>Unit price</b>
Acquisition	12/12/2008	50,000	€ 1.69

Mr Louis Hugues, director, declared one transaction, on the following date:

<b>Nature of the operation</b>	<b>Date</b>	<b>Quantity*</b>	<b>Unit price</b>
Acquisition	12/12/2008	5,000	€ 1.70

A person related to Mr Jean Monty, director, declared seven transactions, on the following dates:

<b>Nature of the operation</b>	<b>Date</b>	<b>Quantity*</b>	<b>Unit price</b>
Acquisition	12/12/2008	25,000	\$ 2.27
Acquisition	02/06/2009	100	\$ 1.88
Acquisition	02/06/2009	100	\$ 1.88
Acquisition	02/06/2009	161	\$ 1.88
Acquisition	02/06/2009	30,000	\$ 1.87
Acquisition	02/06/2009	44,639	\$ 1.88
Acquisition	02/12/2009	100,000	\$ 1.79

Mr Olivier Piou, director, declared two transactions, on the following dates:

<b>Nature of the operation</b>	<b>Date</b>	<b>Quantity*</b>	<b>Unit price</b>
Acquisition	02/11/2009	3,000	€ 1.40
Acquisition	02/19/2009	4,000	€ 1.28

\* Shares or ADSs.

As of December 31, 2008, to our knowledge, there is no shareholder other than Brandes Investment Partners, LP, who holds more than 5% of our capital.

At March 31, 2009, to our knowledge, there are no shareholders' agreements or agreements concerning our shares which, if implemented at a later date, would have an impact on the control of the company.

## Pledges of Alcatel-Lucent Shares

At December 31, 2008, 1,889 Alcatel-Lucent shares, held by a total of 23 shareholders in registered form, both directly and through an administered account, were the subject of a pledge.

## Share ownership thresholds

During 2008 and through March 31, 2009, a certain number of shareholders and registered intermediaries acting primarily on behalf of their customers, informed us of declarations concerning the reaching of the following legal and statutory thresholds:

Date on which the threshold was reached	Trend	% capital	% voting rights	Declaring company
January 10, 2008	Increase	2.00	NC <sup>(1)</sup>	BT Pension Scheme/Hermès
February 13, 2008	NC	2.688	NC	FMR LLC.
February 15, 2008	Increase	5.01	3.50	T. Rowe Price Group, Inc. <sup>(2)</sup>
March 3, 2008	Increase	5.32	5.25	Pzena Investment Management LLC <sup>(3)</sup>
April 4, 2008	Increase	2.03	NC	Dodge & Cox
May 20, 2008	Increase	3.03	NC	Dodge & Cox
June 2, 2008	Decrease	4.84	4.77	Pzena Investment Management LLC <sup>(4)</sup>
September 19, 2008	Decrease	NC	1.99	Crédit Agricole Asset Management
October 6, 2008	Decrease	NC	NC	BT Pension Scheme/Hermès
October 7, 2008	Increase	NC	2.02	Crédit Agricole Asset Management
October 13, 2008	Decrease	NC	1.98	Crédit Agricole Asset Management
October 14, 2008	Decrease	1.99	NC	Crédit Agricole Asset Management
October 16, 2008	Increase	5.02	4.95	Pzena Investment Management LLC <sup>(5)</sup>
October 17, 2008	Increase	2	NC	Crédit Agricole Asset Management
October 17, 2008	Increase	5.07	5.003	Pzena Investment Management LLC <sup>(5)</sup>
October 18, 2008	Decrease	5.06	4.99	Pzena Investment Management LLC <sup>(6)</sup>
October 24, 2008	Increase	NC	2.04	Crédit Agricole Asset Management
November 5, 2008	Decrease	4.99	4.92	Pzena Investment Management LLC <sup>(7)</sup>
November 6, 2008	Increase	4.14	NC	Dodge & Cox
December 18, 2008	Decrease	NC	NC	BT Pension Scheme/Hermès

(1) Not communicated.

(2) Notice to AMF No. 208C0376, T. Rowe Price Group, Inc. also declared that it holds 90,575 of 7.75% convertible bonds giving right to 3,652,889 shares of Alcatel-Lucent.

(3) Notice to AMF No. 208C0428.

(4) Notice to AMF No. 208C1158.

(5) Notice to AMF No. 208C1906.

(6) Notice to AMF No. 208C1989.

(7) Notice to AMF No. 208C2028.

## 9.5 CHANGES OF SHAREHOLDINGS

Situation on December 31 <i>(in %)</i>	2008		2007		2006	
	% Capital	% Voting rights	% Capital	% Voting rights	% Capital	% Voting rights
Brandes Investment Partners, L.P.	9.44	9.31	10.23	10.08	9.75	9.86
Pzena Investment Management	4.99	4.92	4.90	4.83	NC <sup>(1)</sup>	NC
Dodge & Cox	4.17	4.12	NC	NC	NC	NC
Tradewinds Global Investors	3.49	3.44	3.32	3.27	NC	NC
Other institutional investors in France	2.95	2.91	2.95	2.91	NC	NC
Fidelity	NC	NC	2.33	2.29	5.22	5.27
Caisse des Dépôts et Consignations (CDC)	2.07	2.05	2.07	2.05	2.08	2.11
Crédit Agricole Asset Management	2.02	1.99	1.57	1.54	2.74	2.77
BT Pension Scheme/Hermès	1.83	1.80	1.73	1.71	NC	NC
BNP Paribas Asset Management	1.77	1.75	1.67	1.65	0.44	0.44
FCP 2AL	1.41	2.51	1.26	2.32	1.23	2.34
Treasury stock held by parent company	1.09	NA <sup>(2)</sup>	1.09	NA	1.10	NA
Treasury stock held by subsidiaries	1.43	NA	1.43	NA	1.45	NA
Public	63.34	65.20	65.45	67.35	75.99	77.21
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

(1) In this table, NC means "non communicated"

(2) In this table, NA means "non applicable"

## 9.6 SHAREHOLDERS' GENERAL MEETING

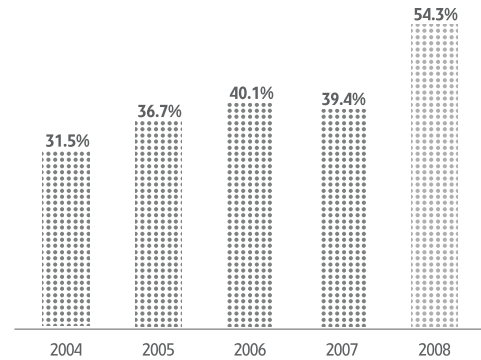
The most recent Shareholders' Meeting was held on May 30, 2008, the date for which it was initially convened, and was chaired by Mr Tchuruk.

A report on the Meeting was published in the letter to shareholders sent to holders of registered shares.

Shareholders present or represented by proxy had in the aggregate a total of 1,226.1 million shares, which represented a quorum of 54.27%.

The shareholder attendance rate increased from 31.5% in 2004 to 54.27% at the most recent meeting held on May 30, 2008, a 72% increase in attendance.

Evolution of the rate of participation over 5 years



### Method of participation at the 2008 Shareholders' Meeting

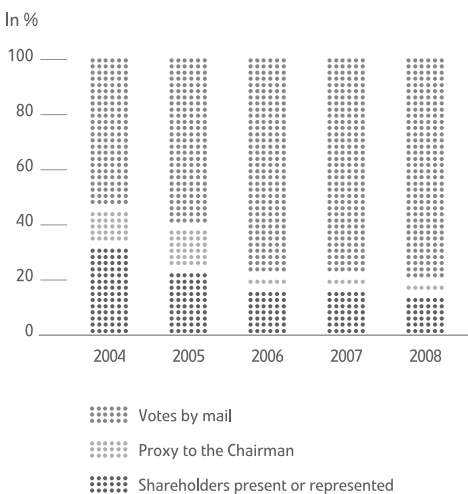
The table and the chart below reflect the breakdown of the participants according to the method of participation used by the shareholder.

Shareholders can participate in Shareholders' Meetings in one of three ways:

1. physically attend or be represented at the Meeting,
2. vote by mail,
3. proxy granted to the Chairman.

Method of participation	Number of shareholders	Shares (in millions)
Shareholders present	1,201	176.32
Shareholders who were represented	320	0.54
Powers given to the President	23,518	28.61
Voters by mail	7,551	1,020.63
<b>TOTAL</b>	<b>32,590</b>	<b>1,226.1</b>

### EVOLUTION OF THE METHOD OF PARTICIPATION OF THE SHAREHOLDERS OVER 5 YEARS<sup>(1)</sup>



(1) Based on the number of shareholders participating in the Meeting.

All of the resolutions that were presented at the General Shareholders' Meeting of May 30, 2008 were adopted. Voting results were published on line on our Internet site.

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## 9.7 TREND OF DIVIDEND PER SHARE OVER 5 YEARS

Year of payment	2008	2007	2006	2005	2004
Dividend distributed <i>(in euros, per share)</i>	-	0.16*	0.16**	-	-

\* The dividend for the 2006 fiscal year was paid on June 4, 2007.

\*\* The dividend for the 2005 fiscal year was paid on September 11, 2006.

Dividends not claimed within five years are turned over to the French Treasury.

The dividend policy is defined by our Board of Directors following an analysis, in particular, of the Group's financial position and earnings and taking into account its capital requirements and performance, current and future returns, and market practices in relation to distribution of dividends,

especially in the sector of activity within which we operate. In the light of our financial results, investment needs and requirements in terms of debt management, we may decide to adjust a dividend distribution, or to not distribute a dividend.

At its meeting of February 3, 2009 our Board of Directors determined that it is prudent not to pay a dividend for fiscal year 2008.

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# 10 ADDITIONAL INFORMATION

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## 10.1 LEGAL INFORMATION

### Company name and head office

Alcatel Lucent  
54, rue La Boétie  
75008 Paris  
Telephone: + 33 1 40 76 10 10

### Commercial name

Alcatel-Lucent

### Corporate structure and applicable law

French limited liability company subject to all the regulations governing commercial entities in France, particularly the provisions of the French Commercial Code.

### Date of incorporation and expiry date

The company was incorporated on June 18, 1898 and will expire on June 30, 2086, unless there is an early dissolution or extension.

### Corporate purpose

The company's corporate purpose is the design, manufacture, operation and sale of all equipment, material and software related to domestic, industrial, civil, military or other applications concerning electricity, telecommunications, computers, electronics, aerospace industry, nuclear energy, metallurgy, and, in general, of all the means of production or transmission of energy or communications (cables, batteries and other components), as well as, secondarily, all activities relating to operations and services in connection with the above-mentioned means. It may acquire interests in any company, regardless of its form, in associations, French or foreign business groups, whatever their corporate purpose and activity may be and, in general, may carry out any industrial, commercial, financial, assets or real estate transactions, in connection, directly or indirectly, totally or partially, with any of the corporate purposes set out in Article 2 of the Articles of Association and with all similar or related purposes.

### Registration number at the Registry of Commerce

The company is registered at the Paris Commerce and Companies Registry under number 542 019 096. Its APE business activity code is 7010 Z.

### Fiscal year

Our fiscal year begins on January 1 and ends on December 31.

## 10.2 SPECIFIC PROVISIONS OF THE BY-LAWS AND OF LAW

The data set out below are extracts from our Articles of Association (articles 7, 9, 12, 13, 14, 16, 17, 18, 21, 22 and 24), and a summary of certain legal and regulatory provisions applicable to companies having their registered office in France and whose securities are listed on a regulated market.

### Holding of shares and obligations of the shareholders

#### a) Form

The shares are not represented by a certificate.

Bearer shares are recorded in the books of the financial intermediary (bank or broker) in the name of the shareholder with Euroclear.

Shares are registered when the nominal value is fully paid.

Fully paid shares may be in registered or bearer form at the shareholder's choice up until the shareholder reaches a threshold of 3% of the total number

of shares. Once the individual threshold of 3% of the company's total number of shares is reached, the shares must be registered. The obligation to register shares applies to all the shares already held as well as to any shares which may be acquired subsequently in excess of this threshold.

#### b) Exceeding the statutory thresholds

In accordance with the statutory provisions, any individual or legal entity and/or shareholder that comes to own a number of shares in the company equal to or above 2% of the total number of shares must, within a period of five trading days from the date on which this share ownership threshold is exceeded, inform the company of the total number of shares owned, by letter or fax. A further notification must be sent in the same manner each time a new threshold of 1% is exceeded.

If the threshold of 3% of the total number of shares is exceeded, the shareholder must, within a period of five trading days from the date on which this share ownership threshold is reached, request the registration

of the shares. The copy of the request for registration, sent by letter or fax to the company within fifteen days from the date on which this share ownership threshold is exceeded, is deemed to be a notification that the threshold has been reached. A further request must be sent in the same manner each time a further threshold of 1% is exceeded, up to 50%.

For purposes of the calculation of the thresholds, indirectly held shares which are considered to be owned pursuant to Articles L. 233-7 et seq. of the French Commercial Code must be taken into account.

In each notification referred to above, the shareholder must certify that all securities held indirectly as well as the shares considered to be owned are included. The notification must also indicate the date(s) of acquisition.

These obligations of share notification and registration apply to the holders who own shares through ADSs.

If a shareholder fails to comply with the provisions relating to notification that the thresholds have been exceeded, the voting rights for the shares exceeding the thresholds are, at the request of one or more shareholders holding at least 3% of the share capital, suspended under the conditions provided for by law.

Any shareholder whose shareholding falls below either of the thresholds provided for above must also inform the company thereof, within the same period of five trading days and in the same manner.

### c) Exceeding the legal thresholds

Beyond the notification obligations provided for in our Articles of Association, French law requires that any individual or legal entity, acting alone or in concert, which comes to hold a total number of shares (including through ADSs), above 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50%, 66 2/3%, 90% or 95% of the capital or of the voting rights of a company, notify the company and the AMF within five trading days from the date on which these thresholds are exceeded.

This notification must also be made, within the same period, when the holding in capital or voting rights falls below these thresholds.

In the event of a failure to appropriately notify that these thresholds have been exceeded, the voting rights of the shares in excess of the threshold that should have been notified are suspended for any shareholders' meeting that might be held up to the expiration of a period of two years from the date the notification is eventually filed.

### d) Shareholders' agreements

Any clause of a shareholders' agreement which includes preferential conditions to transfer or to acquire shares listed on a regulated market and relating to at least 0.5% of the company's capital or voting rights, must be disclosed to the company and to the AMF within five trading days from the date of the signature of such agreement.

### e) Holding of a stake equal to one third and tender offer

When an individual or legal entity, acting alone or in concert, comes to hold more than one third of the capital or voting rights of the company, it must immediately inform the AMF and launch a tender offer for all of the equity securities and securities giving access to the capital or voting rights, of the company.

### f) Information on the number of voting rights

To allow shareholders to determine whether they have exceeded an ownership threshold, we publish the total number of voting rights monthly on our Internet site.

### g) Cross-shareholdings

In accordance with French legislation relating to cross-shareholdings, a limited liability company may not own shares in another company if the latter holds more than 10% of the share capital of the former. In the event of a cross-shareholding that violates this rule, the company owning the smaller percentage of shares in the other company must sell its stake. Until sold, the voting rights of these shares are suspended.

In the case where the cross-shareholding is held by a subsidiary, the shares are simply deprived of voting rights.

### h) Identity of the holders

In accordance with the laws and regulations in effect, and subject to the penalties provided therein, the company may request from all organizations or authorized intermediaries any information concerning shareholders or holders of securities giving access, immediately or in the future, to voting rights, their identity, the number of securities held and any restrictions eventually applicable to the securities.

## Rights and obligations relating to the shares

Shareholders are liable only up to the nominal amount of each share held. Any call for payment in excess of such amount is prohibited.

Each share gives right to a portion of the company's profits, in the proportion prescribed by the Articles of Association.

Dividends and other income from shares issued by the company are paid under the conditions authorized or provided for under the regulations in effect and in such a manner as the General Meeting of Shareholders, or, alternatively, the Board of Directors may decide.

Rights and obligations remain attached to a share regardless of who holds the share. Ownership of a share entails automatic acceptance of the company's Articles of Association and resolutions of the General Meeting of Shareholders.

Shares are indivisible vis-à-vis the company: joint owners of shares must be represented by a single person. Shares subject to usufruct must be identified as such in the share registration.

## Changes in the capital

### a) Capital increases

In accordance with applicable law, our capital may be increased by cash or in-kind contributions, pursuant to a resolution of the Extraordinary General Meeting approved by two-thirds of the shareholders present or represented. This power may also be delegated to the Board of Directors. In the event of a delegation to the Board of Directors, the Chief Executive Officer may be granted specific powers to make a capital increase.



- The capital may also be increased:
- by the capitalization of reserves, profits or issuance premium pursuant to a decision of the General Meeting of Shareholders taken with the approval of a simple majority of the shareholders present or represented;
  - in case of payment of a dividend in shares decided by an Ordinary General Meeting of Shareholders; or
  - upon tender of securities or rights giving access to the company's capital (bonds convertible into shares, bonds repayable in shares, warrants to purchase shares or other securities).

### b) Capital decreases

The share capital may be decreased pursuant to a decision of two-thirds of the shareholders present or represented at an Extraordinary General Meeting of Shareholders, either by decreasing the nominal value of the shares or by reducing the number of shares outstanding.

## Management of the company

Our company is managed by a Board of Directors consisting of at least six and not more than fourteen members.

Each Director must hold at least 500 company shares.

## Term of Directors' mandate – Age Limit

Directors are elected for a four-year term. Directors may be re-elected subject to the following provisions.

A Director appointed to replace another Director may hold office only for the remainder of his predecessor's term of office.

The maximum age for holding a Directorship shall be 70. This age limit does not apply if less than one third, rounded up to the nearest whole number, of serving Directors have reached the age of 70.

No Director over 70 may be appointed if, as a result, more than one third of the serving Directors rounded up as defined above, are over 70.

If for any reason whatsoever the number of serving Directors over 70 should exceed one third as defined above, the oldest Director(s) shall automatically be deemed to have retired at the ordinary General Meeting of Shareholders called to approve the accounts of the fiscal year in which the proportion of Directors over 70 years was exceeded, unless the proportion was re-established in the meantime.

Directors representing legal entities are taken into account when calculating the number of Directors to which the age limit does not apply.

Legal entities that are represented on the Board must replace any 70-year-old representative no later than at the ordinary General Meeting of Shareholders called to approve the accounts of the fiscal year in which such representative reached the age of 70.

The age limitations apply to any Chairman of the Board of Directors, provided that such Chairman is not at the same time the Chief Executive Officer of the Company, in which case the age limitation of 68 shall apply.

## Powers and responsibilities of the Board of Directors

The Board of Directors is vested with all the powers granted to it by the current legislation.

The Board determines the business strategies of the Company and ensures their implementation.

Subject to the authority expressly reserved for the Shareholder Meetings, and within the limits of the corporate purpose, the Board of Directors addresses any question that affects the Company's operations and governs the affairs of the Company through its deliberations.

The Board of Directors decides whether the management of the Company will be performed by the Chairman of the Board of Directors or by a Chief Executive Officer.

## Chairman, Vice-Chairmen, Chief Executive Officer, Executive Vice-Presidents and Secretary

The Chief Executive Officer is responsible for the general management of the company, unless the Board of Directors decides, upon the affirmative vote of at least two-thirds of the Directors in office until November 30, 2009, and of a simple majority thereafter, to entrust the general management to the Chairman of the Board of Directors.

The Board of Directors appoints from among its members, upon the affirmative vote of the majority of the Directors present or represented, a Chairman for a term not exceeding the term of his or her position as a Director. The Board of Directors may remove the Chairman at any time, upon the affirmative vote of the majority of the Directors present or represented.

The Chairman of the Board of Directors performs the missions assigned to him by law and notably he shall ensure the proper functioning of the company's governing bodies. He shall chair meetings of the Board of Directors, organize the work of the Board and ensure that the Directors are able to fulfill their mission.

The Board of Directors may appoint, if it so wishes, one or more Vice-Chairmen, and set their term of office, which may not exceed their term as Director. The Vice-Chairman, or the most senior Vice-Chairman, performs the duties of the Chairman when the Chairman is unable to do so.

If it does not assign the general management of the company to the Chairman, the Board of Directors appoints, whether among its members or not, upon the affirmative vote of the majority of the Directors present or represented, a Chief Executive Officer for a term determined by it, not to exceed the term of his or her position as a Director, if applicable. The Board of Directors may remove the Chief Executive Officer at any time, upon the affirmative vote of the majority of the Directors present or represented.

The Chief Executive Officer is vested with the fullest power to act in all circumstances in the name of the company, within the limits of the corporate purpose, the limitations set by the Board of Directors and reviewed on October 29, 2008 (as previously described in Section 7.3, "Powers of the Board of Directors" of this document) and subject to the powers that the law expressly bestows on the Shareholders' Meetings and on the Board of Directors.

The Chief Executive Officer represents the company in its relations with third parties. He represents the company before the courts.

When the Chairman of the Board of Directors assumes management of the company, the provisions of this Article and the law governing the Chief Executive Officer apply to him.

On the proposal of the Chief Executive Officer, the Board of Directors may authorize one or more persons to assist him, as Executive Vice-Presidents.

The maximum number of Executive Vice-Presidents that may be appointed has been set at five.

The scope and term of the powers delegated to Executive Vice-Presidents is determined by the Board of Directors in agreement with the Chief Executive Officer.

Executive Vice-Presidents have the same authority as the Chief Executive Officer.

In the event the office of Chief Executive Officer becomes vacant, the functions and powers of the Executive Vice-Presidents continue until the appointment of a new Chief Executive Officer, unless otherwise decided by the Board of Directors.

The Board of Directors, on the recommendation of the Chairman or Chief Executive Officer, the Chairman or the Chief Executive Officer themselves and the Executive Vice-Presidents may, within the limits set by law, delegate such powers as they deem fit, either for the management or conduct of the company's business or for one or more specific purposes, to all authorized agents, whether members of the Board or not or part of the company or not, individually or as committees. Such powers may be permanent or temporary and may or may not be delegated to deputies.

The Board shall appoint a secretary and may also appoint a deputy secretary on the same terms.

## Age limit for corporate executives

The Chief Executive Officer and Executive Vice-Presidents may hold office for the period set by the Board of Directors, but this period may not exceed their term of office as Directors, if applicable, nor in any event may such period extend beyond the date of the Ordinary General Meeting of Shareholders called to approve the financial statements for the fiscal year in which they shall have reached 68 years of age. The same age limit applies to the Chairman when he is also the Chief Executive Officer.

When the Chairman does not also occupy the position of Chief Executive Officer, he may hold the office of Chairman for the period set by the Board of Directors, but this period shall not exceed his term as Director, as well as the age limit set for the Directors.

## Board observers

Upon the proposal of the Chairman, the Board of Directors must in turn propose to the Ordinary General Meeting of Shareholders the appointment of two observers satisfying the conditions described below. The observers are invited and participate in Board meetings, but have no vote. They are appointed for two years and may be renewed.

They must, at the time of their appointment, be both employees of Alcatel-Lucent or a company of the Group, and members of a mutual investment fund as described below. Any mutual investment fund which satisfies the

conditions defined below may propose to the Board candidates with a view to their being appointed as observers.

For purposes of the preceding requirements:

A company of the Alcatel-Lucent group is a company in which Alcatel-Lucent holds directly or indirectly at least one half of the voting rights and/or any company in which a company of the Alcatel-Lucent group holds directly or indirectly at least one half of the voting rights;

The mutual investment funds referred to above are those created pursuant to a corporate savings plan in which the company or a Group company participates, and where the portfolio includes at least 75% of company shares.

On the Chairman's recommendation, the Board of Directors may propose to the Ordinary General Meeting of Shareholders the appointment of one or several additional observers who do not fulfill the conditions above, whether they are shareholders or not, but the total number of observers may not exceed six.

The observers receive an annual remuneration, set at the Ordinary General Meeting of Shareholders and allocated by the Board of Directors.

## Shareholders' Meetings

The General or Extraordinary Shareholders' Meetings are convened and held under the conditions provided by law.

The decisions of the Shareholders' Meetings are binding on all shareholders, including those not present or who dissent.

Meetings take place at the registered office or any other place specified in the notice of Meeting.

All shareholders may attend the meeting in person or be represented by proxy, or by vote by mail, on proof of identity and registration of the securities on the third working day preceding the meeting at midnight, Paris time, either in the company's accounts of registered securities, or in the bearer share accounts held by a duly authorized intermediary.

Subject to the conditions defined by regulations and in accordance with the procedures defined beforehand by the Board of Directors, shareholders may participate and vote in all General or Extraordinary Shareholders' Meetings by video-conference or any telecommunications method that allows for their identification.

Subject to the conditions set by the regulations in effect, shareholders may send their proxy or form for voting by mail for any General or Extraordinary Shareholders' Meetings either in paper form or, upon the decision of the Board reflected in the notices of Meetings, by electronic transmission.

In order to be considered, all mail voting forms or proxies must be received at the company's registered office or at the location stated in the notice of Meeting at least three days before the date of the General Meeting. This time limit may be shortened by a decision of the Board of Directors. Instructions given electronically that include a proxy or power of attorney may be accepted by the company under the conditions and within the deadlines set by the regulations in effect.

The Meeting may be re-broadcast by video-conference and/or electronic transmission. If applicable, this should be mentioned in the notice of Meeting.

All shareholders having expressed their vote electronically, sent a power of attorney or asked for their admission card or a confirmation of participation,

may nevertheless transfer all or part of the shares for which they have voted electronically, sent a power of attorney or asked for an admission card or a confirmation. However, if the transfer is made before the third working day preceding the Meeting at midnight, Paris time, the company, upon notification of the intermediary authorized to hold the account, will invalidate or modify as a result, as the case may be, the electronic vote, the power of attorney, the admission card or confirmation. No transfer or any transaction made after the third working day preceding the Meeting at midnight, Paris time, whatever the means used, shall be notified by the authorized intermediary or taken into account by the company, notwithstanding any agreement to the contrary.

The Shareholders' Meeting is chaired either by the Chairman or one of the Vice-Chairmen of the Board of Directors, or by a Director appointed by the Board or by the Chairman.

The shareholders appoint the officers of the Meeting, that is, the chairman, two scrutineers and a secretary.

The scrutineers must be the two members of the Meeting representing the largest number of votes or, should they refuse, those who come after in descending order until the duties are accepted.

Copies or extracts of the minutes may be authenticated by the Chairman of the Board, the secretary of the Shareholders' Meeting, or the Director appointed to chair the Meeting.

The Ordinary General Meeting of shareholders may deliberate on a first call only if the shareholders present or represented hold at least one-fifth of the shares with voting rights. No quorum is required for a meeting held upon a second call.

The Extraordinary General Meeting may deliberate on a first call only if the shareholders present or represented hold at least one-quarter of the shares with voting rights, and one-fifth of the shares with voting rights in the event of a second call.

## Voting rights

At General Meeting of Shareholders held on June 1, 2007, the shareholders voted to eliminate the statutory limitation on voting rights at General Meetings; as a result and subject to what is described below, each member at every Meeting has the right to as many votes as the number of shares that he owns or represents.

However, fully paid registered shares, registered in the name of the same holder for at least three years, have double voting rights.

In accordance with Article L. 225-99, paragraph 2 of the French Commercial Code, the elimination of double voting rights must be decided by the Extraordinary General Meeting, with the authorization of a special meeting of holders of these rights.

Double voting rights are cancelled automatically for any share that is converted into a bearer share or the ownership of which is transferred. However, the period mentioned above is interrupted, and the right acquired is preserved, in the event of a transfer from registered to unregistered form, as a result of intestate or testamentary succession, the division between spouses of a common estate, or donation inter vivos in favor of a spouse or heirs.

Voting rights in all ordinary, extraordinary or special General Meetings of Shareholders belong to the usufructuary.

## Appropriation of the result – Dividend

The difference between the proceeds and the expenses of the fiscal year, after provisions, constitutes the profits or losses for the fiscal year. An amount equal to 5% of the profits, minus previous losses, if any, is deducted in order to create the legal reserves, until such legal reserves are at least equal to 1/10th of the capital. Additional contributions to the legal reserves are required if the legal reserves fall below that fraction for any reason.

The distributable profits, that is, the profits for the fiscal year minus the previous losses and the deduction mentioned above, plus income carried over, is available to the General Meeting which, upon proposal of the Board, may decide to carry over some or all of the profits, to allocate them to general or special reserve funds or to distribute them to the shareholders as a dividend.

In addition, the General Meeting may decide the distribution of sums deducted from the optional reserves, either as a dividend or as a supplemental dividend, or as a special distribution. In this case, the decision must clearly indicate the reserves from which said sums are deducted. However, the dividends must be deducted first from the distributable profits of the fiscal year.

The General Meeting of Shareholders may grant each shareholder, for all or part of the dividend distributed or the interim dividend, the option to receive payment of the dividend or interim dividend in cash or in shares.

The General Meeting or the Board of Directors, in the event of an interim dividend, must determine the date as of which the dividend is paid.

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## 10.3 AMERICAN DEPOSITARY SHARES, TAXATION AND CERTAIN OTHER MATTERS

### Description of the ADSs

Each of our American Depositary Shares, or ADSs, represents one of our ordinary shares. Our ADSs trade on the New York Stock Exchange.

The following is a summary of certain provisions of the deposit agreement for the ADSs and is qualified in its entirety by reference to the deposit agreement among Alcatel-Lucent, the Bank of New York, as depositary, and the holders from time to time of the ADSs.

The form of the deposit agreement for the ADS and the form of American depositary receipt (ADR) that represents an ADS have been filed as exhibits to our registration statement on Form F-6 that we filed with the Securities and Exchange Commission on June 4, 2008. Copies of the deposit agreement are available for inspection at the principal office of The Bank of New York, located at 101 Barclay Street, New York, New York 10286, and at the principal office of our custodian, Société Générale, located at 32, rue du Champ de Tir, 44312 Nantes, France.

### Dividends, other distributions and rights

The Bank of New York is responsible for making sure that it or the custodian, as the case may be, receives all dividends and distributions in respect of deposited shares.

Amounts distributed to ADS holders will be reduced by any taxes or other governmental charges required to be withheld by the custodian or The Bank of New York. If The Bank of New York determines that any distribution in cash or property is subject to any tax or governmental charges that The Bank of New York or the custodian is obligated to withhold, The Bank of New York may use the cash or sell or otherwise dispose of all or a portion of that property to pay the taxes or governmental charges. The Bank of New York will then distribute the balance of the cash and/or property to the ADS holders entitled to the distribution, in proportion to their holdings.

*Cash dividends and cash distributions.* The Bank of New York will convert into dollars all cash dividends and other cash distributions that it or the custodian receives in a foreign currency. The Bank of New York will distribute to the ADS holders the amount it receives, after deducting any currency conversion expenses. If The Bank of New York determines that any foreign currency it receives cannot be converted and transferred on a reasonable basis, it may distribute the foreign currency (or an appropriate document evidencing the right to receive the currency), or hold that foreign currency uninvested, without liability for interest, for the accounts of the ADS holders entitled to receive it.

*Distributions of ordinary shares.* If we distribute ordinary shares as a dividend or free distribution, The Bank of New York may, with our approval, and will, at our request, distribute to ADS holders new ADSs representing the shares. The Bank of New York will distribute only whole ADSs. It will sell the shares that would have required it to use fractional ADSs and then distribute the proceeds in the same way it distributes cash. If The Bank of New York deposits the shares but does not distribute additional ADSs, the existing ADSs will also represent the new shares.

If holders of shares have the option of receiving a dividend in cash or in shares, we may also grant that option to ADS holders.

*Other distributions.* If The Bank of New York or the custodian receives a distribution of anything other than cash or shares, The Bank of New York will distribute the property or securities to the ADS holder, in proportion to such holder's holdings. If The Bank of New York determines that it cannot distribute the property or securities in this manner or that it is not feasible to do so, then, after consultation with us, it may distribute the property or securities by any means it thinks is fair and practical, or it may sell the property or securities and distribute the net proceeds of the sale to the ADS holders.

*Rights to subscribe for additional ordinary shares and other rights.* If we offer our holders of shares any rights to subscribe for additional shares or any other rights, The Bank of New York will, if requested by us:

- make the rights available to all or certain holders of ADSs, by means of warrants or otherwise, if lawful and practically feasible; or
- if it is not lawful or practically feasible to make the rights available, attempt to sell those rights or warrants or other instruments.

In that case, The Bank of New York will allocate the net proceeds of the sales to the account of the ADS holders entitled to the rights. The allocation will be made on an averaged or other practicable basis without regard to any distinctions among holders.

If registration under the Securities Act of 1933, as amended, is required in order to offer or sell to the ADS holders the securities represented by any rights, The Bank of New York will not make the rights available to ADS holders unless a registration statement is in effect or such securities are exempt from registration. We do not, however, have any obligation to file a registration statement or to have a registration statement declared effective. If The Bank of New York cannot make any rights available to ADS holders and cannot dispose of the rights and make the net proceeds available to ADS holders, then it will allow the rights to lapse, and the ADS holders will not receive any value for them.

*Voting of the underlying shares.* Under the deposit agreement, an ADS holder is entitled, subject to any applicable provisions of French law, our articles of association and bylaws and the deposited securities, to exercise voting rights pertaining to the shares represented by its ADSs. The Bank of New York will send to ADS holders English-language summaries of any materials or documents provided by us for the purpose of exercising voting rights. The Bank of New York will also send to ADS holders directions as to how to give it voting instructions, as well as a statement as to how the underlying ordinary shares will be voted if it receives blank or improperly completed voting instructions.

ADSs will represent ordinary shares in bearer form unless the ADS holder notifies The Bank of New York that it would like the shares to be held in registered form.

*Changes affecting deposited securities.* If there is any change in nominal value or any split-up, consolidation, cancellation or other reclassification of deposited securities, or any recapitalization, reorganization, business combination or consolidation or sale of assets involving us, then any securities that The Bank of New York receives in respect of deposited securities will become new deposited securities. Each ADS will automatically represent its share of the new deposited securities, unless The Bank of New York delivers

new ADSs as described in the following sentence. The Bank of New York may, with our approval, and will, at our request, distribute new ADSs or ask ADS holders to surrender their outstanding ADRs in exchange for new ADRs describing the new deposited securities.

*Amendment of the deposit agreement.* The Bank of New York and we may agree to amend the form of the ADRs and the deposit agreement at any time, without the consent of the ADS holders. If the amendment adds or increases any fees or charges (other than taxes or other governmental charges) or prejudices an important right of ADS holders, it will not take effect as to outstanding ADSs until three months after The Bank of New York has sent the ADS holders a notice of the amendment. At the expiration of that three-month period, each ADS holder will be considered by continuing to hold its ADSs to agree to the amendment and to be bound by the deposit agreement as so amended. The Bank of New York and we may not amend the deposit agreement or the form of ADRs to impair the ADS holder's right to surrender its ADSs and receive the ordinary shares and any other property represented by the ADRs, except to comply with mandatory provisions of applicable law.

*Termination of the deposit agreement.* The Bank of New York will terminate the deposit agreement if we ask it to do so and will notify the ADS holders at least 30 days before the date of termination. The Bank of New York may also terminate the deposit agreement if it resigns and a successor depositary has not been appointed by us and accepted its appointment within 90 days after The Bank of New York has given us notice of its resignation. After termination of the deposit agreement, The Bank of New York will no longer register transfers of ADSs, distribute dividends to the ADS holders, accept deposits of ordinary shares, give any notices, or perform any other acts under the deposit agreement whatsoever, except that The Bank of New York will continue to:

- collect dividends and other distributions pertaining to deposited securities;
- sell rights as described under the heading "Dividends, other distributions and rights – Rights to subscribe for additional shares and other rights" above; and
- deliver deposited securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered ADRs.

One year after termination, The Bank of New York may sell the deposited securities and hold the proceeds of the sale, together with any other cash then held by it, for the pro rata benefit of ADS holders that have not surrendered their ADSs. The Bank of New York will not have liability for interest on the sale proceeds or any cash it holds.

## Ownership of shares by non-French persons

Under French law and our articles of association and bylaws, no limitation exists on the right of non-French residents or non-French shareholders to own or vote our securities.

Any non-French resident (both E.U. and non-E.U.) must file an administrative notice ("*déclaration administrative*") with the French authorities in connection with any transaction which, in the aggregate, would result in the direct or indirect holding by such non-French resident of at least 33.33% of the capital or the voting rights of a French company.

The payment of all dividends to foreign shareholders must be effected through an accredited intermediary. All registered banks and credit establishments in France are accredited intermediaries.

You should refer to Section 10.2 "Specific provisions of the by-laws and of law" for a description of the filings required based on shareholdings.

## Exchange controls

Under current French exchange control regulations, no limits exist on the amount of payments that we may remit to residents of the United States. Laws and regulations concerning foreign exchange controls do require, however, that an accredited intermediary handle all payments or transfer of funds made by a French resident to a non-resident.

## Taxation

The following is a general summary of the material U.S. federal income tax and French tax consequences to you if you acquire, hold and dispose of our ordinary shares or ADSs. It does not address all aspects of U.S. and French tax laws that may be relevant to you in light of your particular situation. It is based on the applicable tax laws, regulations and judicial decisions as of the date of this annual report, and on the Convention between the United States of America and the Republic of France for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital dated as of August 31, 1994 (the "Treaty") entered into force on December 30, 1995, and the 2004 Protocol amending the Treaty which became effective on December 21, 2006, all of which are subject to change, possibly with retroactive effect, or different interpretations.

This summary may only be relevant to you if all of the following five points apply to you:

- you own, directly or indirectly, less than 10% of our capital;
- you are any one of (a), (b), (c) or (d) below:
  - (a) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes,
  - (b) a corporation, or other entity taxable as a corporation that is created in or organized under the laws of the United States or any political subdivision thereof,
  - (c) an estate, the income of which is subject to U.S. federal income tax regardless of its source, or
  - (d) a trust, if a court within the United States is able to exercise a primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of such trust, or certain electing trusts that were in existence on August 20, 1996 and were treated as domestic trusts on August 19, 1996;
- you are entitled to the benefits of the Treaty under the "limitations on benefits" article contained in the Treaty;
- you hold our ordinary shares or ADSs as capital assets; and
- your functional currency is the U.S. dollar.

You generally will not be eligible for the reduced withholding tax rates under the Treaty if you hold our ordinary shares in connection with the conduct of business through a permanent establishment or the performance

of services through a fixed base in France, or you are a nonresident in the United States for U.S. tax purposes.

The following description of tax consequences should be considered only as a summary and does not purport to be a complete analysis of all potential tax effects of the purchase or ownership of our ordinary shares or ADSs. Special rules may apply to U.S. expatriates, insurance companies, tax-exempt organizations, regulated investment companies, real estate investment trusts, real estate mortgage investment conduits, financial institutions, persons subject to the alternative minimum tax, securities broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for the securities' holdings, and persons holding their ordinary shares or ADSs as part of a hedging, straddle, conversion transaction or other integrated investment, among others. Those special rules are not discussed in this annual report. This summary does not address all potential tax implications that may be relevant to you as a holder, in light of your particular circumstances. You should consult your tax advisor concerning the overall U.S. federal, state and local tax consequences, as well as the French tax consequences, of your ownership of our ordinary shares or ADRs and ADSs represented thereby.

For purposes of the Treaty and the U.S. Internal Revenue Code of 1986, as amended (the "Code"), if you own ADSs evidenced by ADRs, you will be treated as the owner of the ordinary shares represented by such ADSs.

## Taxation of dividends

*Withholding Tax and Tax Credit.* French resident individuals will be subject to taxation at the progressive rate on only 60% of the dividends received by them from both French and foreign companies, in addition to the annual allowance equal to € 1,525 for single individuals, widows, widowers, divorced persons or married persons or members of a union agreement subject to separate taxation, and € 3,050 for married persons or members of a union agreement subject to joint taxation. This exemption will apply to any dividend distributed by a company that is subject to corporation tax or an equivalent tax and that is located in an EU member state or a country that has signed a tax treaty (which has an administrative assistance clause with the purpose of combating fraud and tax evasion) with France.

In addition, French resident individuals will receive a tax credit equal to 50% of the dividends (which we refer to as the Tax Credit), capped at € 115 for single individuals, widows, widowers, divorced persons or married persons and members of a union agreement subject to separate taxation, and € 230 for married persons and members of a union agreement subject to joint taxation.

For dividends paid on and after January 1, 2008, French resident individuals can elect for dividends to be subject to an 18% withholding tax. The Tax Credit is not available for dividends subject to the withholding tax regime.

French companies normally must deduct a 25% French withholding tax from dividends paid to nonresidents of France. Under the Treaty, this withholding tax is reduced to 15% if your ownership of our ordinary shares or ADSs is not effectively connected with a permanent establishment or a fixed base that you have in France.

If your ownership of the ordinary shares or ADSs is not effectively connected with a permanent establishment or a fixed base that you have in France, we will withhold tax from your dividend at the reduced rate of 15%, provided that you (i) complete the French Treasury Form 5000-EN (Certificate of Residence), which establishes that you are a resident of the U.S. under the Treaty, (ii) have it certified either by the Internal Revenue

Service or the financial institution that is in charge of the administration of the ordinary shares or ADSs, and (iii) send it to us before the date of payment of the dividend.

If you have not completed and sent the Certificate of Residence before the dividend payment date under the "simplified" procedure, we will deduct French withholding tax at the rate of 25%. In that case, you may claim a refund from the French tax authorities under the "normal" procedure, provided that you (i) duly complete the Certificate of Residence and the French Treasury Form 5001-EN (Calculation of Withholding Tax on Dividends); (ii) have the forms certified either by the Internal Revenue Service or the financial institution that is in charge of the administration of the ordinary shares or ADSs, and (iii) send both forms to us early enough to enable us to file them with the French tax authorities before December 31 of the second calendar year following the year during which the dividend is paid.

You can obtain the Certificate of Residence, the Form 5001-EN and their respective instructions from the Depository, the Internal Revenue Service or the French *Centre des impôts des non-résidents*, the address of which is 10 rue du Centre, TSA, 93465 Noisy-Le-Grand, France. Copies of the Certificate of Residence and Form 5001-EN may also be downloaded from the French tax authorities website ([www.impots.gouv.fr](http://www.impots.gouv.fr)).

Any French withholding tax refund is generally expected to be paid within 12 months after you file the relevant French Treasury Form. However, it will not be paid before January 15, following the end of the calendar year in which the related dividend is paid.

If you are a U.S. individual holder, you may be entitled to a refund of the Tax Credit (less a 15% withholding tax), provided that you are subject to U.S. federal income tax on the Tax Credit and the related dividend.

U.S. holders that are legal entities, pension funds or other tax-exempt holders are no longer entitled to tax credit payments from the French Treasury.

For U.S. federal income tax purposes, the gross amount of any distribution (including any related Tax Credit) will be included in your gross income as dividend income to the extent paid or deemed paid out of our current or accumulated earnings and profits as calculated for U.S. federal income tax purposes. You must include this amount in income in the year payment is received by you, which, if you hold ADSs, will be the year payment is received by the Depository. Dividends paid by us will not give rise to any dividends-received deduction allowed to a U.S. corporation under Section 243 of the Code. They will generally constitute foreign source "passive category" income for foreign tax credit purposes or, for some holders, "general category" income.

For tax years beginning before January 1, 2011, a maximum U.S. federal income tax rate of 15% will apply to dividend income received by an individual (as well as certain trusts and estates) from a U.S. corporation or from a "qualified foreign corporation" provided certain holding period requirements are met. A non-U.S. corporation (other than a passive foreign investment company) generally will be considered to be a qualified foreign corporation if (i) the shares of the non-U.S. corporation are readily tradable on an established securities market in the United States, or (ii) the non-U.S. corporation is eligible for the benefits of a comprehensive U.S. income tax treaty determined to be satisfactory to the United States Department of the Treasury. The United States Department of the Treasury and the Internal Revenue Service have determined that the Treaty is satisfactory for this purpose. In addition, the United States Department of the Treasury and the Internal Revenue Service have determined that ordinary shares, or an ADR

in respect of such shares (which would include the ADSs), are considered readily tradable on an established securities market if they are listed on an established securities market in the United States such as The New York Stock Exchange. Information returns reporting dividends paid to U.S. persons will identify the amount of dividends eligible for the reduced tax rates.

Also, for U.S. federal income tax purposes, the amount of any dividend paid in a foreign currency such as euros, including any French withholding taxes, will be equal to the U.S. dollar value of the euros on the date the dividend is included in income, regardless of whether you convert the payment into U.S. dollars. If you hold ADSs, this date will be the date the payment is received by the Depositary. You will generally be required to recognize U.S. source ordinary income or loss when you sell or dispose of the euros. You may also be required to recognize foreign currency gain or loss if you receive a refund of tax withheld from a dividend in excess of the 15% rate provided for under the Treaty. This foreign currency gain or loss will generally be U.S. source ordinary income or loss.

To the extent that any distributions paid exceed our current and accumulated earnings and profits as calculated for U.S. federal income tax purposes, the distribution will be treated as follows:

- First, as a tax-free return of capital to the extent of your basis in your ordinary shares or ADSs, which will reduce the adjusted basis of your ordinary shares or ADSs. This adjustment will increase the amount of gain, or decrease the amount of loss, which you will recognize if you later dispose of those ordinary shares or ADSs.
- Second, the balance of the distribution in excess of the adjusted basis will be taxed as capital gain.

French withholding tax imposed on the dividends you receive on your ordinary shares or ADSs at 15% under the Treaty is treated as payment of a foreign income tax eligible for credit against your federal income tax liability. Under the Code, the limitation on foreign taxes eligible for credit is not calculated with respect to all worldwide income, but instead is calculated separately with respect to specific classes of income. For this purpose, the dividends you receive on your ordinary shares or ADSs generally will constitute "passive" income, or, for some holders, "general category" income. Foreign tax credits allowable with respect to each class of income cannot exceed the U.S. federal income tax otherwise payable with respect to such class of income. The consequences of the separate limitation calculation will depend in general on the nature and sources of your income and deductions. Alternatively, you may claim all foreign taxes paid as an itemized deduction in lieu of claiming a foreign tax credit. A deduction does not reduce U.S. tax on a dollar-for-dollar basis like a tax credit. The deduction, however, is not subject to the limitations described above.

### Taxation of capital gains

If you are a resident of the United States for purposes of the Treaty, you will not be subject to French tax on any gain if you sell your ordinary shares or ADSs unless you have a permanent establishment or fixed base in France and such ordinary shares or ADSs were part of the business property of that permanent establishment or fixed base. Special rules apply to individuals who are residents of more than one country.

In general, for U.S. federal income tax purposes, you will recognize capital gain or loss if you sell or otherwise dispose of your ordinary shares or ADSs based on the difference between the amount realized on the disposition and your tax basis in the ordinary shares or ADSs. Any gain or loss will generally

be U.S. source gain or loss. If you are a non-corporate holder, any capital gain will generally be subject to U.S. federal income tax at preferential rates if you meet certain minimum holding periods. Long-term capital gains realized upon a sale or other disposition of the ordinary shares or ADSs before the end of a taxable year which begins before January 1, 2011 generally will be subject to a maximum U.S. federal income tax rate of 15%.

### Transfer tax on sale of ordinary shares or ADSs

A 3% transfer tax capped at € 5,000 per transfer applies to certain transfers of ordinary shares or ADSs in French corporations. The transfer tax does not apply to transfers of ordinary shares or ADSs in French publicly-traded companies that are not evidenced by a written agreement, or where that agreement is executed outside France. Therefore, you should not be liable to pay the transfer tax on the sale or disposition of your ordinary shares or ADSs provided such sale or disposition is not evidenced by a written agreement or such agreement is not executed in France.

### French estate and gift taxes

Under "The Convention Between the United States of America and the French Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates, Inheritance and Gifts of November 24, 1978," and the 2004 Protocol amending this 1978 Convention which became effective on December 21, 2006, if you transfer your ordinary shares or ADSs by gift, or if they are transferred by reason of your death, that transfer will be subject to French gift or inheritance tax only if one of the following applies:

- you are domiciled in France at the time of making the gift, or at the time of your death, or
- you used the ordinary shares or ADSs in conducting a business through a permanent establishment or fixed base in France, or you held the ordinary shares or ADSs for that use.

The French gift or inheritance tax may be credited against the U.S. gift or inheritance tax. This tax credit is limited, however, to the amount of the U.S. gift or inheritance tax due on the shares.

### French wealth tax

The French wealth tax generally does not apply to you if you are a "resident" of the United States for purposes of the Treaty.

### U.S. information reporting and backup withholding

In general, if you are a non-corporate U.S. holder of our ordinary shares or ADSs (or do not come within certain other exempt categories), information reporting requirements will apply to distributions paid to you and proceeds from the sale, exchange, redemption or disposal of your ordinary shares or ADSs. U.S. holders that are corporations generally are excluded from these information reporting and backup withholding tax rules.

Additionally, if you are a non-corporate U.S. holder of our ordinary shares or ADSs (or do not come within certain) you may be subject to backup withholding at a current rate of 28% (increased to 31% for taxable years 2011 and thereafter) with respect to such payments, unless you provide a correct taxpayer identification number (your social security number or employer identification number), and with respect to dividend payments, certify that you are not subject to backup withholding and otherwise comply with applicable requirements of the backup withholding rules. Generally, you

will be required to provide such certification on Internal Revenue Service Form W-9 ("Request for Taxpayer Identification Number and Certification") or a substitute Form W-9.

If you do not provide your correct taxpayer identification number, you may be subject to penalties imposed by the Internal Revenue Service, as well as backup withholding. However, any amount withheld under the backup withholding rules should be allowable as a credit against your U.S. federal income tax liability (which might entitle you to a refund), provided that you furnish the required information to the Internal Revenue Service.

### U.S. State and local taxes

In addition to U.S. federal income tax, you may be subject to U.S. state and local taxes with respect to your ordinary shares or ADSs. You should consult

your own tax advisor concerning the U.S. state and local tax consequences of holding your ordinary shares or ADSs.

### U.S. reportable transactions

A U.S. holder that participates in any "reportable transaction" (as defined in U.S. Treasury regulations) must attach to its U.S. federal income tax return a disclosure statement on Internal Revenue Service Form 8886. U.S. holders are urged to consult their own tax advisers as to the possible obligation to file Internal Revenue Service Form 8886 with respect to the sale, exchange or other disposition of any non-U.S. currency received as a dividend on, or as proceeds from the sale of, our shares.

## 10.4 DOCUMENTS ON DISPLAY

We file reports with the Securities and Exchange Commission that contain financial information about us and our results of operations. You may read or copy any document that we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. All of our Securities and Exchange Commission filings made after February 4, 2002 are available to the public at the SEC web site at [www.sec.gov](http://www.sec.gov). Our web site at [www.alcatel-lucent.com](http://www.alcatel-lucent.com) includes information about our business and also includes some of our Securities and Exchange Commission filings prior to February 4, 2002. The contents of our website are not incorporated by reference into this document.

The articles of association of Alcatel Lucent as well as reports from the Board of Directors to the General Shareholder's Meeting, auditors reports, historical financial statements of the company for the last three fiscal years and any other document sent to or required by law to be made available to shareholders, may be reviewed at the company's registered head office at 54 rue La Boétie – 75008 Paris.

Any shareholder can also consult/download from our website under the heading "Regulated information", the 2008 reference document filed with the AMF, which includes:

- the annual financial report (which is the "Operating and financial review and prospects" included in Chapter 6 of this document);
- the Statutory Auditors' reports on the parent company and consolidated accounts;
- the special report of the Statutory Auditors concerning regulated agreements and commitments;
- the report from the Chairman of the Board of Directors on the corporate governance and on internal control required under French law;
- the Statutory Auditors' report on the report prepared by the Chairman of the Board of Directors, and
- information relating to the Statutory Auditors' fees (which is also set forth in Section 11.4 of this document).

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# CONTROLS AND PROCEDURES, STATUTORY AUDITORS' FEES AND OTHER MATTERS

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## 11.1 CONTROLS AND PROCEDURES

### Disclosure controls and procedures

We performed an evaluation of the effectiveness of our disclosure controls and procedures that are designed to ensure that the material financial and non-financial information required to be disclosed by us in reports that we file with or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on our evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report are effective. Notwithstanding the foregoing, there can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within Alcatel-Lucent to disclose material information otherwise required to be set forth in our reports, although our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures provide reasonable assurance of achieving these objectives.

### Management's annual report on internal control over financial reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting for Alcatel-Lucent. Internal control over

financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective can only provide reasonable assurance with respect to financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under these criteria, we concluded that, as of December 31, 2008, our internal control over financial reporting is effective.

Deloitte & Associés and Ernst & Young et Autres, the independent registered public accounting firms that audited the consolidated financial statements in this annual report, have issued a report on Alcatel-Lucent's internal control over financial reporting, as stated in their report set forth in Section 11.2 of this annual report.

## 11.2 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

### The Board of Directors and Shareholders of Alcatel-Lucent

We have audited the internal control over financial reporting of Alcatel-Lucent and subsidiaries (the "Group") as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Group's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Group and our report dated March 23, 2009 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & ASSOCIÉS

/s/ ERNST & YOUNG et Autres  
Represented by Jean-Yves Jégourel

Neuilly-sur-Seine, France, March 23, 2009.

## 11.3 STATUTORY AUDITORS

Our Statutory Auditors and Alternate Auditors who report on our parent company and consolidated accounts are:

	Appointment*	Most recent renewal	Expiration of mandate
<b>Statutory Auditors</b>			
Deloitte & Associés, represented by Mr Antoine de Riedmatten 185, avenue Charles de Gaulle 92524 Neuilly-sur-Seine Cedex	06/18/1998	09/07/2006	12/31/2011
Ernst & Young et Autres, represented by par Mr Jean-Yves Jégourel 41, rue Ybry 92576 Neuilly-sur-Seine	06/23/1994	09/07/2006	12/31/2011
<b>Alternate Auditors</b>			
BEAS 7-9 villa Roussay 92524 Neuilly-sur-Seine Cedex	09/07/2006		12/31/2011
Auditex Faubourg de l'Arche, 11 allée de l'Arche 92400 Courbevoie	09/07/2006		12/31/2011

\* Date of the Annual Shareholders' Meeting.

## 11.4 STATUTORY AUDITORS' FEES

Fees of our Statutory Auditors and their international networks in 2007 and in 2008:

(in thousands of euros, except percentages)	Deloitte & Associés (Deloitte Touche Tohmatsu network)				Ernst & Young (Ernst & Young network)				Note
	2008		2007		2008		2007		
<b>1. Audit</b>									
<i>Audit fees (statutory audit, audit of consolidated financial statements and certification)</i>	9,910	89%	10,929	86%	9,503	88%	8,995	70%	1
Issuer	3,879	35%	4,075	32%	3,311	31%	3,655	28%	
Consolidated entities	6,031	54%	6,854	54%	6,192	57%	5,340	42%	
<i>Audit related fees</i>	828	8%	1,496	12%	1,021	9%	1,397	11%	2
Issuer	108	1%	241	2%	51	0%	193	2%	
Consolidated entities	720	7%	1,255	10%	970	9%	1,204	9%	
<b>SUB-TOTAL</b>	<b>10,738</b>	<b>97%</b>	<b>12,425</b>	<b>98%</b>	<b>10,524</b>	<b>97%</b>	<b>10,392</b>	<b>81%</b>	
<b>2. Other services (not audit related)</b>									<b>3</b>
Legal and tax services	108	1%	102	1%	173	2%	2,494	19%	4
Other services	263	2%	121	1%	99	1%	44	0%	5
<b>SUB-TOTAL</b>	<b>371</b>	<b>3%</b>	<b>223</b>	<b>2%</b>	<b>272</b>	<b>3%</b>	<b>2,538</b>	<b>19%</b>	
<b>TOTAL</b>	<b>11,109</b>	<b>100%</b>	<b>12,648</b>	<b>100%</b>	<b>10,796</b>	<b>100%</b>	<b>12,930</b>	<b>100%</b>	

The table above provides the fees of Alcatel-Lucent's independent auditors and their international networks for the consolidated entities of the Group relating to the periods 2008 and 2007.

## NOTE 1 – AUDIT FEES (STATUTORY AUDIT, AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS AND CERTIFICATION)

The services included are those imposed by applicable law or regulations. More specifically, the services envisaged by the CNCC guide on professional standards in its chapters 2, 5 and 6 are included.

Audit fees consist of fees billed for the annual audit of the Group's consolidated financial statements and the statutory accounts of all consolidated entities (both French and foreign). They also include the review of documents filed with the SEC and which encompasses procedures on internal controls in accordance with section 404 of the Sarbanes-Oxley Act.

In accordance with U.S. regulatory requirements around external auditors' independence, the Audit and Finance Committee has put in place since 2003 a policy regarding pre-approval of audit and permissible non-audit services provided by our independent auditors. Our independent auditors may only be engaged to provide such services after having received confirmation that these services are included in the list of pre-approved services by the Audit and Finance Committee. Non-prohibited services which are however not included in the pre-approved services must be specifically approved by the Audit & Finance Committee.

## NOTE 2 – AUDIT-RELATED FEES

Audit related fees consist of fees billed by the independent auditors or by their networks for services that are reasonably related to the performance of the audit of the company's (or its affiliates') financial statements. Such

services enter within articles 10, 23 and 24, respectively, of the code of ethics. Such procedures or services are generally non-recurrent and may only reasonably be provided by the independent auditors.

## NOTE 3 – OTHER SERVICES (NON-AUDIT RELATED)

Non-audit related services are services provided by the independent auditors. Those services are carried out in accordance with Article 24 of the code of ethics. Non-audit services include tax services and other services mostly to be categorized as consultancy.

## NOTE 4 – LEGAL AND TAX SERVICES

Legal and tax services include tax compliance, tax advice and tax planning. They can include general expatriate services. Such services are generally non-recurrent.

## NOTE 5 – OTHER SERVICES

Other services are all services provided by our independent auditors and which do not fall under one of the above specific categories. Such services are mostly specific and non-recurrent.

## 11.5 AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Jean C. Monty is an "audit committee financial expert" and that he is independent under the applicable rules promulgated by the Securities and Exchange Commission and The New York Stock Exchange.

## 11.6 CODE OF ETHICS

On February 4, 2004, our Board of Directors adopted a Code of Ethics for Senior Financial Officers that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller. A copy of our Code of Ethics for Senior Financial Officers has been posted on our website, [www.alcatel-lucent.com](http://www.alcatel-lucent.com). This Code of

Ethics is in addition to our Statement of Business Principles, which also applies to our senior financial officers (see Section 7.6, "Statement of business principles and of Code of Ethics").

## 11.7 FINANCIAL STATEMENTS

The following consolidated financial statements of Alcatel-Lucent, together with the report of Deloitte & Associés and Ernst & Young et Autres for the years ended December 31, 2008, 2007 and 2006 are filed as part of this annual report.

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Consolidated Balance Sheets at December 31, 2008, 2007 and 2006	154
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006	155
Consolidated statements of recognized income and expense for the years ended December 31, 2008, 2007 and 2006	156
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006	157
Notes to Consolidated Financial Statements	158

All schedules have been omitted since they are not required under the applicable instructions or the substance of the required information is shown in the financial statements.

## 11.8 EXHIBITS

1.1	<i>Statuts</i> (Articles of Association and By-Laws) of Alcatel-Lucent (English translation), dated December 31, 2008.
2.1	Form of Amended and Restated Deposit Agreement, as further amended and restated as of June 10, 2008, among Alcatel-Lucent, The Bank of New York, as Depository, and the holders from time to time of the ADSs issued thereunder, including the form of ADR (incorporated by reference to Exhibit A to Alcatel-Lucent's Registration Statement on Form F-6) (File No. 333-138770).
4.	Agreement and Plan of Merger, dated April 2, 2006, among Lucent Technologies Inc., Alcatel and Aura Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to Lucent's Form 8-K dated November 20, 2006).
8.	List of subsidiaries (see Note 36 to our consolidated financial statements included elsewhere herein).
10.1	Consent of Independent Registered Public Accounting Firm – Deloitte & Associés.
10.2	Consent of Independent Registered Public Accounting Firm – Ernst & Young et Autres.
12.1	Certification of the Chief Executive Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the Chief Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
15.1	Subordinated Guaranty dated March 27, 2007 executed by Lucent in favor of the holders of Alcatel's 4.375% Bonds due 2009 and the Agent therefore (incorporated by reference to our Annual Report on Form 20-F for the year ended December 31, 2006 filed April 6, 2007).
15.2	Subordinated Guaranty dated March 27, 2007 executed by Lucent in favor of the holders of Alcatel's 4.750% Convertible and/or Exchangeable Bonds due 2011 and the Agent therefore (incorporated by reference to our Annual Report on Form 20-F for the year ended December 31, 2006 filed April 6, 2007).
15.3	Subordinated Guaranty dated March 27, 2007 executed by Lucent Technologies Inc. in favor of the holders of Alcatel's 6.375% Notes due 2014 and the Agent therefore (incorporated by reference to our Annual Report on Form 20-F for the year ended December 31, 2006 filed April 6, 2007).

## 11.9 CROSS-REFERENCE TABLE BETWEEN FORM 20-F AND THIS DOCUMENT

FORM 20-F	2008 ANNUAL REPORT ON 20-F
<b>Item 1:</b> Identity of Directors, Senior Management and Advisers	N/A
<b>Item 2:</b> Offer Statistics and Expected Timetable	N/A
<b>Item 3:</b> Key Information	
<b>A.</b> Selected financial data	<b>Chapter 1</b> Selected financial data
<b>B.</b> Capitalization and indebtedness	N/A
<b>C.</b> Reasons for the offer and use of proceeds	N/A
<b>D.</b> Risk factors	<b>Chapter 3</b> Risk factors
<b>Item 4:</b> Information On The Company	
<b>A.</b> History and development of the Company	<b>Chapter 4</b> Information about the Group
<b>B.</b> Business overview	<b>Chapter 5</b> Description of the Group's activities
<b>C.</b> Organizational structure	<b>Section 4.3</b> Structure of the principal companies consolidated in the Group as of December 31, 2008
<b>D.</b> Property, plants and equipment	<b>Section 4.4</b> Real estate and equipment
<b>Item 4A:</b> Unresolved Staff Comments	N/A
<b>Item 5:</b> Operating and Financial Review and Prospects	
<b>A.</b> Operating results (significant factors materially affecting the company's income from operations)	<b>Chapter 6</b> Operating and financial review and prospects: <b>Introduction</b> and <b>Sections 6.2</b> through <b>6.5</b> .
<b>B.</b> Liquidity and capital resources	<b>Section 6.6</b> Liquidity and capital resources
<b>C.</b> Research and Development, patents and licenses, etc.	<b>Section 6.11</b> Research and Development – Expenditures; headings "Research and Development costs" of <b>Section 6.2</b> and <b>Section 6.4</b>
<b>D.</b> Trend information	<b>Section 6.1</b> Overview of 2008 and <b>Section 6.8</b> Outlook for 2009
<b>E.</b> Off-Balance sheet arrangements	<b>Section 6.7</b> Contractual obligations and off-balance sheet contingent commitments
<b>F.</b> Tabular disclosure of contractual obligations	<b>First subsection</b> Contractual obligations of <b>Section 6.7</b> Contractual obligations and off-balance sheet contingent commitments
<b>G.</b> Safe harbor	
<b>Item 6:</b> Directors, Senior Management and Employees	
<b>A.</b> Directors and senior management	<b>Section 7.1</b> Governance Code, <b>7.2</b> Management and <b>7.4</b> Committees of the Board
<b>B.</b> Compensation	<b>Section 7.5</b> Compensation and <b>Section 7.7</b> Regulated agreements, commitments and related party transactions
<b>C.</b> Board practices	<b>Section 7.1</b> Governance Code, <b>7.2</b> Management, <b>7.3</b> Powers of the Board of Directors, <b>7.4</b> Committees of the Board, <b>7.6</b> Statement of business principles and Code of ethics and <b>7.9</b> Operating Rules of the Board of Directors
<b>1.</b> Date of expiration of the current term of office and the period during which the person has served it that office;	<b>Section 7.2</b> Management and <b>7.5</b> Compensation
<b>2.</b> Directors' service contracts with the company or any of its subsidiaries;	<b>Section 7.5</b> Compensation and <b>Section 7.7</b> Regulated agreements, commitments and related party transactions
<b>3.</b> Company's audit committee and remuneration committee.	<b>Section 7.4</b> Committees of the Board
<b>D.</b> Employees	<b>Subsection</b> Employees of <b>Section 5.13</b> Human resources
<b>E.</b> Share ownership (with respect to the persons listed in Item 6.B.2)	
<b>1.</b> Disclosure on an individual basis of the number of shares and percent of shares outstanding of that class, and their voting rights; options granted to these persons on the company's shares (title and amount of securities called for by the options, exercise price, purchase price if any, expiration date of the options);	<b>Section 7.5</b> Compensation and <b>Section 7.7</b> Regulated agreements, commitments and related party transactions
<b>2.</b> Any arrangements for involving the employees in the capital of the company, including any arrangement that involves the issue or grant of options or shares or securities of the company.	<b>Subsection</b> Employee share ownership and stock option plans and performance shares of <b>Section 5.13</b> Human resources
<b>Item 7:</b> Major Shareholders and Related Party Transactions Employees	
<b>A.</b> Major shareholders	<b>Section 9.4</b> Breakdown of capital and voting rights and <b>Section 9.5</b> Changes in shareholdings
<b>B.</b> Related Party Transactions	<b>Section 7.7</b> Regulated agreements, commitments, and related party transactions and Subsection Transactions by Officers and Directors in Alcatel-Lucent securities of <b>Section 9.4</b> Breakdown of capital and voting rights

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FORM 20-F	2008 ANNUAL REPORT ON 20-F
C. Interests of experts and counsel	N/A
<b>Item 8: Financial Information</b>	
A. Consolidated statements and other financial information	<b>Chapter 12</b> Consolidated financial statements at December 31, 2008, <b>Section 6.10</b> Legal matters and <b>Section 9.7</b> Trend of dividend per share over 5 years
B. Significant changes since the date of the annual financial statements	N/A
<b>Item 9: The Offer and Listing</b>	
A. Offer and listing details	<b>Section 9.1</b> Listing and <b>Section 9.2</b> Trading over the last five years
B. Plan of distribution	N/A
C. Markets	<b>Section 9.1</b> Listing
D. Selling shareholders	N/A
E. Dilution	N/A
F. Expenses of the issue	N/A
<b>Item 10: Additional Information</b>	
A. Share capital	<b>Chapter 8</b> Information concerning our capital and Subsection Employee share ownership, stock option plans and performance shares of <b>Section 5.13</b> Human Resources <b>Section 10.1</b> Legal information, <b>Section 10.2</b> Specific provisions of the by-laws and of law, <b>Subsection</b> Ownership of shares by non-French persons of <b>Section 10.3</b> American Depositary Shares, taxation and certain other matters and <b>Section 9.6</b> Shareholders' General Meeting
B. Memorandum and Articles of Association	<b>Section 9.6</b> Shareholders' General Meeting
C. Material contracts	<b>Section 4.5</b> Material contracts
D. Exchange controls	<b>Subsection</b> Exchange controls of <b>Section 10.3</b> American Depositary Shares, taxation and certain other matters
E. Taxation	<b>Subsection</b> Taxation of <b>Section 10.3</b> American Depositary Shares, taxation and certain other matters
F. Dividends and paying agents	N/A
G. Statement by experts	N/A
H. Documents on display	<b>Section 10.4</b> Documents on display
I. Subsidiary information	No information in this regard.
<b>Item 11: Quantitative and Qualitative Disclosures About Market Risk</b>	<b>Section 6.9</b> Qualitative and quantitative disclosures about market risk
<b>Item 12: Description of Securities Other than Equity Securities</b>	N/A
<b>Item 13: Defaults, Dividends Arrearages and Delinquencies</b>	N/A
<b>Item 14: Market Modifications to the Rights of Security Holders and Use of Proceeds</b>	N/A
<b>Item 15: Controls and Procedures</b>	<b>Section 11</b> Controls and procedures, Statutory Auditors' fees and other matters
(a) Disclosure controls and procedures	<b>Subsection</b> Disclosure controls and procedures of <b>Section 11.1</b> Controls and procedures
(b) Management's annual report on internal control over financial reporting	<b>Subsection</b> Management's annual report on internal control over financial reporting of <b>Section 11.1</b> Controls and procedures
(c) Attestation report of the registered public accounting firm on management's assessment of the issuer's internal control over financial reporting.	<b>Section 11.2</b> Report of independent registered public accounting firms
d) Changes in internal control over financial reporting	<b>Subsection</b> Management's annual report on internal control over financial reporting of <b>Section 11.1</b> Controls and Procedures
<b>Item 16: Reserved</b>	Reserved
<b>Item 16A: Audit Committee Financial Expert</b>	<b>Section 11.5</b> Audit Committee financial expert
<b>Item 16B: Code of Ethics</b>	<b>Section 11.6</b> Code of ethics
<b>Item 16C: Principal Accountant Fees and Services</b>	<b>Section 11.3</b> Statutory Auditors and <b>Section 11.4</b> Statutory Auditors' fees
<b>Item 16D: Exemptions from the Listing Standards for Audit Committee</b>	N/A
<b>Item 16E: Purchases of Equity Securities by the Issuer and Affiliated Purchasers</b>	<b>Section 8.6</b> Purchases of Alcatel-Lucent shares by the company
<b>Item 16F: Change in Resgistrant's Certifying Accountant</b>	N/A
<b>Item 16G: Corporate Governance</b>	<b>Section 7.8</b> Major differences between our corporate governance practices and NYSE requirements
<b>Item 17: Financial Statements</b>	<b>See Item 11.7</b> Financial statements
<b>Item 18: Financial Statements</b>	<b>Section 11.7</b> Financial statements
<b>Item 19: Exhibits</b>	<b>Section 11.8</b> Exhibits

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## SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ALCATEL-LUCENT

By: /s/ Paul Tufano  
Name: Paul Tufano  
Title: Chief Financial Officer

March 31, 2009



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# CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2008

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

### To the Shareholders and the Board of Directors of Alcatel-Lucent

We have audited the accompanying consolidated balance sheets of Alcatel-Lucent and subsidiaries (the "Group") as of December 31, 2008, 2007 and 2006, and the related consolidated statements of income, recognized income and expense, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alcatel-Lucent and subsidiaries as of December 31, 2008, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As discussed in Note 1 to the consolidated financial statements, the Group has elected to early apply International Financial Reporting Standard ("IFRS") No.8, *Operating Segments* as of January 1, 2008, with retrospective effect to January 1, 2006.

As discussed in Note 4 to the consolidated financial statements, the Group has changed its method of accounting for the measurement of defined benefit asset in accordance with International Financial Reporting Interpretations Committee (IFRIC) Interpretation No. 14, *Interpretation of IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, as of January 1, 2008 with retrospective effect to January 1, 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alcatel-Lucent's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* and our report dated March 23, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG et Autres  
Represented by Jean-Yves Jégourel

/s/ DELOITTE & ASSOCIÉS

Neuilly-sur-Seine, France, March 23, 2009.

## CONSOLIDATED INCOME STATEMENTS

<i>(in millions except per share information)</i>	Notes	2008 <sup>(1)</sup>	2008	2007	2006 <sup>(2)</sup>
Revenues	(5) & (6)	U.S. \$ 23,640	€ 16,984	€ 17,792	€ 12,282
Cost of sales <sup>(3)</sup>	(4) & (23e)	(15,575)	(11,190)	(12,083)	(8,214)
<b>Gross profit</b>		<b>8,065</b>	<b>5,794</b>	<b>5,709</b>	<b>4,068</b>
Administrative and selling expenses <sup>(3)</sup>	(4) & (23e)	(4,305)	(3,093)	(3,462)	(1,911)
Research and development expenses before capitalization of development expenses		(3,978)	(2,858)	(3,107)	(1,579)
Impact of capitalization of development expenses		141	101	153	109
Research and development costs <sup>(3)</sup>	(23e)	(3,837)	(2,757)	(2,954)	(1,470)
<b>Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments</b>	<b>(5)</b>	<b>(77)</b>	<b>(56)</b>	<b>(707)</b>	<b>687</b>
Restructuring costs	(27)	(782)	(562)	(856)	(707)
Impairment of assets	(7)	(6,577)	(4,725)	(2,944)	(141)
Gain/(loss) on disposal of consolidated entities		(10)	(7)	-	15
Post-retirement benefit plan amendments		65	47	258	-
<b>Income (loss) from operating activities</b>		<b>(7,381)</b>	<b>(5,303)</b>	<b>(4,249)</b>	<b>(146)</b>
Interest relative to gross financial debt		(544)	(391)	(403)	(241)
Interest relative to cash and cash equivalents		249	179	230	143
Finance costs	(8)	(295)	(212)	(173)	(98)
Other financial income (loss)	(8)	509	366	541	(34)
Share in net income (losses) of equity affiliates	(16)	134	96	110	22
<b>Income (loss) before income tax, related reduction of goodwill and discontinued operations</b>		<b>(7,033)</b>	<b>(5,053)</b>	<b>(3,771)</b>	<b>(256)</b>
Reduction of goodwill related to deferred tax assets initially unrecognized	(9)	-	-	(256)	(5)
Income tax, (charge) benefit	(9)	(213)	(153)	(60)	42
<b>Income (loss) from continuing operations</b>		<b>(7,246)</b>	<b>(5,206)</b>	<b>(4,087)</b>	<b>(219)</b>
Income (loss) from discontinued operations	(10)	46	33	610	158
<b>NET INCOME (LOSS)</b>		<b>(7,200)</b>	<b>(5,173)</b>	<b>(3,477)</b>	<b>(61)</b>
Attributable to:					
• equity holders of the parent		(7,259)	(5,215)	(3,518)	(106)
• minority interests		59	42	41	45
<b>Net income (loss) attributable to the equity holders of the parent per share (in euros/U.S. dollars)</b>					
• Basic earnings per share	(11)	U.S. \$ (3.22)	€ (2.31)	€ (1.56)	€ (0.07)
• Diluted earnings per share	(11)	U.S. \$ (3.22)	€ (2.31)	€ (1.56)	€ (0.07)
<b>Net income (loss) (before discontinued operations) attributable to the equity holders of the parent per share (in euros/U.S. dollars)</b>					
• Basic earnings per share		U.S. \$ (3.23)	€ (2.32)	€ (1.83)	€ (0.18)
• Diluted earnings per share		U.S. \$ (3.23)	€ (2.32)	€ (1.83)	€ (0.18)
<b>Net income (loss) of discontinued operations per share (in euros/U.S. dollars)</b>					
• Basic earnings per share		U.S. \$ 0.01	€ 0.01	€ 0.27	€ 0.11
• Diluted earnings per share		U.S. \$ 0.01	€ 0.01	€ 0.27	€ 0.11

(1) Translation of amounts from euros into U.S. dollars has been made merely for the convenience of the reader at Noon Buying Rate of € 1 = \$ 1.3919 on December 31, 2008.

(2) Consolidated income statement for 2006 is re-presented to reflect the impacts of discontinued operations (see Note 10) and the change in accounting policies presented in Note 4. Lucent's results were consolidated from December 1, 2006 onwards.

(3) Classification of share-based payments between cost of sales, administrative and selling expenses and research & development costs is provided in Note 23e.

## CONSOLIDATED BALANCE SHEETS

ASSETS (in millions)	Notes	December 31, 2008 <sup>(1)</sup>	December 31, 2008	December 31, 2007 <sup>(2)</sup>	December 31, 2006 <sup>(3)</sup>
Goodwill	(12)	U.S. \$ 5,867	€ 4,215	7,328	10,891
Intangible assets, net	(13)	3,573	2,567	4,230	5,441
<b>Goodwill and intangible assets, net</b>		<b>9,440</b>	<b>6,782</b>	<b>11,558</b>	<b>16,332</b>
Property, plant and equipment, net	(14)	1,880	1,351	1,428	1,821
Share in net assets of equity affiliates	(16)	157	113	1,352	682
Other non-current financial assets, net	(17)	969	696	704	803
Deferred tax assets	(9)	1,186	852	1,232	1,692
Prepaid pension costs	(25)	3,199	2,298	3,472	3,435
Marketable securities, net	(26)	-	-	-	697
Other non-current assets	(21)	905	650	389	203
<b>Total non-current assets</b>		<b>17,736</b>	<b>12,742</b>	<b>20,135</b>	<b>25,665</b>
Inventories and work in progress, net	(18) & (19)	3,057	2,196	2,235	2,259
Amounts due from customers on construction contracts	(18)	689	495	704	615
Trade receivables and related accounts, net	(18) & (20)	6,027	4,330	4,163	3,877
Advances and progress payments	(18)	138	99	110	87
Other current assets	(21)	1,942	1,395	1,117	1,006
Assets held for sale	(10)	1,876	1,348	35	2,127
Current income taxes		157	113	60	260
Marketable securities, net	(17) & (26)	1,261	906	894	1,245
Cash and cash equivalents	(26)	5,132	3,687	4,377	4,749
<b>Total current assets</b>		<b>20,279</b>	<b>14,569</b>	<b>13,695</b>	<b>16,225</b>
<b>TOTAL ASSETS</b>		<b>38,015</b>	<b>27,311</b>	<b>33,830</b>	<b>41,890</b>

LIABILITIES AND SHAREHOLDERS' EQUITY (in millions of euros)	Notes	December 31, 2008 <sup>(1)</sup>	December 31, 2008	December 31, 2007 <sup>(2)</sup>	December 31, 2006 <sup>(3)</sup>
Capital stock (€ 2 nominal value: 2,318,041,761 ordinary shares issued at December 31, 2008, 2,317,441,420 ordinary shares issued at December 31, 2007 and 2,309,679,141 ordinary shares issued at December 31, 2006)	(23)	U.S. \$ 6,453	€ 4,636	4,635	4,619
Additional paid-in capital		23,145	16,628	16,543	16,443
Less treasury stock at cost		(2,180)	(1,566)	(1,567)	(1,572)
Retained earnings, fair value and other reserves		(12,277)	(8,820)	(3,821)	(3,441)
Cumulative translation adjustments		(1,434)	(1,030)	(1,085)	(115)
Net income (loss) – attributable to the equity holders of the parent	(11) & (22)	(7,259)	(5,215)	(3,518)	(106)
Shareholders' equity - attributable to the equity holders of the parent	(23)	6,448	4,633	11,187	15,828
Minority interests	(23)	823	591	515	495
<b>Total shareholders' equity</b>	<b>(23) &amp; (24)</b>	<b>7,271</b>	<b>5,224</b>	<b>11,702</b>	<b>16,323</b>
Pensions, retirement indemnities and other post-retirement benefits	(25)	6,691	4,807	4,447	5,449
Bonds and notes issued, long-term	(24) & (26)	5,472	3,931	4,517	4,901
Other long-term debt	(26)	93	67	48	147
Deferred tax liabilities	(9)	1,603	1,152	1,897	2,583
Other non-current liabilities	(21)	617	443	366	276
<b>Total non-current liabilities</b>		<b>14,476</b>	<b>10,400</b>	<b>11,275</b>	<b>13,356</b>
Provisions	(27)	3,374	2,424	2,566	2,366
Current portion of long-term debt	(26)	1,527	1,097	483	1,161
Customers' deposits and advances	(18) & (29)	1,293	929	847	778
Amounts due to customers on construction contracts	(18)	262	188	407	273
Trade payables and related accounts	(18)	6,362	4,571	4,514	4,027
Liabilities related to disposal groups held for sale	(10)	-	-	-	1,606
Current income tax liabilities		258	185	70	66
Other current liabilities	(21)	3,192	2,293	1,966	1,934
<b>Total current liabilities</b>		<b>16,268</b>	<b>11,687</b>	<b>10,853</b>	<b>12,211</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>38,015</b>	<b>27,311</b>	<b>33,830</b>	<b>41,890</b>

(1) Translation of amounts from euros into U.S. dollars has been made merely for the convenience of the reader at Noon Buying Rate of € 1 = U.S. \$ 1.3919 on December 31, 2008.

(2) The consolidated balance sheet as of December 31, 2007 is re-presented to reflect the impacts of the application of IFRIC 14, (see Note 4).

(3) The consolidated balance sheet as of December 31, 2006 is re-presented to reflect the impacts of the change in accounting policies presented in Note 4 and the changes in the purchase price allocation related to the business combination with Lucent described in Note 3.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in millions)</i>	Notes	2008 <sup>(1)</sup>	2008	2007	2006
<b>Cash flows from operating activities</b>					
Net income (loss) – attributable to the equity holders of the parent		U.S. \$ (7,259)	€ (5,215)	(3,518)	(106)
Minority interests		58	42	41	45
Adjustments	(30)	8,109	5,826	3,890	990
<b>Net cash provided (used) by operating activities before changes in working capital, interest and taxes</b>	<b>(30)</b>	<b>908</b>	<b>653</b>	<b>413</b>	<b>929</b>
<b>Net change in current assets and liabilities (excluding financing):</b>					
Inventories and work in progress	(18)	(122)	(88)	(311)	(116)
Trade receivables and related accounts	(18)	152	109	(685)	(137)
Advances and progress payments	(18)	13	9	(29)	(5)
Trade payables and related accounts	(18)	6	4	627	229
Customers' deposits and advances	(18)	(89)	(64)	164	(100)
Other current assets and liabilities		(141)	(101)	22	(280)
<b>Cash provided by operating activities before interest and taxes</b>		<b>727</b>	<b>522</b>	<b>201</b>	<b>520</b>
Interest received		219	157	202	109
Interest paid		(486)	(349)	(354)	(207)
Taxes (paid)/received		(171)	(123)	(73)	(71)
<b>Net cash provided (used) by operating activities</b>		<b>289</b>	<b>207</b>	<b>(24)</b>	<b>351</b>
<b>Cash flows from investing activities:</b>					
Proceeds from disposal of tangible and intangible assets		262	188	93	252
Capital expenditures	(13) & (14)	(1,254)	(901)	(842)	(684)
Of which impact of capitalization of development costs	(13)	(571)	(410)	(414)	(386)
Decrease (increase) in loans and other non-current financial assets		36	26	(31)	-
Cash expenditures for acquisition of consolidated and non-consolidated companies		(102)	(73)	(24)	(424)
Cash and cash equivalents from consolidated companies acquired		-	-	-	1,397
Cash proceeds from sale of previously consolidated and non-consolidated companies		31	22	293	76
Cash proceeds from sale of marketable securities		17	12	1,050	144
<b>Net cash provided (used) by investing activities</b>		<b>(1,010)</b>	<b>(726)</b>	<b>539</b>	<b>761</b>
<b>Cash flows from financing activities:</b>					
Issuance/(repayment) of short-term debt		(33)	(24)	(251)	11
Issuance of long-term debt	(26)	-	-	-	-
Repayment/repurchase of long-term debt	(26)	(315)	(226)	(509)	(516)
Proceeds from issuance of shares		-	-	15	19
Proceeds from disposal of treasury stock		-	-	5	6
Dividends paid		(10)	(7)	(366)	(219)
<b>Net cash provided (used) by financing activities</b>		<b>(358)</b>	<b>(257)</b>	<b>(1,106)</b>	<b>(699)</b>
Cash provided (used) by operating activities of discontinued operations	(10)	-	-	(77)	172
Cash provided (used) by investing activities of discontinued operations	(10)	29	21	652	(24)
Cash provided (used) by financing activities of discontinued operations	(10)	-	-	(352)	(159)
Net effect of exchange rate changes		90	65	(125)	(42)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(960)</b>	<b>(690)</b>	<b>(493)</b>	<b>360</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>6,092</b>	<b>4,377</b>	<b>4,749</b>	<b>4,510</b>
<b>Cash and cash equivalents at end of year<sup>(2)</sup></b>		<b>5,132</b>	<b>3,687</b>	<b>4,377</b>	<b>4,749</b>
<b>Cash and cash equivalents at beginning of year classified as assets held for sale</b>		-	-	121	-
<b>Cash and cash equivalents at end of year classified as assets held for sale</b>		-	-	-	121

(1) Translation of amounts from euros into U.S. dollars has been made merely for the convenience of the reader at Noon Buying Rate of € 1 = U.S. \$ 1.3919 on December 31, 2008.

(2) Includes € 678 million of cash and cash equivalents held in countries subject to exchange control restrictions as of December 31, 2008 (€ 460 million as of December 31, 2007 and € 642 million as of December 31, 2006). Such restrictions can limit the use of such cash and cash equivalents by other Group subsidiaries and the parent.

## CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

<i>(in millions)</i>	Notes	2008 <sup>(1)</sup>	2008	2007	2006
<b>Financial assets available for sale:</b>	<b>(17)</b>	<b>U.S. \$ (53)</b>	<b>€ (38)</b>	<b>20</b>	<b>36</b>
Valuation gains/(losses) taken to equity		(53)	(38)	47	36
Transferred to profit or loss on sale		-	-	(27)	-
Cumulative translation adjustments		156	112	(993)	(323)
Cash flow hedging	(28)	7	5	(4)	(4)
Amount taken to equity		(19)	(14)	(7)	4
Recycling in income (loss)		26	19	3	(8)
Actuarial gains (losses) and adjustments arising from asset ceiling limitation and IFRIC 14	(25)	(2,735)	(1,965)	43	574
Tax on items recognized directly in equity	(9)	597	429	68	(216)
Other adjustments		120	86	(14)	8
<b>Net gains (losses) recognized in equity</b>		<b>(1,908)</b>	<b>(1,371)</b>	<b>(880)</b>	<b>75</b>
Of which transferred to profit and loss		26	19	(24)	(8)
Net income (loss) for the year		(7,200)	(5,173)	(3,477)	(61)
<b>TOTAL RECOGNIZED PROFITS (LOSSES) FOR THE YEAR</b>		<b>(9,108)</b>	<b>(6,544)</b>	<b>(4,357)</b>	<b>14</b>
Attributable to:					
• equity holders of the parent		(9,235)	(6,635)	(4,395)	4
• minority interests		127	91	38	10

(1) Translation of amounts from euros into U.S. dollars has been made merely for the convenience of the reader at Noon Buying Rate of € 1 = 1.3919 on December 31, 2008.

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# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(in millions of euros and number of shares)</i>	Number of shares	Capital stock	Additional paid-in capital	Retained Earnings	Fair value and other reserves	Treasury stock	Cumulative translation adjustments	Net income (loss)	Total attributable to the equity holders of the parent	Minority interests	TOTAL
<b>BALANCE AT DECEMBER 31, 2005 BEFORE APPROPRIATION</b>	<b>1,369,620,931</b>	<b>2,857</b>	<b>8,308</b>	<b>(4,455)</b>	<b>(101)</b>	<b>(1,575)</b>	<b>174</b>	<b>922</b>	<b>6,130</b>	<b>475</b>	<b>6,605</b>
<b>Total recognized profit (loss) for 2006<sup>(1)</sup></b>				<b>8</b>	<b>391</b>		<b>(289)</b>	<b>(106)</b>	<b>4</b>	<b>10</b>	<b>14</b>
Acquisition of Lucent Technologies <sup>(2)</sup>	878,139,615	1,756	7,166						8,922		8,922
Other capital increases	2,997,886	6	14						20		20
Equity component of Lucent's convertible debentures <sup>(2)</sup>			761						761		761
Lucent's warrants <sup>(2)</sup>			35						35		35
Lucent's outstanding stock options <sup>(2)</sup>			96						96		96
Share-based payments			63						63		63
Treasury stock	180,718			(7)		3			(4)		(4)
Dividends				(219)					(219)		(219)
Appropriation of 2005 net income (loss)				922				(922)	-		-
Other adjustments				20					20	10	30
<b>BALANCE AT DECEMBER 31, 2006 BEFORE APPROPRIATION</b>	<b>2,250,939,150</b>	<b>4,619</b>	<b>16,443</b>	<b>(3,731)</b>	<b>290</b>	<b>(1,572)</b>	<b>(115)</b>	<b>(106)</b>	<b>15,828</b>	<b>495</b>	<b>16,323</b>
<b>Total recognized profit (loss) for 2007<sup>(1)</sup></b>				<b>(14)</b>	<b>107</b>		<b>(970)</b>	<b>(3,518)</b>	<b>(4,395)</b>	<b>38</b>	<b>(4,357)</b>
Other capital increases	7,762,279	16	28						44		44
Early redemption of 8% convertible debenture			(30)						(30)		(30)
Share-based payments			102						102		102
Treasury stock	349,304			(4)		5			1		1
Dividends				(361)					(361)	(18)	(379)
Appropriation of 2006 net income (loss)				(106)				106			
Other adjustments				(2)					(2)	-	(2)
<b>BALANCE AT DECEMBER 31, 2007 BEFORE APPROPRIATION</b>	<b>2,259,050,733</b>	<b>4,635</b>	<b>16,543</b>	<b>(4,218)</b>	<b>397</b>	<b>(1,567)</b>	<b>(1,085)</b>	<b>(3,518)</b>	<b>11,187</b>	<b>515</b>	<b>11,702</b>
<b>Total recognized profit (loss) for 2008<sup>(1)</sup></b>				<b>86</b>	<b>(1,561)</b>	<b>-</b>	<b>55</b>	<b>(5,215)</b>	<b>(6,635)</b>	<b>91</b>	<b>(6,544)</b>
Other capital increases	600,341	1							1		1
Share-based payments			85						85		85
Treasury stock	4,697	-	-	(3)		1			(2)		(2)
Dividends									-	(19)	(19)
Appropriation of 2007 net income (loss)				(3,518)				3,518	-		-
Other adjustments				(3)					(3)	4	1
<b>BALANCE AT DECEMBER 31, 2008 BEFORE APPROPRIATION</b>	<b>2,259,655,771</b>	<b>4,636</b>	<b>16,628</b>	<b>(7,656)</b>	<b>(1,164)</b>	<b>(1,566)</b>	<b>(1,030)</b>	<b>(5,215)</b>	<b>4,633</b>	<b>591</b>	<b>5,224</b>
Proposed appropriation <sup>(3)</sup>				(5,215)				5,215	-		-
<b>BALANCE AT DECEMBER 31, 2008 AFTER APPROPRIATION</b>	<b>2,259,655,771</b>	<b>4,636</b>	<b>16,628</b>	<b>(12,871)</b>	<b>(1,164)</b>	<b>(1,566)</b>	<b>(1,030)</b>	<b>-</b>	<b>4,633</b>	<b>591</b>	<b>5,224</b>

(1) See consolidated statements of recognized income and expense.

(2) For more details on the acquisition of Lucent, please refer to Note 3.

(3) The appropriation is proposed by the Board of Directors and must be approved at the Shareholders Meeting, to be held May 29, 2009 before being final.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Alcatel-Lucent (formerly called Alcatel) is a French public limited liability company that is subject to the French Commercial Code and to all the legal requirements governing commercial companies in France. Alcatel changed its name to Alcatel-Lucent on completion of the business combination with Lucent Technologies Inc. Alcatel-Lucent was incorporated on June 18, 1898 and will be dissolved on June 30, 2086, except if dissolved earlier or if its existence is extended by shareholder vote. Alcatel-Lucent's headquarters are situated at 54, rue la Boétie, 75008 Paris, France. Alcatel-Lucent is listed principally on the Paris and New York stock exchanges.

The consolidated financial statements reflect the results and financial position of Alcatel-Lucent and its subsidiaries (the "Group") as well as its

investments in associates ("equity affiliates") and joint ventures. They are presented in euros rounded to the nearest million.

The Group develops and integrates technologies, applications and services to offer innovative global communications solutions.

On February 3, 2009, Alcatel-Lucent's Board of Directors authorized for issuance these consolidated financial statements at December 31, 2008. The consolidated financial statements will be final once approved at the Annual Shareholders' Meeting to be held on May 29, 2009.

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Due to the listing of Alcatel-Lucent's securities on the Euronext Paris and in accordance with the European Union's regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Group are prepared in accordance with IFRSs (International Financial Reporting Standards) as adopted by the European Union (available at the following internet address: [http://www.ec.europa.eu/internal\\_market%20/accounting/ias\\_en.htm#adopted-commission](http://www.ec.europa.eu/internal_market%20/accounting/ias_en.htm#adopted-commission)) as of the date when our Board of Directors authorized the issuance of these consolidated financial statements. IFRSs include the standards approved by the International Accounting Standards Board ("IASB"), that is, IFRSs, the International Accounting Standards ("IASs") and the accounting interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC").

At December 31, 2008, the accounting standards and interpretations that have been adopted by the European Union were the same as International Financial Reporting Standards (including IASs and Interpretations) published by the IASB, with the exception of IAS 39, which was only partially adopted, and IFRIC 12, but which have no impact on Alcatel-Lucent's financial statements. As a result, the Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as published by the IASB.

### ***New financial reporting standard applied as of January 1, 2008***

#### **IFRS 8 "Operating Segments"**

On January 1, 2008, Alcatel-Lucent elected to adopt IFRS 8 "Operating Segments" with retroactive effect to former periods presented. Although IFRS 8 is only effective from January 1, 2009, it may be applied earlier, beginning with 2007. IFRS 8 replaces IAS 14 "Segment Reporting". IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of a group for which separate internal financial information is available and that the Group's "chief operating decision maker" (CODM) uses to make decisions about operating matters.

This "management approach" as specified in IFRS 8 differs from IAS 14, which requires segment information to be reported by two types of reportable segments, which, in the Group's case, were distinguishable business components (primary segments) that are subject to risks and returns that are different from those of other components, and geographical areas (secondary segments). Prior to adoption of IFRS 8, the main elements of the financial statements were divided according to these two categories.

Reorganized on October 31, 2007 and effective in 2008, the Group established a management committee, consisting of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and six other executives, which leads the organization from a regional, operational and functional perspective and which performs the chief operating decision making (CODM) function. The committee assesses performance and allocates resources based on reviewing financial information at the Carrier, Services and Enterprise level. Consequently, the Group identified these three business groups as the operating segments about which the Group should report.

Concerning measurement of segment information, IFRS 8 requires the amount reported for each operating segment item to be the measure reported to the CODM for the purpose of allocating resources to the segment and assessing its performance.

The Group's management committee's measure of operating segment profit or loss is the "Income (loss) from operating activities before restructuring costs, impairment of intangible assets and gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments excluding the main non-cash impacts of the purchase price allocation (PPA) entries relating to the Lucent business combination" (refer to Note 4).

Effective January 1, 2009, a new organization was put in place, it is described in Note 5f.

#### **Amendment to IAS 23 "Borrowing Costs"**

As the Group was already applying the allowed alternative treatment of former IAS 23 (i.e. capitalization of borrowing costs), the application of the requirements of this amendment to IAS 23 had no material impact on our consolidated financial statements.

### **Other new financial reporting standards, amendments and interpretations published and applied by the Group**

The IASB published the following standards and interpretations during the twelve months ended December 31, 2008, which were endorsed by the European Union and which either have to be applied or could be applied as of December 31, 2008:

- IFRIC 13 "Customer Loyalty Programs". As the requirements of this interpretation were already applied for free products offered by the Group (see Note 1o), the application of this interpretation had no impact on our consolidated financial statements;
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction". Applying this interpretation had a negative impact of € 91 million on our shareholders' equity as of December 31, 2008;
- amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures – Reclassification of Financial Assets". The implementation of these amendments did not cause any financial assets to be reclassified out of the fair value through profit or loss category in 2008.

### **New financial reporting standards, amendments and interpretations published and mandatory but not yet endorsed by the European Union**

The IASB published the following interpretation on November 30, 2006, which is not yet endorsed by the European Union, but is effective for annual periods beginning on or after January 1, 2008:

- IFRIC 12 "Service Concession Arrangements". No transaction of the Group is covered by the scope of this interpretation, and therefore it is not applicable.

### **New financial reporting standards, amendments and interpretations published but not yet mandatory and not yet applied by the Group**

The IASB published the following standards during the twelve months ended December 31, 2008, which were endorsed by the European Union but which are not yet effective and for which the Group did not elect earlier application:

- amendments to IAS 1 "Presentation of Financial Statements: A Revised Presentation";
- amendment to IFRS 2 "Share-based Payment - Vesting Conditions and Cancellations";
- a revised IAS 32 "Financial Instruments: Presentation" and Amendment to IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations arising on Liquidation;
- improvements to IFRSs; and
- amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate."

Furthermore, the IASB published the following standards and interpretations during the twelve months ended December 31, 2008, which are not yet effective and not yet endorsed by the European Union:

- a revised IFRS 3 "Business Combinations" and an amended IAS 27 "Consolidated and Separate Financial Statements";

- amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items";
- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"; and
- IFRIC 17 "Distributions of Non-cash Assets to Owners".

Of these new standards and interpretations, only IFRS 3 and IAS 27 could have a material impact on our future consolidated financial statements, if we were to enter into significant, new business combinations. These new standards will be effective, if adopted by the European Union, for business combinations that occur on or after the beginning of the first annual reporting period beginning on or after July 1, 2009, with earlier application permitted.

Transitional provisions of IFRS 3 affecting income taxes could have a material impact on our future consolidated financial statements, since the accounting treatment of deferred tax assets recognized after completion of a business combination and not initially recognized will be recognized in the income statement without any related reduction of goodwill which is, contrary to what IFRS 3 currently prescribes (see Note 1n).

Unrecognized income tax loss carry-forwards that relate to Lucent Technologies and its subsidiaries are material. If the Group is able to recognize deferred tax assets in the future equal to former Lucent's income tax loss carry-forwards, in compliance with IAS 12 "Income Taxes", the recognition of such tax losses could materially impact the Group's income statement in a positive way.

As of December 31, 2008, Alcatel-Lucent had not applied any International Financial Reporting Standards and Interpretations that the European Union had published and adopted but which were not yet mandatory, except for IFRS 8 "Operating Segments".

#### **a/ Basis of preparation**

The consolidated financial statements have been prepared in accordance with IFRSs under the historical cost convention, with the exception of certain categories of assets and liabilities. The categories concerned are detailed in the following notes.

#### **b/ Consolidation methods**

Companies over which the Group has joint control are accounted for using proportionate consolidation.

Companies over which the Group has significant influence (investments in "associates" or equity affiliates) are accounted for under the equity method. Significant influence is assumed when the Group's interest in the voting rights is greater than or equal to 20%.

In accordance with SIC 12 "Consolidation – Special Purpose Entities", special purpose entities (SPE) are consolidated when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group.

All significant intra-Group transactions are eliminated.

## c/ Business combinations

**Regulations governing first-time adoption:** business combinations that were completed before January 1, 2004, the transition date to IFRSs, were not restated, as permitted by the optional exemption included in IFRS 1. Goodwill was therefore not recognized for business combinations occurring prior to January 1, 2004, which was previously accounted for in accordance with Article 215 of Regulation No. 99-02 of the "Comité de la Réglementation Comptable". According to this regulation, the assets and liabilities of the acquired company are maintained at their carrying value at the date of the acquisition, adjusted for the Group's accounting policies, and the difference between this value and the acquisition cost of the shares is adjusted directly against shareholders' equity.

**Business combinations after January 1, 2004:** these business combinations are accounted for in accordance with the purchase method required by IFRS 3. Once control is obtained over a company, its assets, liabilities and contingent liabilities are measured at their fair value at the acquisition date in accordance with IFRS requirements. Any difference between the fair value and the carrying value is accounted for in the respective underlying asset or liability, including both the Group interest and minority interests. Any excess between the purchase price and the Group's share in the fair value of such net assets is recognized as goodwill (see intangible and tangible assets).

If the initial accounting for a business combination cannot be completed before the end of the annual period in which the business combination is effected, the initial accounting must be completed within twelve months of the acquisition date.

The accounting treatment of deferred taxes related to business combinations is described in Note 1n below.

The accounting treatment of stock options of companies acquired in the context of a business combination is described in Note 1w below.

## d/ Translation of financial statements denominated in foreign currencies

The balance sheets of consolidated entities having a functional currency different from the presentation currency of the Group (i.e. euro) are translated into euros at the closing exchange rate (spot exchange rate at the balance sheet date), and the income statements and cash flow statements of such consolidated entities are translated at the average period to date exchange rate. The resulting translation adjustments are included in shareholders' equity under the caption "Cumulative translation adjustments".

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are considered as assets and liabilities of that entity. They are therefore expressed in the entity's functional currency and translated into euros using the closing exchange rate.

**Regulations governing first-time adoption:** in accordance with the option available under IFRS 1, the accumulated total of translation adjustments at the transition date was deemed to be zero. This amount was reversed against retained earnings, leaving the amount of shareholders' equity unchanged. Translation adjustments that predate the IFRS transition will therefore not be included when calculating gains or losses arising from the future disposal of consolidated subsidiaries or equity affiliates existing as of the IFRS transition date.

## e/ Translation of foreign currency transactions

Foreign currency transactions are translated at the rate of exchange applicable on the transaction date. At period-end, foreign currency monetary assets and liabilities are translated at the rate of exchange prevailing on that date. The resulting exchange gains or losses are recorded in the income statement in "other financial income (loss)".

Exchange gains or losses on foreign currency financial instruments that represent an economic hedge of a net investment in a foreign subsidiary are reported as translation adjustments in shareholders' equity under the caption "Cumulative translation adjustments" until the disposal of the investment. Refer to Note 1d above for information on the recognition of translation adjustments at the IFRS transition date.

In order for a currency derivative to be eligible for hedge accounting treatment (cash flow hedge or fair value hedge), its hedging role must be defined and documented and it must be seen to be effective for the entirety of its period of use. Fair value hedges allow companies to protect themselves against exposure to changes in fair value of their assets, liabilities or firm commitments. Cash flow hedges allow companies to protect themselves against exposure to changes in future cash flows (for example, revenues generated by the company's assets).

The value used for derivatives is their fair value. Changes in the fair value of derivatives are accounted for as follows:

- for derivatives treated as cash flow hedges, changes in their fair value are accounted for in shareholders' equity and then transferred from equity to the income statement (cost of sales) when the hedged revenue is accounted for. The ineffective portion is recorded in "other financial income (loss)";
- for derivatives treated as fair value hedges, changes in their fair value are recorded in the income statement where they offset the changes in fair value of the hedged asset, liability or firm commitment.

In addition to derivatives used to hedge firm commitments documented as fair value hedges, from April 1, 2005 onwards, Alcatel-Lucent has designated and documented highly probable future streams of revenue and has entered into hedge transactions with respect to such revenue. The corresponding derivatives are accounted for in accordance with the requirements governing cash flow hedge accounting.

Certain foreign exchange derivatives are not considered eligible for hedge accounting treatment, as the derivatives are not designated as such for cost/benefit reasons.

Derivatives related to commercial bids are not considered eligible for hedge accounting treatment and are accounted for as trading financial instruments. Changes in fair values of such instruments are included in the income statement in cost of sales (in the segment "other").

Once a commercial contract is effective, the corresponding firm commitment is hedged with a derivative treated as a fair value hedge. Revenues made pursuant to such a contract are then accounted for, throughout the duration of the contract, using the spot rate prevailing on the date on which the contract was effective, insofar as the exchange rate hedging is effective.

## f/ Research and development expenses and other capitalized development costs

In accordance with IAS 38 "Intangible Assets", research and development expenses are recorded as expenses in the year in which they are incurred, except for:

- **development costs**, which are capitalized as an intangible asset when the following criteria are met:
  - the project is clearly defined, and the costs are separately identified and reliably measured,
  - the technical feasibility of the project is demonstrated,
  - the ability to use or sell the products created during the project,
  - the intention exists to finish the project and use or sell the products created during the project,
  - a potential market for the products created during the project exists or their usefulness, in case of internal use, is demonstrated; leading to believe that the project will generate probable future economic benefits and
  - adequate resources are available to complete the project.

These development costs are amortized over the estimated useful life of the projects or the products they are incorporated within. The amortization of capitalized development costs begins as soon as the related product is released.

Specifically for software, useful life is determined as follows:

- in case of internal use: over its probable service lifetime,
- in case of external use: according to prospects for sale, rental or other forms of distribution.

Capitalized software development costs are those incurred during the programming, codification and testing phases. Costs incurred during the design and planning, product definition and product specification stages are accounted for as expenses.

The amortization of capitalized software costs during a reporting period is the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product and (b) the straight-line method over the remaining estimated economic life of the software or the product they are incorporated within.

The amortization of internal use software capitalized development costs is accounted for by function depending on the beneficiary function;

- **customer design engineering costs** (recoverable amounts disbursed under the terms of contracts with customers), are included in work in progress on construction contracts.

With regard to business combinations, a portion of the purchase price is allocated to in-process research and development projects that may be significant. As part of the process of analyzing these business combinations, Alcatel-Lucent may make the decision to buy technology that has not yet been commercialized rather than develop the technology internally. Decisions of this nature consider existing opportunities for

Alcatel-Lucent to stay at the forefront of rapid technological advances in the telecommunications-data networking industry.

The fair value of in-process research and development acquired in business combinations is usually based on present value calculations of income, an analysis of the project's accomplishments and an evaluation of the overall contribution of the project, and the project's risks.

The revenue projection used to value in-process research and development is based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by Alcatel-Lucent and its competitors. Future net cash flows from such projects are based on management's estimates of such projects' cost of sales, operating expenses and income taxes.

The value assigned to purchased in-process research and development is also adjusted to reflect the stage of completion, the complexity of the work completed to date, the difficulty of completing the remaining development, costs already incurred, and the projected cost to complete the projects.

Such value is determined by discounting the net cash flows to their present value. The selection of the discount rate is based on Alcatel-Lucent's weighted average cost of capital, adjusted upward to reflect additional risks inherent in the development life cycle.

Capitalized development costs considered as assets (either generated internally and capitalized or reflected in the purchase price of a business combination) are generally amortized over 3 to 10 years.

Impairment tests are carried out using the methods described in the following paragraph.

## g/ Goodwill, intangible assets and property, plant and equipment

In accordance with IAS 16 "Property, Plant and Equipment" and with IAS 38 "Intangible Assets", only items whose cost can be reliably measured and for which future economic benefits are likely to flow to the Group are recognized as assets.

In accordance with IAS 36 "Impairment of Assets", whenever events or changes in market conditions indicate a risk of impairment of intangible assets and property, plant and equipment, a detailed review is carried out in order to determine whether the net carrying amount of such assets remains lower than their recoverable amount, which is defined as the greater of fair value (less costs to sell) and value in use. Value in use is measured by discounting the expected future cash flows from continuing use of the asset and its ultimate disposal. Intangible assets with indefinite useful lives (such as trade names) are tested for impairment annually.

If the recoverable value is lower than the net carrying value, the difference between the two amounts is recorded as an impairment loss. Impairment losses for property, plant and equipment or intangible assets with finite useful lives can be reversed if the recoverable value becomes higher than the net carrying value (but not exceeding the loss initially recorded).

## Goodwill

Since transition to IFRSs, goodwill is no longer amortized in accordance with IFRS 3 "Business Combinations". Before January 1, 2004, goodwill was amortized using the straight-line method over a period, determined on a case-by-case basis, not exceeding 20 years.

Goodwill is tested for impairment at least annually. This is done during the second quarter of the year. The impairment test methodology is based on a comparison between the recoverable amounts of each of the Group's Business Divisions (considered as the grouping of cash generating units ("CGU") at which level the impairment test is performed) with the Group Business Division's net asset carrying values (including goodwill). Within Alcatel-Lucent's reporting structure, Business Divisions are one level below the three Business Segments (Carrier, Enterprise and Services). Such recoverable amounts are mainly determined using discounted cash flows over five years and a discounted residual value.

An additional impairment test is also performed when events indicating a potential decrease of the recoverable value of a Business Division occur. Goodwill impairment losses cannot be reversed.

Equity affiliate goodwill is included with the related investment in "share in net assets of equity affiliates". The requirements of IAS 39 are applied to determine whether any impairment loss must, be recognized with respect to the net investment in equity affiliates. The impairment loss is calculated according to IAS 36 requirements.

When the reporting structure is reorganized in a way that changes the composition of one or more Business Divisions to which goodwill was allocated, a new impairment test is performed on the goodwill for which the underlying Business Divisions have changed. Such a reallocations were made in October 2007 and on January 1, 2009, using a relative value approach similar to the one used when an entity disposes of an operation within a Business Division.

## Intangible assets

Intangible assets mainly include capitalized development costs and those assets acquired in business combinations, being primarily acquired technologies or customer relationships. Intangible assets, other than trade names, are generally amortized on a straight-line basis over their estimated useful lives (i.e. 3 to 10 years). However, software amortization methods may be adjusted to take into account how the product is marketed. Amortization is classified as cost of sales, research and development costs (acquired technology, IPR&D, etc.) or administrative and selling expenses (customer relationships), depending on the designation of the asset. Impairment losses are accounted for in a similar manner or in restructuring costs if they occur as part of a restructuring plan or on a specific line item if very material (refer to Note 1p). In Process R&D amortization begins once technical feasibility is reached. Certain trade names are considered to have indefinite useful lives and therefore are not amortized.

Capital gains/losses from disposals of intangible assets are accounted for in the corresponding cost line items in the income statement depending of the nature of the underlying asset (i.e. cost of sales, administrative and selling expenses or research and development costs).

## Property, plant and equipment

Property, plant and equipment are valued at historical cost for the Group less accumulated depreciation expenses and any impairment losses. Depreciation expense is generally calculated over the following useful lives:

buildings and building improvements	5-50 years
infrastructure and fixtures	5-20 years
plant and equipment	1-10 years

Depreciation expense is determined using the straight-line method.

Assets acquired through finance lease arrangements or long-term rental arrangements that transfer substantially all the risks and rewards associated with ownership of the asset to the Group (tenant) are capitalized.

Residual value, if considered to be significant, is included when calculating the depreciable amount. Property, plant and equipment are segregated into their separate components if there is a significant difference in their expected useful lives, and depreciated accordingly.

Depreciation and impairment losses are accounted for in the income statement under cost of sales, research and development costs or administrative and selling expenses, depending on the nature of the asset or in restructuring costs if they occur as part of a restructuring plan or on a specific line item if very material (see Note 1p).

In addition, capital gains/losses from disposals of property, plant and equipment are accounted for in the corresponding cost line items in the income statement depending on the nature of the underlying asset (i.e. cost of sales, administrative and selling expenses, research and development costs or restructuring costs).

## h/ Non-consolidated investments and other non-current financial assets

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", investments in non-consolidated companies are classified as available-for-sale and therefore measured at their fair value. The fair value for listed securities is their market price. If a reliable fair value cannot be established, securities are valued at cost. Fair value changes are accounted for directly in shareholders' equity. When objective evidence of impairment of a financial asset exists (for instance, a significant or prolonged decline in the value of an asset), an irreversible impairment loss is recorded. This loss can only be released upon the sale of the securities concerned.

Loans are measured at amortized cost and are subject to impairment losses if there is objective evidence of a loss in value. The impairment represented by the difference between net carrying amount and recoverable value is recognized in the income statement and can be reversed if recoverable value rises in the future.

The portfolio of non-consolidated securities and other financial assets is assessed at each quarter-end for objective evidence of impairment.

## i/ Inventories and work in progress

Inventories and work in progress are valued at the lower of cost (including indirect production costs where applicable) or net realizable value.

Net realizable value is the estimated sales revenue for a normal period of activity less expected selling costs.

## j/ Treasury stock

Treasury shares owned by Alcatel-Lucent or its subsidiaries are valued at cost and are deducted from shareholders' equity. Proceeds from the sale of such shares are recognized directly in shareholders' equity.

## k/ Pension and retirement obligations and other employee and post-employment benefit obligations

In accordance with the laws and practices of each country where Alcatel-Lucent is established, the Group participates in employee benefit plans.

For defined contribution plans, the Group expenses contributions as and when they are due. As the Group is not liable for any legal or constructive obligations under the plans beyond the contributions paid, no provision is made. Provisions for defined benefit plans and other long-term employee benefits are determined as follows:

- using the Projected Unit Credit Method (with projected final salary), each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to calculate the final obligation. Actuarial assumptions such as mortality rates, rates of employee turnover and projection of future salary levels are used to calculate the obligation;
- the "corridor" method is no longer used from January 1, 2007 (see below).

The service cost is recognized in "income from operating activities" and the interest cost and expected return on plan assets are recognized in "financial income (loss)". In case of plan amendments, the impact is presented on a specific line item of the income statement if material (see Note 1p).

Prepaid pension costs cannot exceed the net total present value of any available refund from the plan or reduction in future contributions to the plan. When Alcatel-Lucent expects to use excess pension plan assets to fund retiree healthcare for formerly represented retirees and has the ability to do so, such use is considered as a refund from the related plan. In particular, under Section 420 of the Internal Revenue Code in the United States of America as amended by the Pension Protection Act of 2006, Alcatel-Lucent can use excess pension plan assets applicable to formerly represented retirees to fund the retiree healthcare plan for such retirees until 2013.

As of January 1, 2007, the Group has elected the option provided for in the amendment of IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" (paragraphs 93A to 93D) that allows for the immediate recognition of actuarial gains and losses and any adjustments arising from asset ceiling limitations, net of deferred tax effects, outside of the income statement in the statement of recognized income and expense.

### Regulations governing first-time adoption

In accordance with the option available under IFRS 1, the accumulated unrecognized actuarial gains and losses at the transition date were recorded in shareholders' equity. Before the change in accounting method, which was retrospectively applied from January 1, 2005, the corridor method had been applied starting January 1, 2004.

Certain other post-employment benefits, such as life insurance and health insurance (particularly in the United States) or long-service medals (bonuses awarded to employees for extended service particularly in France and Germany), are also recognized as provisions, which are determined by means of an actuarial calculation similar to the one used for retirement provisions.

The accounting treatment used for employee stock options is detailed in Note 1w below.

## l/ Provisions for restructuring and restructuring costs

Provisions for restructuring costs are made when restructuring programs have been finalized and approved by Group management and have been announced and committed before the balance sheet date of the Group's

financial statements, resulting in an obligating event of the Group to third parties. Such costs primarily relate to severance payments, early retirement, costs for notice periods not worked, training costs of terminated employees, costs linked to the closure of facilities or the discontinuance of product lines and any costs arising from plans that materially change the scope of the business undertaken by the Group or the manner in which such business is conducted. Other costs (removal costs, training costs of transferred employees, etc) and write-offs of fixed assets, inventories, work in progress and other assets, directly linked to restructuring measures, are also accounted for in restructuring costs in the income statement.

The amounts reserved for anticipated payments made in the context of restructuring programs are valued at their present value in cases where the settlement date is beyond the normal operating cycle of the company and the time value of money is deemed to be significant. The impact of the passage of time on the present value of the payments is included in other financial income (loss).

## m/ Financial debt – compound financial instruments

Certain financial instruments contain both a liability and an equity component, including bonds that can be converted into or exchanged for new or existing shares and notes mandatorily redeemable for new or existing shares. The different components of compound financial instruments are accounted for in shareholders' equity and in bonds and notes issued according to their classification, as defined in IAS 32 "Financial Instruments: Disclosure and Presentation".

For instruments issued by historical Alcatel, the financial liability component was valued on the issuance date at the present value (taking into account the credit risk at issuance date) of the future cash flows (including interest and repayment of the nominal value) of a bond with the same characteristics (maturity, cash flows) but without any equity component. The portion included in shareholders' equity is equal to the difference between the debt issue amount and the financial liability component.

The financial liability component of historical Lucent's convertible bonds was computed at present value on the business combination closing date, using the method as described in the preceding paragraph, taking into account the contractual maturity dates. The difference between the fair value of the convertible bonds and the corresponding financial liability component was accounted for in shareholders' equity.

In accordance with IAS 32 AG33 and AG34 requirements, the consideration paid in connection with an early redemption of a compound financial instrument is allocated at the date of redemption between the liability and the equity components with an allocation method consistent with the method used initially. The amount of gain or loss relating to the liability component is recognized in "other financial income (loss)" and the amount of consideration relating to the equity component is recognized in shareholders' equity.

## n/ Deferred taxation and penalties on tax claims

Deferred taxes are computed in accordance with the liability method for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts, including the reversal of entries recorded in individual accounts of subsidiaries solely for tax purposes. All amounts resulting from changes in tax rates are recorded in shareholders' equity or in net income (loss) for the year in which the tax rate change is enacted.

Deferred tax assets are recorded in the consolidated balance sheet when it is probable that the tax benefit will be realized in the future. Deferred tax assets and liabilities are not discounted.

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To assess the ability of the Group to recover deferred tax assets, the following factors are taken into account:

- existence of deferred tax liabilities that are expected to generate taxable income, or limit tax deductions upon reversal;
- forecasts of future tax results;
- the impact of non-recurring costs included in income or loss in recent years that are not expected to be repeated in the future;
- historical data concerning recent years' tax results, and
- if required, tax planning strategy, such as the planned disposal of undervalued assets.

As a result of a business combination, an acquirer may consider it probable that it will recover its own deferred tax assets that were not recognized before the business combination. For example, an acquirer may be able to utilize the benefit of its unused tax losses against the future taxable profit of the acquiree. In such cases, the acquirer recognizes a deferred tax asset, but does not include it as part of the accounting for the business combination, and therefore does not take it into account in determining the goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

If the potential benefit of the acquiree's income tax loss carry-forwards or other deferred tax assets does not satisfy the criteria in IFRS 3 for separate recognition when a business combination is initially accounted for, but is subsequently realized, the acquirer will recognize the resulting deferred tax income in profit or loss. In addition:

- the carrying amount of goodwill is reduced to the amount that would have been recognized if the deferred tax asset had been recognized as an identifiable asset from the acquisition date; and
- the reduction in the carrying amount of goodwill is recognized as an expense.

If any deferred tax assets related to the business combination with Lucent are recognized in future financial statements of the combined company, the impact will be accounted for in the income statement (for the tax losses not yet recognized related to both historical Alcatel and Lucent entities), but the goodwill will be reduced accordingly (for the tax losses related to Lucent entities only).

Amounts of reduction of goodwill already accounted for in the purchase price allocation related to the acquisition of Lucent are disclosed in Note 9.

Penalties recognized on tax claims are accounted for in the "income taxes" line item in the consolidated income statement.

## o/ Revenues

Revenues include net sales and service revenues from the Group's principal business activities and income due from licensing fees and from income grants, net of value added taxes (VAT).

Most of the Group's sales are generated from complex contractual arrangements that require significant revenue recognition judgments, particularly in the areas of the sale of goods and equipment with related services constituting multiple-element arrangements, construction contracts and contracts including software. Judgment is also needed in assessing the ability to collect the corresponding receivables.

Revenues from the sale of goods and equipment are recognized when persuasive evidence of an arrangement with the customer exists, delivery has occurred, the significant risks and rewards of ownership of a product have been transferred to the customer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. For arrangements in which the customer specifies formal acceptance of the goods, equipment, services or software, revenue is generally deferred until all the acceptance criteria have been met.

Revenues from contracts with multiple-element arrangements, such as those including products with installation and integration services, are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by internal or third-party analyses of market-based prices. A delivered element is considered a separate unit of accounting if it has value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered elements in the arrangement, and delivery or performance of the undelivered elements is considered probable and substantially under the Group's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting in accordance with the criteria described in the preceding paragraph.

Under IAS 11, construction contracts are defined as contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose of use (primarily those related to customized network solutions and network build-outs with a duration of more than two quarters). For revenues generated from construction contracts, the Group applies the percentage of completion method of accounting in application of the above principles, provided certain specified conditions are met, based either on the achievement of contractually defined milestones or on costs incurred compared with total estimated costs. Any probable construction contract losses are recognized immediately in cost of sales. If uncertainty exists regarding customer acceptance, or the contract's duration is relatively short, revenues are recognized only to the extent of costs incurred that are recoverable, or on completion of the contract. Construction contract costs are recognized as incurred when the outcome of a construction contract cannot be estimated reliably. In this situation, revenues are recognized only to the extent of the costs incurred that are probable of recovery. Work in progress on construction contracts is stated at production cost, excluding administrative and selling expenses. Changes in provisions for penalties for delayed delivery or poor contract execution are reported in revenues and not in cost of sales.

Advance payments received on construction contracts, before corresponding work has been carried out, are recorded in customers' deposits and advances. Costs incurred to date plus recognized profits less the sum of recognized losses (in the case of provisions for contract losses) and progress billings are determined on a contract-by-contract basis. If the amount is positive, it is included as an asset under "amount due from customers on construction contracts". If the amount is negative, it is included as a liability under "amount due to customers on construction contracts".

In the absence of a specific guidance in IAS 18 "Revenue", software revenue recognition rules, as prescribed by the SOP 97-2 of the American Institute of Certified Accountants, or "AICPA" are applied for revenues generated from licensing, selling or otherwise marketing software solutions when the software is sold on a standalone basis. When the software is embedded with the Group's hardware and the software is considered more than

incidental, guidance given in AICPA'S SOP 97-2 is generally applied with limited exceptions, such as determining fair value using methods other than vendor-specific objective evidence (VSOE) of fair value, if deferring revenue related to the delivered elements due to the impossibility of determining VSOE of an undelivered element is not considered as IFRS compliant (i.e. IFRS does not require VSOE of fair value). If VSOE of fair value or fair value of an undelivered element cannot be determined or any undelivered element is essential to the functionality of the delivered element, revenue is deferred until either such criteria are met or the last element is delivered, or revenue is deferred and recognized ratably over the service period if the last undelivered element is a service.

For arrangements to sell services only, revenue from training or consulting services is recognized when the services are performed. Maintenance service revenue, including post-contract customer support, is deferred and recognized ratably over the contracted service period. Revenue from other services is generally recognized at the time of performance.

For product sales made through retailers and distributors, assuming all other revenue recognition criteria have been met, revenue is recognized upon shipment to the distribution channel, if such sales are not contingent on the distributor selling the product to third parties and the distribution contracts contain no right of return. Otherwise, revenue is recognized when the reseller or distributor sells the product to the end user.

Product rebates or quantity discounts are deducted from revenues, even in the case of promotional activities giving rise to free products.

Revenue in general is measured at the fair value of the consideration received or to be received. Where a deferred payment has a significant impact on the calculation of fair value, it is accounted for by discounting future payments.

The assessment of the ability to collect is critical in determining whether revenue or expense should be recognized. As part of the revenue recognition process, the Group assesses whether it is probable that economic benefits associated with the transaction will flow to the Group. If the Group is uncertain as to whether economic benefits will flow to the Group, revenue is deferred and recognized when cash is received. However, if uncertainty arises about the ability to collect an amount already included in revenue, the amount in respect of which recovery has ceased to be probable is recognized as an expense in "cost of sales".

#### **p/ Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendment and income (loss) from operating activities**

Alcatel-Lucent has considered it relevant to the understanding of the company's financial performance to present on the face of the income statement a subtotal inside the income (loss) from operating activities.

This subtotal, named "Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments", excludes those elements that are difficult to predict due to their nature, frequency and/or materiality.

Those elements can be divided in two categories:

- elements that are both very infrequent and material, such as a major impairment of an asset, a disposal of investments, the settlement of

litigation having a material impact or a major amendment of a pension or other post-retirement plan;

- elements that are by nature unpredictable in their amount and/or in their frequency, if they are material. Alcatel-Lucent considers that materiality must be assessed not only by comparing the amount concerned with the income (loss) from operating activities of the period, but also in terms of changes in the item from one period to another. For example, restructuring charges have shown significant changes from one period to another.

Income (loss) from operating activities includes gross margin, administrative and selling expenses and research and development costs (see Note 1f) and, in particular, pension costs (except for the financial component, see Note 1k), employee profit sharing, fair value changes of derivative instruments related to commercial bids, valuation allowances on receivables (including the two categories of vendor financing as described in Note 1v) and capital gains (losses) from the disposal of intangible assets and property, plant and equipment, and all other operating expenses or income regardless of their predictive value in terms of nature, frequency and/or materiality.

Income (loss) from operating activities is calculated before financial income (loss), which includes the financial component of retirement expenses, financing costs and capital gains (losses) from disposal of financial assets (shares in a non-consolidated company or company consolidated under the equity method and other non-current financial assets, net), and before reduction of goodwill related to realized unrecognized income tax loss carry-forwards, share in net income (losses) of equity affiliates and income (loss) from discontinued operations.

#### **q/ Finance costs and other financial income (loss)**

Finance costs include interest charges and interest income relating to net consolidated debt, which consists of bonds, the liability component of compound financial instruments, such as OCEANE and other convertible bonds, other long-term debt (including lease-financing liabilities), and all cash and similar items (cash, cash equivalents and marketable securities).

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalized as part of the cost of that asset.

When the tax law requires interest to be paid (received) on an underpayment (overpayment) of income taxes, this interest is accounted for in the "other financial income (loss)" line item in the consolidated income statement.

#### **r/ Structure of consolidated balance sheet**

Most of the Group's activities in the various business segments have long-term operating cycles. As a result, the consolidated balance sheet combines current assets (including other inventories and work in progress and trade receivables and related accounts) and current liabilities (including other provisions, customers' deposits and advances, trade payables and related accounts) without distinction between the amounts due within one year and those due after one year.



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**s/ Financial instruments and derecognition of financial assets**

**Financial instruments**

The Group uses financial instruments to manage and reduce its exposure to fluctuations in interest rates and foreign currency exchange rates.

The accounting policies applied to currency hedge-related instruments are detailed in Note 1e.

Financial instruments for interest rate hedges are subject to fair value hedge accounting. Financial liabilities hedged using interest rate swaps are measured at the fair value of the obligation linked to interest rate movements. Fair value changes are recorded in the income statement for the year and are offset by equivalent changes in the interest rate swaps for the effective part of the hedge.

**Derecognition of financial assets**

A financial asset as defined under IAS 32 "Financial Instruments: Disclosure and Presentation" is either totally or partially derecognized (removed from the balance sheet) when the Group expects no further cash flow to be generated by it and retains no control of the asset or transfers substantially all risks and rewards attached to it.

In the case of trade receivables, a transfer without recourse in case of payment default by the debtor is regarded as a transfer of substantially all risks and rewards of ownership, thus making such receivables eligible for derecognition, on the basis that risk of late payment is considered marginal. A more restrictive interpretation of the concept of "substantial transfer of risks and rewards" could put into question the accounting treatment that has been adopted. The amount of receivables sold without recourse is given in Note 18.

**t/ Cash and cash equivalents**

In accordance with IAS 7 "Cash Flow Statements", cash and cash equivalents in the consolidated statements of cash flows includes cash (cash funds and term deposits) and cash equivalents (short-term investments that are very liquid and readily convertible to known amounts of cash and are only subject to negligible changes of value). Cash and cash equivalents in the statement of cash flows do not include investments in listed securities, investments with an initial maturity date exceeding three months and without an early exit clause, or bank accounts restricted in use, other than restrictions due to regulations applied in a specific country (exchange control) or sector of activities.

Bank overdrafts are considered as financing and are also excluded from cash and cash equivalents.

Cash and cash equivalents in the balance sheet correspond to the cash and cash equivalents defined above.

**u/ Marketable securities**

Marketable securities are quoted market funds with original maturities exceeding three months and/or with underlying assets such as listed shares. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", marketable securities are valued at their fair value. No securities are classified as "held-to-maturity". For securities designated as financial assets at fair value through profit or loss, changes in fair value are recorded in the income statement (in finance costs). For available-for-sale securities, changes in fair value are recorded in shareholders' equity, or in

the income statement (other financial income (loss)), if there is objective evidence of a more than temporary decline in the fair value, or in connection with a disposal of such securities.

**v/ Customer financing**

The Group undertakes two types of customer financing:

- financing relating to the operating cycle and directly linked to actual contracts;
- longer-term financing (beyond the operating cycle) through customer loans, minority investments or other forms of financing.

Both categories of financing are accounted for in "Other current or non-current assets, net".

Changes affecting either type of customer financing are included in cash flows from operating activities in the consolidated statement of cash flows.

Furthermore, the Group may give guarantees to banks in connection with customer financing. These are included in off balance sheet commitments.

**w/ Stock options**

In accordance with the requirements of IFRS 2 "Share-based Payment", stock options granted to employees are included in the financial statements using the following principles: the stock option's fair value, which is considered to be a reflection of the fair value of the services provided by the employee in exchange for the option, is determined on the grant date. It is accounted for in additional paid-in capital (credit) at grant date, with a counterpart in deferred compensation (debit) (also included in additional paid-in capital). During the vesting period, deferred compensation is amortized in the income statement.

Stock option fair value is calculated at grant date (i.e. date of approval of the plan by the Board of Directors) using the Cox-Ross-Rubinstein binomial model. This model permits consideration of the option's characteristics, such as exercise price and expiry date, market data at the time of issuance, the interest rate on risk-free securities, share price, expected volatility at grant date and expected dividends, and behavioral factors of the beneficiary, such as expected early exercise. It is considered that a beneficiary will exercise his/her option once the potential gain becomes higher than 50% of the exercise price.

Only options issued after November 7, 2002 and not fully vested at January 1, 2005 and those issued after January 1, 2005 are accounted for according to IFRS 2.

The impact of applying IFRS 2 on net income (loss) is accounted for in "cost of sales", "research and development costs" or "administrative and selling expenses" depending on the functions of the beneficiaries.

Outstanding stock options at the acquisition date of a company acquired by Alcatel-Lucent in a business combination are usually converted into options to purchase Alcatel-Lucent shares using the same exchange ratio as for the acquired shares of the target company. In accordance with IFRS 3 "Business Combinations" and IFRS 2 "Share-based Payment" requirements, the fair value of stock options acquired at the time of acquisition is accounted for in the caption "additional paid-in capital". Unvested options at the acquisition date are accounted for at their fair value as deferred compensation in shareholders' equity (included in additional paid-in capital). The sum of these two amounts (fair value of outstanding stock options less deferred compensation), equivalent to the fair value of vested options, is taken into account in the cost of the business combination.

Only acquisitions made after January 1, 2004 and for which unvested stock options as of December 31, 2004 existed at the acquisition date are accounted for as described above.

#### x/ Assets held for sale and discontinued operations

A non-current asset or disposal group (group of assets or a cash generating unit) to be sold is considered as held for sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. For

this to be the case, the asset must be available for sale and its sale must be highly probable. These assets or disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a separate major line of business or geographical area of operations for the Group that is either being sold or is being held for sale. The net income (loss) and statement of cash flow elements relating to such discontinued operations are presented in specific captions in the consolidated financial statements for all periods presented.

## NOTE 2 PRINCIPAL UNCERTAINTIES REGARDING THE USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with IFRSs requires that the Group make a certain number of estimates and assumptions that are considered realistic and reasonable. In the context of the current global economic environment, the degree of volatility and subsequent lack of visibility is at a historically high as of December 31, 2008. Subsequent facts and circumstances could lead to changes in these estimates or assumptions, which would affect the Group's financial condition, results of operations and cash flows.

#### a/ Valuation allowance for inventories and work in progress

Inventories and work in progress are measured at the lower of cost or net realizable value. Valuation allowances for inventories and work in progress are calculated based on an analysis of foreseeable changes in demand, technology or the market, in order to determine obsolete or excess inventories and work in progress.

The valuation allowances are accounted for in cost of sales or in restructuring costs depending on the nature of the amounts concerned.

<i>(in millions of euros)</i>	December 31, 2008	December 31, 2007	December 31, 2006
Valuation allowance for inventories and work in progress on construction contracts	(654)	(514)	(378)
	2008	2007	2006
Impact of inventory and work in progress write-downs in income (loss) before income tax, related reduction of goodwill and discontinued operations	(285)	(186)	(77)

#### b/ Impairment of customer receivables

An impairment loss is recorded for customer receivables if the present value of the future receipts is below the nominal value. The amount of the impairment loss reflects both the customers' ability to honor their debts

and the age of the debts in question. A higher default rate than estimated or the deterioration of our major customers' creditworthiness could have an adverse impact on our future results.

<i>(in millions of euros)</i>	December 31, 2008	December 31, 2007	December 31, 2006
Accumulated impairment losses on customer receivables	(207)	(187)	(192)
	2008	2007	2006
Impact of impairment losses in income (loss) before income tax, related reduction of goodwill and discontinued operations	(17)	(3)	(18)

#### c/ Capitalized development costs, goodwill and other intangible assets

Capitalized development costs

<i>(in millions of euros)</i>	December 31, 2008	December 31, 2007	December 31, 2006
Capitalized development costs, net	578	596	501

The criteria for capitalizing development costs are set out in Note 1f. Once capitalized, these costs are amortized over the estimated useful lives of the products concerned (3 to 10 years).

We must therefore evaluate the commercial and technical feasibility of these development projects and estimate the useful lives of the products resulting from the projects. Should a product fail to substantiate these assumptions, we may be required to impair or write off some of the capitalized development costs in the future.

Impairment losses for capitalized development costs of € 135 million were accounted for in the fourth quarter of 2008 mainly related to a change in our WiMAX strategy, by focusing on supporting fixed and nomadic broadband

access applications for providers. This impairment is presented on the specific line item "Impairment of assets" in the income statement.

Impairment losses for capitalized development costs of € 41 million were accounted for in 2007 mainly related to the UMTS (Universal Mobile Telecommunications Systems) business.

Impairment losses of € 104 million and write-offs amounting to € 197 million were accounted for in capitalized development costs in 2006, and were mainly related to the discontinuance of product lines following the acquisition of UMTS technologies from Nortel and the business combination with Lucent (refer to Notes 3, 7 and 13).

Other intangible assets and Goodwill

<i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Goodwill, net	4,215	7,328	10,891
Intangible assets, net <sup>(1)</sup>	2,567	4,230	5,441
<b>TOTAL</b>	<b>6,782</b>	<b>11,558</b>	<b>16,332</b>

(1) Including capitalized development costs, net.

Goodwill amounting to € 8,051 million and intangible assets amounting to € 4,813 million were accounted for in 2006 as a result of the Lucent business combination as described in Note 3. Using market-related information, estimates (primarily based on risk-adjusted discounted cash flows derived from Lucent's management) available at the time and judgment, an independent appraiser determined the fair values of the net assets acquired from Lucent, and in particular those relating to the intangible assets acquired.

As discussed in more detail in Notes 7, 12 and 13, impairment losses of € 4,545 million were accounted for in 2008 mainly related to the CDMA (€ 2,533 million), Optics (€ 1,019 million), Multicore (€ 300 million), and Applications (€ 339 million) Business Divisions, each of which are considered to be groups of Cash Generating Units ("CGUs") at which level impairment tests of goodwill are performed.

An impairment loss of € 2,832 million was accounted for in 2007, of which € 2,657 million was charged to goodwill and € 175 million was charged to other intangible assets, mainly for the CDMA, IMS Business Divisions and UMTS business.

An impairment loss of € 40 million on intangible assets and € 233 million in write-offs were accounted for in 2006 on the UMTS business.

The recoverable values of our goodwill and intangible assets, as determined for the impairment tests performed by the Group, are based on key assumptions which could have a significant impact on the consolidated financial statements. These key assumptions include, among other things the following elements:

- discount rates; and
- projected cash-flows;

which are based on the successful implementation of the strategic plan publicly announced on December 12, 2008 and a nominal rate of growth of our revenues in 2010.

The discount rate used for the additional impairment test performed during the fourth quarter of 2008 was the Group's weighted average cost of capital ("WACC") of 12.0%. For the annual impairment tests of 2008 and 2007, the rate used was 10% and 9.5% for 2006. The same rate of 10% was

used for the additional impairment test performed in December 2007. These discount rates are after-tax rates applied to after-tax cash flows. The use of such rates results in recoverable values that are identical to those that would be obtained by using, as required by IAS 36, pre-tax rates applied to pre-tax cash flows. Given the absence of comparable "pure player" listed companies for each group of Cash Generating Units, we do not believe that the assessment of a specific WACC for each product or market is feasible. A single discount rate has therefore been used on the basis that risks specific to certain products or markets have been reflected in determining the cash flows.

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have decreased or increased the 2008 impairment loss € 100 million and € 93 million, respectively.

As indicated in Note 1g, in addition to the annual goodwill impairment tests, impairment tests are carried out if we have indications of a potential reduction in the value of our intangible assets. Possible impairments are based on discounted future cash flows and/or fair values of the assets concerned. Changes in the market conditions or the cash flows initially estimated can therefore lead to a review and a change in the impairment losses previously recorded.

#### d/ Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", when events or changes in market conditions indicate that tangible or intangible assets may be impaired, such assets are reviewed in detail to determine whether their carrying value is lower than their recoverable value, which could lead to recording an impairment loss (recoverable value is the higher of value in use and fair value less costs to sell) (see Note 1g). Value in use is estimated by calculating the present value of the future cash flows expected to be derived from the asset. Fair value less costs to sell is based on the most reliable information available (market statistics, recent transactions, etc.).

When determining recoverable values of property, plant and equipment, assumptions and estimates are made, based primarily on market outlooks, obsolescence and sale or liquidation disposal values. Any change in these

assumptions can have a significant effect on the recoverable amount and could lead to a revision of recorded impairment losses.

The planned closing of certain facilities, additional reductions in personnel and unfavorable market conditions have been considered impairment triggering events in prior years. Impairment losses of € 34 million have been recorded on property, plant and equipment in 2008. Impairment losses of € 94 million were accounted for during 2007 mainly related to the UMTS business and the planned disposal of real estate (no significant impairment losses were recorded in 2006).

#### Product sales reserves

(in millions of euros)

	December 31, 2008	December 31, 2007	December 31, 2006
Related to construction contracts <sup>(1)</sup>	186	147	70
Related to other contracts <sup>(2)</sup>	575	557	599
<b>TOTAL</b>	<b>761</b>	<b>704</b>	<b>669</b>

(1) See Note 18, included in the amounts due to/from customers.

(2) See Note 27.

For further information on the impact on 2008 income statement of the change in these provisions, see notes 18 and 27.

#### f/ Deferred taxes

Deferred tax assets relate primarily to tax loss carry-forwards and to deductible temporary differences between reported amounts and the tax bases of assets and liabilities. The assets relating to the tax loss carry-forwards are recognized if it is probable that the Group will generate future taxable profits against which these tax losses can be set off.

#### Deferred tax assets recognized

(in millions of euros)

	December 31, 2008	December 31, 2007	December 31, 2006
Related to the United States (including Lucent)	339 <sup>(2)</sup>	675 <sup>(1)</sup>	746
Related to France	339 <sup>(2)</sup>	404 <sup>(1)</sup>	372
Related to other tax jurisdictions	174	153 <sup>(1)</sup>	574
<b>TOTAL</b>	<b>852</b>	<b>1,232</b>	<b>1,692</b>

(1) Following the performance by the Group of the 2007 annual goodwill impairment test, a reassessment of deferred taxes resulted in the reduction of deferred tax assets recorded compared to the situation as of December 31, 2006.

(2) Following the performance by the Group of an additional impairment test of goodwill during the fourth quarter of 2008, a reassessment of deferred taxes resulted in the reduction of deferred tax assets recorded in the United States and in France compared to the situation as of December 31, 2007.

Evaluation of the Group's capacity to utilize tax loss carry-forwards relies on significant judgment. We analyze past events and the positive and negative elements of certain economic factors that may affect our business in the foreseeable future to determine the probability of its future utilization of these tax loss carry-forwards, which also consider the factors indicated in Note 1n. This analysis is carried out regularly in each tax jurisdiction where significant deferred tax assets are recorded.

If future taxable results are considerably different from those forecast that support recording deferred tax assets, we will be obliged to revise downwards or upwards the amount of the deferred tax assets, which would have a significant impact on our balance sheet and net income (loss).

As a result of the business combination with Lucent, € 2,395 million of net deferred tax, liabilities were recorded as of December 31, 2006, resulting from the temporary differences generated by the differences between the fair value of assets and liabilities acquired (mainly intangible assets such as acquired technologies) and their corresponding tax bases. These deferred

#### e/ Provision for warranty costs and other product sales reserves

Provisions are recorded for (i) warranties given to customers on our products, (ii) expected losses at completion and (iii) penalties incurred in the event of failure to meet contractual obligations. These provisions are calculated based on historical return rates and warranty costs expensed as well as on estimates. These provisions and subsequent changes to the provisions are recorded in cost of sales either when revenue is recognized (provision for customer warranties) or, for construction contracts, when revenue and expenses are recognized by reference to the stage of completion of the contract activity. Costs and penalties ultimately paid can differ considerably from the amounts initially reserved and could therefore have a significant impact on future results.

tax liabilities will be reduced in our future income statements as and when such differences are amortized. The remaining deferred tax liabilities related to the purchase price allocation of Lucent as of December 31, 2008 are € 957 million (€ 1,629 million as of December 31, 2007).

As prescribed by IFRSs, we had a twelve-month period to complete the purchase price allocation and to determine whether certain deferred tax assets related to the carry-forward of Lucent's unused tax losses that had not been recognized in Lucent's historical financial statements should be recognized in our financial statements. If any additional deferred tax assets attributed to the combined company's unrecognized tax losses existing as of the transaction date are recognized in future financial statements, the tax benefit will be included in our income statement. Goodwill will also be reduced, resulting in an expense, for that part of the deferred tax assets recognized relating to Lucent's tax losses.

On the other hand, as our result of the business combination, a historical Alcatel entity may consider that it becomes probable that it will recover its

own tax losses not recognized as a deferred tax asset before the business combination. For example, an entity may be able to utilize the benefit of its own unused tax losses against the future taxable profit of the Lucent business. In such cases, we would recognize a deferred tax asset but would not include it as part of the accounting for the business combination. It could therefore have a positive impact on our future net results.

### g/ Pension and retirement obligations and other employee and post-employment benefit obligations

Alcatel-Lucent's results of operations include the impact of significant pension and post-retirement benefits that are measured using actuarial

	2008	2007	2006
Weighted average expected rates of return on pension and post-retirement plan assets	7.04%	7.39%	7.35%
Weighted average discount rates used to determine the pension and post-retirement obligations	6.44%	5.54%	3.95%

The net effect of pension and post-retirement costs included in "income (loss) before tax, related reduction of goodwill and discontinued operations" was a € 246 million increase in pre-tax income during 2008 (€ 628 million increase in pre-tax income during 2007 and a € 50 million reduction in pre-tax income during fiscal 2006). Included in the € 246 million increase in 2008 is € 65 million booked as a result of certain changes to management retiree healthcare benefit plans (refer to Note 25f). Included in the € 628 million increase in 2007 was € 258 million booked as a result of certain changes to management retiree healthcare benefit plans (refer to Note 25f).

The weighted average expected rates of return on pension and post-retirement plan assets used to determine Alcatel-Lucent pension and post-retirement credits are established at the beginning of each fiscal year. The decrease in the weighted average expected rates of return on pension and post-retirement plan assets between 2007 and 2008 is mainly due to the more conservative asset allocation at the end of 2007 (the Group reduced the exposure of its defined benefit pension plans to the equity markets in November 2007). Changes in the rates were generally due to adjustments in expected future returns based on studies performed by the Group's external investment advisors and/or to a change in the asset allocation. Even if the actual financial markets are very volatile, this assumption is required to be a long-term expected rate of return rather than a prediction of the immediate next period performance and is not reviewed every quarter. In addition, the rates that are used to determine the pension expense or income are applied on the opening fair value. For Alcatel-Lucent's U.S. plans, the pension, expense or income is updated every quarter. Therefore, the fourth quarter 2008 expected return on plan assets (accounted for in financial income) for Alcatel-Lucent's U.S. plans is based on the fair value of plan assets at September 30, 2008, whereas the expected return on plan assets for Alcatel-Lucent's non U.S. plans is based on December 31, 2007 plan assets fair values. The interest cost associated with the plan liabilities is also impacted by the change in discount rates used to value the plan liabilities. The Group recognized a U.S. \$ 72 million decrease between the third and fourth quarters in 2008 in the net pension credit accounted for in "other financial income (loss)" (expected return on plan assets for Alcatel-Lucent's U.S. plans due to the decline of the plan assets fair values and expected change of the interest cost in relation with the decrease of the liability). We do not expect any significant change of the net pension credit accounted for in "other financial income (loss)" between the fourth quarter 2008 and the first quarter 2009.

Plans assets are invested in many different asset categories (such as cash, equities, bonds, real estate, private equity, etc.). In the quarterly update of

valuations. Inherent in these valuations are key assumptions, including assumptions about discount rates, expected return on plan assets, healthcare cost trend rates and expected participation rates in retirement healthcare plans. These assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. In addition, discount rates are updated quarterly for those plans for which changes in this assumption would have a material impact on Alcatel-Lucent's results or shareholders' equity.

plan asset fair values, approximately 80% are based on closing date fair values and 20% have a one to three month delay as the fair value of private equity, venture capital, real estate and absolute return investments are not available in a short period. This is standard practice in the investment management industry. Assuming that the December 31, 2008 actual fair value of private equity, venture capital, real estate and absolute return investments were 10% lower than the ones retained for accounting purposes as of December 31, 2008, this would result in a negative impact in equity of roughly € 250 million.

For the purposes of recognizing the net pension and post-retirement credit, the discount rates are determined at the beginning of each quarterly period (for significant plans). For the purposes of determining the plan obligations, these rates are determined at the end of each period. The Group plans to use a discount rate of 6.08% during fiscal 2009. Changes in the discount rate in 2007 and 2008 were due to increasing long-term interest rates. The discount rates also are somewhat volatile because they are set based upon the prevailing rates as of the measurement date. The discount rate used to determine the post-retirement benefit costs is slightly lower due to a shorter expected duration of post-retirement plan obligations as compared to pension plan obligations. A lower discount rate increases the plan obligations and the Alcatel-Lucent net pension and post-retirement credit and profitability, whereas a higher discount rate reduces the plan obligations and the Alcatel-Lucent net pension and post-retirement credit and profitability.

The expected rate of return on pension and post-retirement plan assets and the discount rate were determined in accordance with consistent methodologies, as described in Note 25.

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have decreased or increased the 2008 net pension and post-retirement result by approximately € 28 million and € 34 million, respectively. A 0.5% increase or decrease in the expected return on plan assets would have increased or decreased the 2008 net pension and post-retirement result by approximately € 133 million.

The Group's U.S. companies have taken various actions to reduce their share of retiree health care costs, including the shifting or increases of certain costs to their retirees. The retiree health care obligations are determined using the terms of the current plans. Health care benefits for employees who retired from Lucent's predecessor prior to March 1, 1990 are not subject to annual dollar caps on Lucent's share of future benefit costs. The benefit obligation associated with this retiree group approximated 59% of the total

U.S. retiree health care obligation as of December 31, 2008. Management employees who retired on or after March 1, 1990 have paid amounts above the applicable annual dollar caps on Lucent's share of future benefit costs since 2001.

Lucent's collective bargaining agreements were ratified during December 2004 and address retiree health care benefits, among other items. Lucent agreed to continue to subsidize these benefits up to the established cap level consistent with current actuarial assumptions. Except for costs attributable to an implementation period that ended on February 1, 2005, costs that are in excess of this capped level are being borne by the retirees in the form of premiums and plan design changes. Lucent also agreed to establish a U.S. \$ 400 million trust that is being funded by Lucent over eight years and managed jointly by trustees appointed by Lucent and the unions. This trust is currently being funded by Section 420 transfers from the overfunded Occupational Pension Plan. The trust is being used to mitigate the cost impact on retirees of premiums or plan design changes. The agreements also acknowledge that retiree health care benefits will no longer be a required subject of bargaining between Lucent and the unions.

The amount of prepaid pension costs that can be recognized in our financial statements is limited to the sum of (i) the cumulative unrecognized net actuarial losses and past service cost, (ii) the present value of any available refunds from the plan, and (iii) any reduction in future contributions to the plan. As Lucent currently has the ability and intent to use eligible excess pension assets applicable to formerly represented retirees to fund certain retiree healthcare benefits for such retirees, such use has been considered as a reimbursement from the pension plan. The funded status of the formerly represented retiree health care obligation of € 1,479 million as of December 31, 2008 (€ 1,775 million as of December 31, 2007), the present value of Medicare Part D subsidies of approximately € 272 million as of December 31, 2008 (as this amount is currently netted in the retiree health care obligation – € 299 million as of December 31, 2007) and the present value of future service costs of € 61 million as of December 31, 2008 (€ 644 million as of December 31, 2007) have been considered in determining the asset ceiling limitation for Lucent's pension plans as of December 31, 2008.

The impact of expected future economic benefits on the pension plan asset ceiling is a complex matter. Based on preliminary estimates, as of the January 1, 2009 valuation date, there were approximately € 2.1 billion of pension plan assets that would be eligible for "collectively bargained" transfers to fund retiree health care costs for Lucent's formerly represented retirees (alternatively, € 2.5 billion would be available for "multi-year" transfers, which also require the plan to remain 120% funded during the transfer period). This amount should be sufficient to address the obligation arising from the healthcare being provided to Lucent's formerly represented retirees and as a result the Group should be able to utilize pension plan assets for Section 420 "collectively bargained" or "multi-year" transfers to fund all its health care obligations for Lucent's formerly represented retirees.

In December 2008, a Section 420 transfer of U.S. \$ 653 million occurred to cover 2008 and nine months of 2009 health care costs for Lucent's formerly represented retirees. This had an U.S. \$ 270 million positive impact in the consolidated statement of cash flows in the fourth quarter of 2008.

The impact of the different actuarial assumptions on the level of the funded status could have consequences on the Group's funding requirements and the determination of the asset ceiling, which would affect our ability to make Section 420 transfers in the future and use the overfunding of some pension plans to fund underfunded healthcare plans related to the same beneficiaries.

## h/ Revenue recognition

As indicated in Note 1o, revenue is measured at the fair value of the consideration received or to be received when the Group has transferred the significant risks and rewards of ownership of a product to the buyer.

For revenues and expenses generated from construction contracts, we apply the percentage of completion method of accounting, provided certain specified conditions are met, based either on the achievement of contractually defined milestones or on costs incurred compared with total estimated costs. The determination of the stage of completion and the revenues to be recognized rely on numerous estimations based on costs incurred and acquired experience. Adjustments of initial estimates can, however, occur throughout the life of the contract, which can have significant impacts on our future net income (loss).

Although estimates inherent in construction contracts are subject to uncertainty, certain situations exist whereby management is unable to reliably estimate the outcome of a construction contract. These situations can occur during the early stages of a contract due to a lack of historical experience or throughout the contract as significant uncertainties develop related to additional costs, claims and performance obligations, particularly with new technologies. During the fourth quarter of 2007, as a result of cost overruns and major technical problems that we experienced in implementing a large W-CDMA contract, we determined that we could no longer estimate with sufficient reliability the final revenue and associated costs of such contract. As a result, we expensed all the contract costs incurred to that date, but we only recognized revenues to the extent that the contract costs incurred were recoverable. Consequently, revenues of € 72 million and cost of sales of € 298 million were recognized in 2007 in connection with this construction contract. The negative impact on income (loss) before tax, related reduction of goodwill and discontinued operations of changing from the percentage of completion method to this basis of accounting was € 98 million for 2007. Revenue recognized in 2008 amounted to € 215 million. If and when reliable estimates become available, revenue and costs associated with the construction contract will then be recognized respectively by reference to the stage of completion of the contract activity at the balance sheet date. Future results of operations may therefore be impacted.

For arrangements to sell software licenses with services, software license revenue is recognized separately from the related service revenue, provided the transaction adheres to certain criteria (as prescribed by the Statement of Position SOP 97-2 of AICPA, such as the existence of sufficient vendor-specific objective evidence ("VSOE") to determine the fair value of the various elements of the arrangement.

Some of our products include software that is embedded in the hardware at delivery. In those cases, where indications are that software is more than incidental, such as where the transaction includes software upgrades or enhancements, more prescriptive software revenue recognition rules are applied to determine the amount and timing of revenue recognition. As products with embedded software are continually evolving, as well as the features and functionality of the products driven by software components that are becoming more critical to their operation and success in the market, the Group is continually assessing the applicability of some of the guidance of SOP 97-2 including whether software is more than incidental. Several factors are considered in making this determination including (i) whether the software is a significant focus of the marketing effort or is sold separately, (ii) whether updates, upgrades and other support services are provided on the software component and (iii) whether the cost to develop the software component of the product is significant in relation to the costs to develop the product as a whole. The determination of whether the evolution of our

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products and marketing efforts should result in the application of some of SOP 97-2 guidance requires the use of significant professional judgment. Further, we believe that reasonable people evaluating similar facts and circumstances may come to different conclusions regarding the most appropriate accounting model to apply in this environment. Our future results of operations may be significantly impacted, particularly due to the timing of revenue recognition, if we change our assessment as to whether software is incidental, particularly if VSOE or similar fair value cannot be obtained with respect to one or more of the undelivered elements.

For product sales made through distributors, product returns that are estimated according to contractual obligations and past sales statistics are recognized as a reduction of sales. Again, if the actual product returns were considerably different from those estimated, the resulting impact on our future net income (loss) could be significant.

It can be difficult to evaluate our capacity to recover receivables. Such evaluation is based on the customers' creditworthiness and on our capacity to sell such receivables without recourse. If, subsequent to revenue recognition, the recoverability of a receivable that had been initially considered as likely becomes doubtful, a provision for an impairment loss is then recorded (see Note 2b above).

Alcatel-Lucent had a fire in a newly-built factory containing new machinery. The non recoverable assets having a net book value of € 4 million were written off as of September 30, 2008 representing an equivalent negative impact on cost of sales in 2008. The cost of the physical damage and business interruption are insured and will give right to an indemnity claim, the amount of which is currently being assessed by our insurers. This indemnity will be

accounted for as other revenue once virtually certain and reliable estimates are available, which could take up to one to two years to determine.

**i/ Purchase price allocation of a business combination**

In a business combination, the acquirer must allocate the cost of the business combination at the acquisition date by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities at fair value at that date. The allocation is based upon certain valuations and other studies performed with the assistance of outside valuation specialists. Due to the underlying assumptions made in the valuation process, the determination of those fair values requires estimations of the effects of uncertain future events at the acquisition date and the carrying amounts of some assets, such as fixed assets, acquired through a business combination could therefore differ significantly in the future.

As prescribed by IFRS 3, if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination is effected, the acquirer must account for the business combination using those provisional values and has a twelve-month period to complete the purchase price allocation. Any adjustment of the carrying amount of an identifiable asset or liability made as a result of completing the initial accounting is accounted for as if its fair value at the acquisition date had been recognized from that date. Detailed adjustments accounted for in the allocation period are disclosed in Note 3.

Once the initial accounting of a business combination is complete, further adjustments are accounted for only to correct errors.

**NOTE 3 CHANGES IN CONSOLIDATED COMPANIES**

The main changes in consolidated companies for 2008 were as follows:

- on December 19, 2008, Alcatel-Lucent and Dassault Aviation announced that they had signed a definitive agreement to sell our shares in Thales to Dassault, 41,262,481 shares at a price of € 38 per share, representing a total value of € 1.57 billion. The closing of the transaction, subject to regulatory and administrative approvals (mainly relative to antitrust), is expected to occur in spring 2009. The carrying value of our shares was reclassified as "assets held for sale" as of December 31, 2008. As the fair value less costs to sell was higher than the carrying value as of December 31, 2008, such carrying value has not been adjusted. The amount of the capital gain that will be accounted for in the "other financial income (loss)", after the sale has been completed, will depend on the definitive amount of Thales' shareholders' equity as of December 31, 2008, which was not known when our consolidated financial statements were closed. The carrying value of our Thales shares and the share in net income of equity affiliates related to Thales are based upon the available estimates that Thales management provided at the date of publication. The remaining part of the capital gain that was accounted for on our different assets disposed of or contributed to Thales in the past, and which was eliminated as an intra-Group transaction, will be accounted for in our net result in the income (loss) from discontinued operations line item, representing a positive impact of € 191 million;

- on May 12, 2008, Alcatel-Lucent and Reliance Communications announced the formation of a global joint venture to offer managed network services to telecom operators. The first project of this joint venture is to provide managed services for Reliance Communications CDMA and GSM networks in India. Alcatel-Lucent operationally controls the joint venture and fully consolidates it;
- on June 17, 2008, Alcatel-Lucent announced that it had entered into a definitive agreement to acquire Motive, Inc, a leading provider of service management software for broadband and mobile data services, through a cash tender offer for all outstanding Motive shares at a price of U.S. \$ 2.23 per share, representing a value of approximately U.S. \$ 67.8 million. Based upon the preliminary purchase price allocation, goodwill for this acquisition was € 58 million as of December 31, 2008.

The main changes in consolidated companies for 2007 were as follows:

- on December 2007, our 49.9% share in Draka Comteq B.V. ("Draka Comteq") was sold to Draka for € 209 million in cash. Under this transaction, Draka acquired full ownership of Draka Comteq. Since the initial establishment of the joint venture, Draka Comteq has been controlled by Draka and its results have been consolidated in full in the Draka consolidated financial statements and under the equity method in the Alcatel-Lucent consolidated financial statements. The gain on disposal amounted to € 74 million and was recorded in the line item "Other financial income (loss)" (see Note 8). The amount of capital gain

takes into account the estimated impact of an indemnity clause related to a pending litigation and, as a result, the capital gain may be revised in future periods (refer to Note 8);

- on January 5, 2007, we completed the contribution to Thales of our railway signaling business and our integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services, as described below;

- in April 2007, the ownership interests in two joint ventures in the space sector were sold to Thales for € 670 million in cash, which will be subject to adjustment in 2009;
- the adjustments recognized in 2007 that related to the business combination with Lucent during 2006 are as follows:

<i>(in millions of euros)</i>	<b>As of December 31, 2007</b>	<b>As of December 31, 2006</b>	<b>Difference</b>
Cost of the business combination (A)	9,895	9,891	4 <sup>(1)</sup>
Net assets acquired (B)	2,186	1,840	346 <sup>(2)</sup>
<b>GOODWILL (A) – (B)</b>	<b>7,709</b>	<b>8,051</b>	<b>(342)</b>

(1) Relates to changes in the estimated transaction cost.

(2) Of which:

- change in the fair value of intangible assets: € 94 million;
- change in the fair value of property, plant and equipment: € (205) million;
- increase of deferred tax assets recognized: € 181 million in connection with the option elected in accounting for pension and other employee benefits (see Note 1k);
- reduction of goodwill due to the recognition of deferred tax assets of € 256 million (of which € 181 million related to the post-retirement benefit plan amendment);
- decrease of goodwill in connection with the change in deferred taxes related to other adjustments: € 50 million;
- other adjustments: € (30) million.

The impact of these adjustments on the 2007 net profit (loss) was not material.

The purchase price allocation was completed as of November 30, 2007.

The main changes in consolidated companies for 2006 were as follows:

- on January 27, 2006, historical Alcatel acquired a 27.5% stake in 2Wire, a pioneer in home broadband network solutions, for a purchase price of U.S. \$ 122 million in cash. This company was consolidated under the equity method and its contribution to Alcatel-Lucent's 2006 net income was not significant. Goodwill accounted for in share of net assets of equity affiliates as of December 31, 2006 was € 37 million;
- on April 2, 2006, historical Alcatel and Lucent announced that they had entered into a definitive business combination agreement. Completion of the business combination took place on November 30, 2006 and Lucent became a wholly-owned subsidiary. As a result, historical Alcatel, the parent company, changed its name to Alcatel-Lucent.

Under the terms of the agreement, Lucent shareholders received 0.1952 of an ADS (American Depositary Share) representing ordinary shares of Alcatel-Lucent for every common share of Lucent that they held, which resulted in the issuance of 878 million shares at a stock price of € 10.16 (historical Alcatel's closing share price on Euronext as of November 29, 2006).

Alcatel-Lucent remains headquartered in Paris although its North American operations are based in New Jersey, U.S.A. Bell Labs remains headquartered in New Jersey.

Alcatel-Lucent formed a specific U.S. subsidiary, subject to reinforced confidentiality and security conditions, to hold certain contracts with U.S. government agencies. This company has a Board of Directors, comprised of three individuals who have no prior relationship with Alcatel-Lucent except as otherwise allowed by the U.S. Department of Defense.

The initial cost of the business combination as accounted for as of December 31, 2006 is detailed in the following table:

Number of Lucent common shares outstanding as of November 30, 2006	4,498,666,060
Exchange ratio per share (1,952 Alcatel-Lucent ordinary shares exchanged for 10,000 Lucent common shares tendered)	0.1952
<b>Total number of Alcatel-Lucent ordinary shares issued</b>	<b>878,139,615</b>
Multiplied by historical Alcatel's stock price as of the effective date	10.16
Fair value of Alcatel-Lucent ordinary shares issued	8,922
Fair value of the issuable equity instruments relating to Lucent's compound financial instruments	761
Fair value of outstanding Lucent warrants	35
Fair value of outstanding Lucent stock options and similar equity awards	133
Transaction costs	40
<b>COST OF THE BUSINESS COMBINATION</b>	<b>9,891</b>



The number of issuable equity instruments assumed in connection with this business combination was as follows:

- issuable ordinary shares related to Lucent's compound financial instruments: 159,371,932;
- issuable ordinary shares related to outstanding Lucent stock options and similar equity awards: 60,767,243;
- issuable ordinary shares related to Lucent's outstanding warrants: 38,907,871.

The fair value of the outstanding stock options and similar instruments was determined as prescribed by IFRS 2 "Share-based Payment" and as described in Note 1w above.

The fair value of the issuable equity instruments related to Lucent's compound financial instruments corresponds to the equity component amount of such instruments. The equity component was computed as described in Note 1m above.

Under the purchase method, Alcatel-Lucent allocated the purchase price to tangible assets, liabilities assumed, and intangible assets, based on their estimated fair values. The excess of the purchase price over historical Alcatel's interest (as the acquirer) in the net fair value of Lucent's (as the acquiree) identifiable assets and liabilities was recorded as goodwill.

The preliminary allocation of the purchase price as accounted for as of December 31, 2006 was as follows:

<i>(in millions of euros except useful lives expressed in number of years)</i>	<b>Lucent's carrying amount<sup>(1)</sup></b>	<b>Fair value<sup>(2)</sup></b>	<b>Useful lives</b>
Cash and cash equivalents and marketable securities	2,814	2,814	-
Property, plant and equipment	920	1,180	1-40 years
Goodwill	389	-	-
Acquired technologies	267	2,737	5-10 years
In process research & development	-	440	5-7 years
Customer relationships – long term	-	938	5-8 years
Customer relationships – short term (backlog)	-	197	13 months
Trade names	-	501	Indefinite
Inventories	636	1,060	(3)
Trade and other receivables	760	760	-
Payables and advance billings	(1,082)	(1,071)	-
Pensions, retirement indemnities and other post-retirement benefits	114	(1,601)	-
Bonds and notes issued	(3,885)	(3,099)	-
Provisions	(950)	(951)	-
Deferred taxes	92	(2,405)	-
Deferred compensation (unvested outstanding stock options)	-	37	-
Other assets and liabilities	141	303	-
<b>NET ASSETS ACQUIRED</b>	<b>216</b>	<b>1,840</b>	

(1) Amounts indicated are the carrying values under U.S. GAAP.

(2) Amounts indicated in this column include both purchase price allocation adjustments and conversion of Lucent's U.S. GAAP historical data to IFRS.

(3) Estimated liquidation period of the inventory step-up is 6 months.

### **Determination of the goodwill:**

<i>(in millions of euros)</i>	<b>Amount</b>
Cost of the business combination (A)	9,891
Net assets acquired (B)	1,840
<b>GOODWILL (A) – (B)</b>	<b>8,051</b>

The fair value assigned to intangible assets acquired is determined using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. Purchased intangible assets are amortized on a straight-line basis over their respective useful lives.

The cost of the business combination was allocated using the information then available. As a result, Alcatel-Lucent adjusted the preliminary purchase price allocation during 2007 upon obtaining more information regarding, among other things, asset valuations, liabilities and contingent liabilities assumed, and revisions of preliminary estimates, in particular as they relate to the determination of the fair value of acquired intangible assets. The purchase price allocation was finalized as of November 30, 2007. Changes in the preliminary purchase price allocation that were booked in 2007 are presented at the beginning of this section.

The factors that contributed to a cost that resulted in the recognition of goodwill were primarily the asset ceiling impact of € 1,732 million and the fact that no deferred tax asset were recognized in respect of the income tax loss carry forwards of the acquired entity (refer to Note 1n and Note 9). On the other hand, a net deferred tax liability was accounted for in the purchase price allocation of € 2,405 million.

The business acquired from Lucent contributed € 278 million to 2006 net loss including adjustments subsequent to purchase accounting entries (such adjustments primarily include an amortization of intangible and tangible assets for an amount of € 60 million before tax, the partial liquidation of the inventory step-up for € 167 million before tax, the restructuring costs described below for an amount of € 234 million before tax and a positive tax impact of € 179 million) for the period from December 1, 2006 to December 31, 2006. If the acquisition had occurred on January 1, 2006, assuming no other change to the business because the transaction occurred during the year, and based upon accounting principles previously applied in 2006, the Group's 2006 revenue would have been € 18,254 million, the 2006 income (loss) from operating activities would have been a loss of € (988) million, the net loss would have been € (231) million, and the 2006 basic and diluted earnings per share would have been € (0.12) including adjustments subsequent to purchase accounting entries (such adjustments primarily include amortization of intangible and tangible assets for an amount of € 606 million before tax, the liquidation of the inventory step-up for an amount of € 451 million before tax, the restructuring costs described below for an amount of € 246 million before tax and a positive tax impact of € 508 million).

Pursuant to the business combination with Lucent and to the acquisition of Nortel Networks Corporation's ("Nortel") UMTS radio access business (see description of the transaction below), certain of Lucent's product lines were abandoned. The corresponding asset write-off of € 234 million, as well as the estimated associated costs to which the Group was committed at period end, were recorded in restructuring costs (based upon current assumptions at the balance sheet closing date of December 31, 2006).

- During the second quarter 2006, Alcatel acquired privately-held VoiceGenie for € 30 million in cash. Founded in 2000, VoiceGenie was a leader in voice self-service solutions, with a software platform based on Voice XML, an open standard used for developing self-service applications by both enterprises and carriers. The initial allocation of the cost of the business combination led to recognizing U.S. \$ 12 million of depreciable intangible assets and U.S. \$ 19 million of goodwill, with the net assets of this company amounting to U.S. \$ 7 million at the acquisition date (of which U.S. \$ 4 million was in cash and cash equivalents). The contribution of this company to Alcatel-Lucent's 2006 results was not significant.
- On April 5, 2006, historical Alcatel announced that the Board of Directors of Thales had approved the acquisition in principle of Alcatel's ownership interest in two joint ventures in the space sector, its railway signaling business and its integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services.
- On December 4, 2006, Alcatel-Lucent and Thales signed a final agreement. This agreement follows the signature of a new Space Alliance agreement between Thales, Alcatel-Lucent and Finmeccanica, in which Finmeccanica agreed to the transfer to Thales of Alcatel-Lucent's shares in Alcatel Alenia Space and Telespazio.

The transaction primarily consisted of the contribution and disposal by Alcatel-Lucent to Thales of the following assets:

#### 1. In the Space sector:

- Alcatel-Lucent's 67% stake in the capital of Alcatel Alenia Space (this joint venture company, created in 2005, is the result of combining historical Alcatel's and Finmeccanica's Space assets, the latter holding a 33% stake).

- Alcatel-Lucent's 33% share in the capital of Telespazio, a worldwide leader in satellite services, of which 67% is held by Finmeccanica.

With respect to this contribution of the space activities, a cash payment of € 670 million was made to Alcatel-Lucent, subject to an adjustment to be made by an independent expert at the beginning of 2009, which may trigger an upward value adjustment.

#### 2. In the domain of critical systems for security:

- the Transport Systems activities, a worldwide leader in signaling solutions for rail transport and urban metros;
- Critical Systems Integration activities not dedicated to operators or suppliers of telecommunications services and covering mainly the transport and energy sectors.

On January 5, 2007, with respect to this transfer, 25 million new Thales shares were issued to Alcatel-Lucent, and Alcatel-Lucent received a cash payment of € 50 million. As a result of the issuance of the shares, Alcatel-Lucent increased its shareholdings to 20.95%, which continue to be accounted for as an investment in associates, and the French State remained the main shareholder with a 27.29% stake (held directly or indirectly).

The assets envisaged for the contribution and disposal were accounted for as assets held for sale in the consolidated financial statements at December 31, 2006, as the criteria for classification in "assets held for sale" as defined by IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" were met at the balance sheet date and as some of the remaining uncertainties as of September 30, 2006 had then been cleared (i.e. signature of a final agreement between historical Alcatel and Thales, receipt of Finmeccanica's waiver concerning the transfer of the space business, receipt of French State approval, etc.)

The assets contributed or disposed of to Thales were considered as one single transaction and one disposal group of assets as defined by IFRS 5 based upon the following facts and circumstances:

- the transaction was a global transaction that had to be carried out in two phases with two closing dates due exclusively to the European Commission's authorization process concerning the Space business;
- the Space activities disposal was contingent on the assets contribution of Transport Systems and Critical Systems Integration, and
- the amount of € 670 million concerning the disposal of the Space business was considered a preliminary payment of the selling price (as an external expert will establish the definitive price in 2009) and is therefore not entirely representative of the market price of this business. It is one of the reasons why Alcatel-Lucent had no intention of disposing of the Space business without including it in the larger transaction defined in the Master Agreement.

As the fair value less costs to sell of this disposal group is higher than the carrying amount, such carrying amount was not adjusted as of December 31, 2006. All net assets to be disposed of/contributed to Thales were isolated on the two specific line items related to discontinued operations in the consolidated balance sheet (that is, "Assets held for sale" and "Liabilities related to disposal groups held for sale") as of December 31, 2006. The 2006 result of the disposal group was presented in the "Income (loss) from discontinued operations" line item in the consolidated income statement and the consolidated income statements for 2005 have been re-presented accordingly. Detailed impacts are presented in Note 10.

The capital gain related to this disposal and the difference between the preliminary selling price of the Space business (as described above) and its carrying value, was accounted for during the first quarter of 2007.

- On September 1, 2006, historical Alcatel announced that it had signed a non-binding Memorandum of Understanding with Nortel to acquire its UMTS radio access business (UTRAN) and related assets for U.S. \$ 320 million. On December 4, 2006, Alcatel-Lucent announced that it had signed a final agreement with Nortel.
- On December 31, 2006, Alcatel-Lucent completed the acquisition of Nortel's UMTS radio access business (UTRAN) and related assets.

Pursuant to the transaction, Alcatel-Lucent acquired Nortel's UMTS radio access technology and product portfolio, associated patents and tangible assets as well as customer contracts for U.S. \$ 320 million. Approximately 1,700 of the employees of Nortel's UMTS access business were transferred to Alcatel-Lucent.

The assets acquired from Nortel were considered as a business as defined in IFRS 3 and the purchase price was allocated as follows:

<i>(in millions of euros)</i>	<b>As of December 31, 2007</b>	<b>As of December 31, 2006</b>
<b>Cost of the business combination (A):</b>		
Gross consideration	250	250
Working capital credit and other price adjustments	(19)	(18)
<b>Cost of the business combination to be allocated</b>	<b>231</b>	<b>232</b>
<b>Net assets acquired at fair value (B):</b>		
Fixed assets	37	38
Inventories	15	15
In process research and development	24	24
Acquired technologies	103	103
Customer relationships	45	41
Other assets and liabilities	-	-
<b>Net assets acquired</b>	<b>224</b>	<b>221</b>
<b>GOODWILL (A) – (B)</b>	<b>7</b>	<b>11</b>

The above-described allocation of the cost of the business combination is definitive.

The carrying value of the net assets acquired on Nortel's books was not known.

As the transaction was completed as of December 31, 2006, the contribution to the 2006 net result of this business was zero with the exception of the impacts described in the following section.

Nortel indicated that the 2006 UMTS Access ("UA") revenues associated with the assets sold were approximately U.S. \$ 660 million.

As the technologies acquired duplicated some of the technologies that Alcatel had already developed and capitalized and some of Lucent's technologies corresponding to certain intangible assets that were fair valued in the purchase price accounting, an impairment loss was recorded, once the contemplated deal with Nortel and the business combination with Lucent had been completed and the decisions to keep or to abandon all or some of these technologies had been taken.

The corresponding write-off and the estimated associated future costs for which Alcatel-Lucent was already committed at December 31, 2006 represented a total amount of € 494 million that has been accounted for in "restructuring costs" in the income statement.

- During the third quarter 2006, Alcatel and Finmeccanica agreed upon the price adjustments to be made to the values assigned at the time of their contributions to Alcatel Alenia Space and Telespazio. These adjustments resulted in a € 37.5 million reduction in goodwill and in an increase in the gain on disposal of € 15 million.

**NOTE 4 CHANGE IN ACCOUNTING POLICY AND PRESENTATION****a/ Change in accounting policy  
2008**

First application of IFRIC 14 (Interpretation of IAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction)

The "asset ceiling" rule of IAS 19 limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognized gains and losses". Questions have arisen about when refunds or reductions in future contributions should be considered available, particularly when a minimum funding requirement exists.

In the United Kingdom, for example minimum funding requirements exist to improve the security of the post-employment benefit obligations to participants of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.

Further, the limit on the measurement of the value of a defined benefit asset may cause the minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the value of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

The first application of this new interpretation had a negative impact on our shareholders' equity as of December 31, 2008 of (€ 91) million

(€ 45) million as of December 31, 2007 and (€ 82) million as of December 31, 2006) in connection with our pension plans in the United Kingdom.

**2007**

On January 1, 2007, Alcatel-Lucent adopted (with retrospective effect as of January 1, 2005) the option offered by Amendment to IAS 19 "Employee benefits – Actuarial gains and losses, Group plans and Disclosures", to immediately recognize all actuarial gains and losses and any adjustment arising from an asset ceiling, net of deferred tax effects, in the period in which they occur outside the income statement in the Statement Of Recognized Income and Expense (SORIE). Management believes that the change will more fairly present the fair value of assets and liabilities related to retiree benefits in the company's balance sheet and eliminate significant volatility in its results of operations for certain plans, the participants of which are all, or almost all, fully eligible to receive benefits.

Previously, Alcatel-Lucent applied the corridor method, under which actuarial gains and losses exceeding 10% of the greater of (i) the benefit obligation or (ii) the fair value of plan assets were recognized in the income statement over the expected remaining working lives of the employees participating in the plans. The impact of the limitation in the value of plan assets to the lower of: (i) the value resulting from applying IAS 19 "Employee Benefits" prior to the Group's adoption of the option provided by the amendment to IAS 19, and (ii) the net total present value of any available refund from the plan or reduction in future contributions to the plan (arising from asset ceilings) was accounted for in the income statement.

The impact of this change in accounting policies on the 2006 balance sheet was as follows:

<i>(in millions of euros)</i>	<b>December 31, 2006</b>
Prepaid pension costs	701
Assets held for sale	10
Deferred tax assets (liabilities)	(291)
Pensions, retirement indemnities and other post-retirement benefits	(36)
<b>Shareholders' equity attributable to equity holders of the parent</b>	<b>387</b>
<b>Minority interests</b>	<b>(3)</b>

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The impact on the 2006 income statement was as follows:

<i>(in millions of euros)</i>	<b>2006</b>
Income (loss) from operating activities	(7)
Other financial income (loss)	78
Income tax (expense) income	-
Income (loss) from discontinued operations	(1)
<b>NET RESULT</b>	<b>70</b>
<b>Basic earnings per share</b>	<b>0.05</b>
<b>Diluted earnings per share</b>	<b>0.05</b>

**b/ Change in presentation**

Since January 1, 2007, the Group presents sales commissions under “administrative and selling expenses” and not in “cost of sales” as previously presented by historical Alcatel. If such a classification had been applied in 2006, administrative and selling expenses would have increased and “cost of sales” would have decreased by € 87 million.

**NOTE 5 INFORMATION BY BUSINESS SEGMENT AND BY GEOGRAPHICAL SEGMENT**

In accordance with IFRS 8 “Operating Segments”, the information by operating segment comes from the business organization and activities of Alcatel-Lucent.

The tables below present information for the operating segments described hereunder. They take into account the organization announced on November 30, 2007 and comprise three operating segments addressing three principal markets: Carrier, Services and Enterprise markets.

The first Operating Segment is the Carrier Business Group. Its activity consists in designing and selling network and software solutions to Telecommunications operators.

The second Operating Segment is the Services Business Group. Its activity consists in providing a broad range of services to telecommunications operators as well as other owners of large communications networks in the Industrial and Public sector.

The third Operating Segment is the Enterprise Business Group. Its activity mainly consists in designing and selling, directly or through distribution channels, enterprise communications solutions. This segment also hosts activities of smaller size in the field of industrial components.

The segment Other includes miscellaneous service businesses or non-core businesses, such as corporate purchasing, reinsurance and banking activities, intellectual property standardization & licensing, Bell Labs and corporate holding companies accounting mainly for corporate expenses.

The information reported for each segment item is the same as that presented to the Management Committee (MC), which has been identified as the Chief Operating Decision Maker in assessing segment performance and deciding how to allocate resources to the segments. The primary financial measure used by the MC in assessing performance and allocating resources to the segments is the segment operating income (loss). The segment operating income (loss) is a measure corresponding to the Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments and excluding the main non-cash impacts from PPA entries in relation to the Lucent business combination. Share based payments are not allocated to a reportable segment and are included in “Other”.

The MC does not review asset or liability information on a segmented basis in order to assess performance and allocate resources.

The information by segment applies the same accounting policies as those used and described in these consolidated financial statements.

All inter-segment commercial relations are conducted on an arm’s length basis on terms and conditions identical to those prevailing for the supply of goods and services to third parties.

Operating segments presented are the same as those disclosed in the information provided to the Management Committee.

a/ Information by business segment

<i>(in millions of euros)</i>	Carrier	Enterprise	Services	Total reportable segments	Other and unallocated amounts	Total
<b>2008</b>						
Revenues from external customers	11,514	1,551	3,441	16,506	478	16,984
Revenues from transactions with other operating segments	26	39	11	76		
<b>Revenues from operating segments</b>	<b>11,540</b>	<b>1,590</b>	<b>3,452</b>	<b>16,582</b>		
<b>Segment operating income (loss)</b>	<b>(68)</b>	<b>128</b>	<b>268</b>	<b>328</b>	<b>138</b>	<b>466</b>
Amounts included in the segment operating income (loss):						
• depreciation and amortization	564	92	62	718	191	909
• material non-cash items other than depreciation and amortization	-	-	-	-	-	-
<b>Segment assets <sup>(1)</sup></b>	<b>7,817</b>	<b>601</b>	<b>1,865</b>	<b>10,283</b>	<b>1,008</b>	<b>11,291</b>
<b>2007</b>						
Revenues from external customers	12,799	1,534	3,092	17,425	367	17,792
Revenues from transactions with other operating segments	20	28	81	129		
<b>Revenues from operating segments</b>	<b>12,819</b>	<b>1,562</b>	<b>3,173</b>	<b>17,554</b>		
<b>Segment operating income (loss)</b>	<b>(152)</b>	<b>126</b>	<b>147</b>	<b>121</b>	<b>(11)</b>	<b>110</b>
Amounts included in the segment operating income (loss):						
• depreciation and amortization	701	105	69	875	11	886
• material non-cash items other than depreciation and amortization	-	-	-	-	-	-
<b>Segment assets <sup>(1)</sup></b>	<b>9,499</b>	<b>582</b>	<b>1,669</b>	<b>11,750</b>	<b>1,084</b>	<b>12,834</b>
<b>2006</b>						
Revenues from external customers	8,989	1,420	1,721	12,130	152	12,282
Revenues from transactions with other operating segments	11	19	40	70		
<b>Revenues from operating segments</b>	<b>9,000</b>	<b>1,439</b>	<b>1,761</b>	<b>12,200</b>		
<b>Segment operating income (loss)</b>	<b>613</b>	<b>120</b>	<b>211</b>	<b>944</b>	<b>(31)</b>	<b>913</b>
Amounts included in the segment operating income (loss):						
• depreciation and amortization	376	84	34	494	78	572
• material non-cash items other than depreciation and amortization	-	-	-	-	-	-
<b>Segment assets <sup>(1)</sup></b>	<b>9,631</b>	<b>481</b>	<b>2,077</b>	<b>12,189</b>	<b>1,919</b>	<b>14,108</b>

(1) Assets included in segment assets consist of intangible assets, property, plant and equipment and assets included in operating working capital (comprised of inventory and work in progress, customer receivables (including those recorded in amounts due from/to customers on construction contracts) and advances and progress payments). See Note 18. The amounts reported as segment assets include the PPA entries related to the Lucent business combination.

## b/ Reconciliation to consolidated financial statements

<i>(in millions of euros)</i>	2008	2007	2006
Revenues from reportable segments	16,582	17,554	12,200
Revenues segment Other	478	367	152
Intersegment eliminations	(76)	(129)	(70)
<b>Total Group revenues</b>	<b>16,984</b>	<b>17,792</b>	<b>12,282</b>
Reportable segments operating income (loss)	328	121	944
Operating income (loss) segment Other and unallocated amounts <sup>(1)</sup>	138	(11)	(31)
<b>Segment operating income (loss)</b>	<b>466</b>	<b>110</b>	<b>913</b>
PPA <sup>(2)</sup> adjustments (excluding restructuring costs and impairment of assets)	(522) <sup>(3)</sup>	(817)	(226)
<b>INCOME (LOSS) FROM OPERATING ACTIVITIES BEFORE RESTRUCTURING COSTS, IMPAIRMENT OF ASSETS, GAIN/(LOSS) ON DISPOSAL OF CONSOLIDATED ENTITIES AND POST-RETIREMENT BENEFIT PLAN AMENDMENTS</b>	<b>(56)</b>	<b>(707)</b>	<b>687</b>
Restructuring costs	(562)	(856)	(707)
Impairment of assets	(4,725)	(2,944)	(141)
Post-retirement benefit plan amendments	47	258	-
Gain/(loss) on disposal of consolidated entities	(7)	-	15
<b>INCOME (LOSS) FROM OPERATING ACTIVITIES</b>	<b>(5,303)</b>	<b>(4,249)</b>	<b>(146)</b>

(1) Including € 85 million of share-based payments that are not allocated to reportable segments in 2008 (€ 102 million in 2007 and € 63 million in 2006).

(2) PPA: purchase price allocation entries related to Lucent business combination.

(3) Including € 27 million of patents at net book value that were sold during the first quarter 2008. The net book value is based on fair value resulting from the purchase price allocation of the Lucent business combination. The capital gain included in the segment operating income was € 61 million, of which € 27 million occurred in the fourth quarter 2008.

## c/ Products and Services revenues

The following table sets forth revenues by product and service for the years ended December 31:

<i>(in millions of euros)</i>	2008	2007	2006
Wireline products (Access, IP & Optics)	6,131	6,481	4,471
Wireless products (CDMA, W-CDMA, GSM & WIMAX...)	4,302	5,032	3,050
Convergence products (Core & Applications)	1,217	1,411	1,480
Services	3,452	3,173	1,721
Enterprise products	1,590	1,562	1,420
Other & eliminations	292	133	140
<b>TOTAL</b>	<b>16,984</b>	<b>17,792</b>	<b>12,282</b>

## d/ Information by geographical segment

<i>(in millions of euros)</i>	France	Other Western Europe	Rest of Europe	Asia Pacific	U.S.A.	Other Americas	Rest of world	Total
<b>2008</b>								
Revenues:								
• by customer location	1,419	3,537	944	3,192	4,812	1,538	1,542	16,984
Non-current assets <sup>(1)</sup>	472	401	34	268	2,624	106	14	3,919
<b>2007</b>								
Revenues:								
• by customer location	1,219	3,657	954	3,386	5,438	1,534	1,604	17,792
Non-current assets <sup>(1)</sup>	500	434	50	229	4,326	106	13	5,658
<b>2006</b>								
Revenues:								
• by customer location	1,096	2,879	946	2,116	2,323	1,128	1,794	12,282
Non-current assets <sup>(1)</sup>	657	380	26	190	5,903	98	8	7,262

(1) Represents intangible and tangible assets

**e/ Concentrations**

A few large telecommunications service providers account for a substantial portion of our revenues. Nevertheless no single customer represented more than 10% of our total revenues either in 2008, 2007 or 2006.

**f/ New organization effective January 1, 2009**

A new organization was announced as of November 13, 2008 with an effective date of January 1, 2009 with four business groups: Carrier Product Group; Enterprise Product Group; Services Group and Applications Software Group.

The **Carrier Product Group** will focus on providing innovative products in IP (Internet Protocol), Optics, Fixed Access, Multicore (including IP Multimedia Subsystems Infrastructure), Wireless, Radio Frequency Systems and Submarine.

For clarity, the Enterprise group will become the **Enterprise Product Group** and will remain focused on Enterprise Solutions Division and Industrial Component Division products. Genesys will join the Applications Software Group. The Enterprise Product Group is vertically integrated and will have its own worldwide sales team (Enterprise and IPS market, supply chain and services delivery capability).

The **Services Group** will focus on capturing the fast growing opportunities in Network Operations, Professional Services, OSS (Operation Support System)/BSS (Business Support System) Integration, and Network Integration, including NDIO (Network Design Integration and Optimization).

A new **Applications Software Group** is introduced into the business model to support and grow our business in this area. The group will have its own regionally deployed sales team that will act in coordination with the regions but will report to the head of the Applications Software Group. The group will work when appropriate with the Services Group and other service integrators.

The Applications Software Group will comprise Genesys, the current Applications Software business division (including IMS Applications) and the OSS/BSS software business.

The new business model also comprises three **regions**, Americas, Europe **Middle East and Africa** (EMEA), and **Asia Australia and Pacific** (APAC), rather than the two we have today. The regions' primary mission is to sell and ensure the highest customer satisfaction. The three regions will each have complete responsibility for all customer-focused activities except for the Enterprise and IPS markets.

**NOTE 6 REVENUES**

<i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Construction contract revenues	2,220	2,493	1,566
Other product sales	11,139	12,101	9,247
Other service revenues	3,200	2,949	1,352
License revenues	235	139	40
Rental income and other revenues <sup>(1)</sup>	190	110	77
<b>TOTAL</b>	<b>16,984</b>	<b>17,792</b>	<b>12,282</b>

(1) Of which in 2008 € 84 related to R&D tax credits (mainly in France). Corresponding amounts in 2007 and 2006 were respectively € 43 million and € 23 million. 2008 other revenues also include € 34 million corresponding to a partial settlement with Microsoft (see Note 34).



## NOTE 7 IMPAIRMENT LOSSES ON ASSETS RECOGNIZED IN THE INCOME STATEMENT

<i>(in millions of euros)</i>	<b>Carrier</b>	<b>Enterprise</b>	<b>Services</b>	<b>Other</b>	<b>Total Group</b>
<b>2008</b>					
Impairment losses for goodwill <sup>(4)</sup>	(3,272)	-	-	-	(3,272)
Impairment losses for capitalized development costs <sup>(5)</sup>	(135)	-	-	-	(135)
Impairment losses for other intangible assets <sup>(7)</sup>	(1,276)	-	-	-	(1,276)
Impairment losses for property, plant and equipment <sup>(5)</sup>	(39)	-	-	-	(39)
Impairment losses for shares in equity affiliates	-	-	-	(1)	(1)
Impairment losses for financial assets <sup>(3)</sup>	(11)	-	-	(3)	(14)
<b>TOTAL – NET</b>	<b>(4,733)<sup>(6)</sup></b>			<b>(4)</b>	<b>(4,737)</b>
of which reversal of impairment loss	3	-	-	2	5
<b>2007</b>					
Impairment losses for goodwill	(2,633) <sup>(1)</sup>	-	(24) <sup>(1)</sup>	-	(2,657)
Impairment losses for capitalized development costs	(41) <sup>(1)</sup>	-	-	-	(41)
Impairment losses for other intangible assets	(175) <sup>(1)</sup>	-	-	-	(175)
Impairment losses for property, plant and equipment	(77) <sup>(1)</sup>	-	-	(17)	(94)
Impairment losses for shares in equity affiliates	(2)	-	-	(1)	(3)
Impairment losses for financial assets <sup>(3)</sup>	-	-	-	(16)	(16)
<b>TOTAL – NET</b>	<b>(2,928)</b>	<b>-</b>	<b>(24)</b>	<b>(34)</b>	<b>(2,986)</b>
of which reversal of impairment loss	-	-	-	-	-
<b>2006</b>					
Impairment losses for goodwill	-	-	-	-	-
Impairment losses for other capitalized development costs <sup>(2)</sup>	(104)	-	-	-	(104)
Impairment losses for other intangible assets <sup>(2)</sup>	(40)	-	-	-	(40)
Impairment losses for property, plant and equipment	(2)	-	-	-	(2)
Impairment losses for shares in equity affiliates	-	-	-	(8)	(8)
Impairment losses for financial assets <sup>(3)</sup>	(1)	-	-	(3)	(4)
<b>TOTAL – NET</b>	<b>(147)</b>	<b>-</b>	<b>-</b>	<b>(11)</b>	<b>(158)</b>
of which reversal of impairment loss	2	-	-	1	3

(1) Refer to Note 10

(2) Mainly related to the WiMAX technology following the decision announced on December 12, 2008 to limit our WiMAX efforts to supporting fixed and nomadic broadband access applications and to stop the WiMAX full Mobility developments. These impairment losses are presented on the specific line item of the income statement "Impairment of assets".

(3) Refer to Note 2 c and Note 13.

(4) Of which (4,725) accounted for in a specific line item ("impairment of assets") in the income statement and the remainder is accounted for in Income (loss) from operating activities before restructuring costs, impairment of assets, gain (loss) on disposal of consolidated entities and post-retirement benefit plan amendments.

(5) Accounted for in a specific line item ("impairment of assets") in the income statement comprising € 2,657 million for goodwill, € 39 million for capitalized development costs, € 174 million for other intangible assets and € 74 million for property, plant and equipment and the remainder is accounted for in Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments.

(6) Of which € 141 million included in the income statement under "impairment of assets" and the remainder is accounted for in Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities.

(7) As disclosed in Note 17 and excluding impairment losses on receivables (see Note 20).

**NOTE 8 FINANCIAL INCOME (LOSS)**

<i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Interest at effective interest rate	(379)	(402)	(270)
Interest on interest rate derivatives hedging	(10)	(2)	29
Interest on interest rate derivatives trading	1	-	-
Interest received on cash and marketable securities	176	231	143
<b>Finance costs</b>	<b>(212)</b>	<b>(173)</b>	<b>(98)</b>
Dividends	4	3	8
Provisions for financial risks	2	(4)	-
Impairment losses on financial assets	(3)	(16)	(4)
Net exchange gain (loss)	18	(29)	(29)
Of which:			
- ineffective portion of hedge when hedge accounting is applied	13	(19)	(11)
- non-hedged transactions and non-application of hedge accounting	(1)	(16)	(21)
- trading	6	6	3
Financial component of pension and post-retirement benefit costs <sup>(1)</sup>	349	544	31
Actual capital gain/(loss) on financial assets (shares of equity affiliates or non-consolidated securities and financial receivables) and marketable securities <sup>(2)</sup>	26	126	21
Other <sup>(3)</sup>	(30)	(82)	(61)
<b>Other financial income (loss)</b>	<b>366</b>	<b>541</b>	<b>(34)</b>
<b>TOTAL FINANCIAL INCOME (LOSS)</b>	<b>154</b>	<b>368</b>	<b>(132)</b>

(1) Change between 2006 and 2007 is mainly related to Lucent pension credit (refer to Note 25).

(2) Net gain on disposal of Draka Comteq BV shares for € 74 million during the fourth quarter of 2007.

(3) 2008: of which a gain of € 30 million related to the partial repurchase of Lucent's 7.75% bonds due March 2017 and a gain of € 1 million related to the partial repurchase of Alcatel's 4.375% bond due February 2009 (see Note 26-b).

2007: of which in the first quarter 2007, a loss of € 12 million related to the early redemption of the 8% convertible debenture (refer to Note 24). This loss was computed in accordance with IAS 32 AG33 and AG34 requirements (see Note 1m). Interactions between IAS 32 and IAS 39 and accounting issues related to early redemption of compound financial instruments are being currently analyzed by IFRIC. A future IFRIC interpretation could potentially lead us to revise our current accounting treatment.

2006: of which a loss of € 18 million related to the adjustment of the conversion ratio of Lucent's Series A and B convertible debentures (refer to Note 24c) in the fourth quarter of 2006. Of which € 15 million relates to an interest charge recorded in other financial loss in the third quarter 2006, which is due to a late payment of a debt relating to a tax dispute.

**NOTE 9 INCOME TAX AND RELATED REDUCTION OF GOODWILL****a/ Analysis of income tax (charge) benefit and related reduction of goodwill.**

<i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Reduction of goodwill related to deferred tax assets initially unrecognized <sup>(1)(2)</sup>	-	(256)	(5)
<b>Current income tax (charge) benefit</b>	<b>(99)</b>	<b>(111)</b>	<b>(71)</b>
Deferred taxes related to the purchase price allocation for the Lucent transaction <sup>(2)</sup>	740	396	175
Recognition of deferred tax assets initially unrecognized at Lucent closing date <sup>(1)</sup>	-	256	5
Deferred tax (charge) related to the post-retirement benefit plan amendments <sup>(3)</sup>	(25)	(181)	-
Deferred taxes related to Lucent's post-retirement benefit plans <sup>(4)</sup>	(293)	(206)	-
Other deferred income tax (charge) benefit, net <sup>(5)</sup>	(476)	(214)	(67)
Deferred income tax (charge) benefit, net	(54)	51	113
Income taxes	(153)	(60)	42
<b>INCOME TAX (CHARGE) BENEFIT AND RELATED REDUCTION OF GOODWILL</b>	<b>(153)</b>	<b>(316)</b>	<b>37</b>

(1) If the potential benefit of Lucent's income tax loss carry-forwards or other deferred tax assets does not satisfy the criteria for separate recognition, as defined in IFRS 3, when the business combination was initially accounted for but such benefits are subsequently realized, Alcatel-Lucent will recognize the resulting deferred tax income in profit or loss and in addition, reduce the carrying amount of goodwill (as an expense) to the amount that would have been recognized if the deferred tax asset had been recognized as an identifiable asset from the closing date.

(2) Related to the reversal of deferred tax liabilities accounted for in the purchase price allocation of Lucent as described in Note 3

(3) Related to the post-retirement plan amendments described in Note 25.

(4) Tax impact of the pension credit and changes of deferred tax assets and liabilities recognized on temporary differences related to pension and other post-employment benefits, other than those recognized directly in equity as prescribed by the option of IAS 19 that the Group is applying (see Note 1-k and Note 25).

(5) 2008 and 2007 impacts are mainly due to the re-assessment of the recoverability of deferred tax assets recognized in connection with the additional impairment tests of goodwill performed in Q4 2008 and Q4 2007.

## b/ Effective income tax rate

The effective tax rate can be analyzed as follows:

<i>(in millions of euros except for percentage)</i>	2008	2007	2006
Income (loss) before income tax, related reduction of goodwill and discontinued operations	(5,053)	(3,771)	(256)
Average income tax rate	35.8%	35.0%	41.2%
<b>Expected tax (charge) benefit</b>	<b>1,811</b>	<b>1,320</b>	<b>105</b>
Impact on tax (charge) benefit of:			
• reduced taxation of certain revenues	-	50	5
• permanent differences and utilization of previously unrecognized tax losses	(896)	(708)	140
• adjustment to prior years' current tax charge	-	(2)	(1)
• recognition of previously unrecognized deferred tax assets	2	396	103
• deferred tax assets no longer recognized	(463)	(110)	(78)
• non-recognition of tax losses	(638)	(1,033)	(240)
• effect of tax rate changes	-	-	(3)
• tax credits	31	43	16
• other	-	(16)	(5)
<b>ACTUAL INCOME TAX (CHARGE) BENEFIT</b>	<b>(153)</b>	<b>(60)</b>	<b>42</b>
<b>EFFECTIVE TAX RATE</b>	<b>(3.0)%</b>	<b>(1.6)%</b>	<b>16.4%</b>

Average income tax rate is the sum of income (loss) before taxes of each subsidiary, multiplied by the local statutory rate for each subsidiary, divided by consolidated income (loss) before taxes from continuing operations.

Changes in average income tax rate are due to differences in the contribution of each tax entity to income (loss) before tax and to the fact that some units have a positive contribution and others have a negative one.

## c/ Deferred tax balances

*(in millions of euros)*

<b>Balances:</b>	2008	2007	2006
<b>Deferred tax assets:</b>			
• deferred tax assets recognizable	12,289	11,733	12,534
• of which not recognized	(11,437)	(10,501)	(10,842)
<b>Net deferred tax assets recognized</b>	<b>852</b>	<b>1,232</b>	<b>1,692</b>
<b>Net deferred tax (liabilities)</b>	<b>(1,152)</b>	<b>(1,897)</b>	<b>(2,583)</b>
<b>NET DEFERRED TAX ASSETS (LIABILITIES)</b>	<b>(300)</b>	<b>(665)</b>	<b>(891)</b>

### Analysis of deferred tax by temporary differences

<i>(in millions of euros)</i>	December 31, 2007	Impact on net income (loss)	Translation adjustments	Reclassification and Other <sup>(1)</sup>	December 31, 2008
Fair value adjustments of tax assets and liabilities resulting from business combinations	(1,620)	740	(53)	(13)	(946)
Provisions	663	(89)	5	1	580
Pension reserves	1,515	212	69	27	1,823
Prepaid pensions	(1,316)	(195)	(38)	678	(871)
Property, plant and equipment and intangible assets	568	66	28	(15)	647
Temporary differences arising from other balance sheet captions	591	(47)	25	16	585
Tax loss carry-forwards and tax credits	9,435	(437)	213	108	9,319
<b>DEFERRED TAX ASSETS, GROSS (LIABILITIES)</b>	<b>9,836</b>	<b>250</b>	<b>249</b>	<b>802</b>	<b>11,137</b>
Deferred tax assets not recognized	(10,501)	(304)	(280)	(352)	(11,437)
<b>NET DEFERRED TAX ASSETS (LIABILITIES)</b>	<b>(665)</b>	<b>(54)</b>	<b>(31)</b>	<b>450</b>	<b>(300)</b>

(1) The main reclassifications and other changes are related to the temporary differences on pre-paid pensions accounted for directly in equity.

The aggregated amount of current and deferred taxes recognized directly in equity was a net asset of € 233 million as of December 31, 2008 (a net liability of € 210 million as of December 31, 2007 and € 290 million as of December 31, 2006).

### Change during the period

<i>(in millions of euros)</i>	December 31, 2007	Impact on net income (loss)	Translation adjustments	Other <sup>(1)</sup>	December 31, 2008
Deferred tax assets recognized	1,232	(446)	24	42	852
Deferred tax liabilities	(1,897)	392	(55)	408	(1,152)
<b>NET DEFERRED TAX ASSETS (LIABILITIES)</b>	<b>(665)</b>	<b>(54)</b>	<b>(31)</b>	<b>450</b>	<b>(300)</b>

(1) Of which € 432 million of tax impact taken directly in equity related to the change in actuarial assumptions of pension and other post-employment benefits accounted also directly in equity (see Note 25).

Deferred taxes not recognized relating to temporary differences on investments in subsidiaries, equity affiliates and joint ventures were zero at December 31, 2008 and December 31, 2007.

As the Board of Directors does not intend to propose a dividend for 2008 results to the Annual Shareholders' Meeting (see Note 22) there will be no tax consequences.

*(in millions of euros)*

Years	Recognized	Unrecognized	Total
2009	10	309	319
2010	1	39	40
2011	-	243	243
2012	-	38	38
2013	-	20	20
2014 and thereafter	60	4,970	5,030
indefinite	278	3,351	3,629
<b>TOTAL</b>	<b>349</b>	<b>8,970</b>	<b>9,319</b>

In addition, temporary differences were € 1,818 million at December 31, 2008 (€ 401 million at December 31, 2007 and € (454) million at December 31, 2006), of which € (649) million have been recognized and € 2,467 million have not been recognized (€ 1,585 million and € 1,986 million respectively at December 31, 2007 and € (2,330) million and € 1,876 million at December 31, 2006).

### d/ Tax losses carried forward and temporary differences

Total tax losses carried forward represent a potential tax saving of € 9,319 million at December 31, 2008 (€ 9,435 million at December 31, 2007 and € 10,405 million at December 31, 2006). The potential tax savings relate to tax losses carried forward that expire as follows:

Recognized negative temporary differences mainly correspond to deferred tax liabilities that have been recorded resulting from the Lucent purchase accounting entries (in particular intangible assets).

## NOTE 10 DISCONTINUED OPERATIONS, ASSETS HELD FOR SALE AND LIABILITIES RELATED TO DISPOSAL GROUPS HELD FOR SALE

Discontinued operations for 2008, 2007 and 2006 were as follows:

- in 2008: adjustments on initial capital gain (loss) from discontinued operations that were sold or contributed in previous periods (mainly related to activities contributed to Thales);
- in 2007: The net capital gain on the disposal of the railway transport systems activities and critical systems integration activities not dedicated to operators or suppliers of telecommunications services to Thales in January 2007 and on the sale to Thales of our ownership interests in two joint ventures in the space sector in April 2007 is booked as income (loss) on discontinued operations, as well as some adjustments on initial capital gain (loss) on discontinued operations that were sold or contributed in previous periods;

- in 2006: activities related to Alcatel's two joint ventures in the space sector, railway transport systems activities and critical systems integration activities not dedicated to operators or suppliers of telecommunications services to be disposed of or contributed to Thales. In addition, the initial capital gain (loss) on discontinued operations that were sold in 2004 was adjusted in 2006, due to ongoing legal proceedings related to these disposals.

Other assets held for sale concern real estate property sales in progress and our stake in Thales shares (see Notes 3 and 16) at December 31, 2008 and real estate property sales in progress as of December 31, 2007 and 2006.

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<b>Income statement of discontinued operations</b> <i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Revenues	-	213	2,099
Cost of sales	-	(178)	(1,614)
<b>GROSS PROFIT</b>	<b>-</b>	<b>35</b>	<b>485</b>
Administrative and selling expenses	-	(30)	(230)
Research and development costs	-	(8)	(136)
Net capital gain (loss) on disposal of discontinued operations <sup>(1)</sup>	33	615	15
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>33</b>	<b>612</b>	<b>134</b>
Financial income (loss)	-	-	(14)
Other income (loss) <sup>(2)</sup>	-	(2)	38
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>33</b>	<b>610</b>	<b>158</b>

(1) The capital gain on the contribution of railway transport system activities and critical systems integration activities to Thales has been computed based upon a selling price of € 941 million, equal to the share price of the 25 million shares issued by Thales on the date of the transaction. This value is different from Thales' determination of the actual value of the assets contributed of € 1,000 million, which Thales disclosed in the document describing the transaction it filed with the AMF and which Thales had booked as a capital increase in its statutory financial statements. The net capital gain on the disposal of our ownership interests in two joint ventures in the space sector and the railway transport systems activities and critical systems integration activities after tax was € 0.6 billion.

(2) Including income tax expense.

<b>Balance sheet</b> <i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Goodwill	-	-	795
Other assets	-	-	1,196
Cash	-	-	121
<b>ASSETS OF DISPOSAL GROUPS</b>	<b>-</b>	<b>-</b>	<b>2,112</b>
Real estate properties and other assets held for sale	45	35	15
Stake in Thales	1,303	-	-
<b>ASSETS HELD FOR SALE</b>	<b>1,348</b>	<b>35</b>	<b>2,127</b>
Customers' deposits and advances	-	-	(639)
Other liabilities	-	-	(967)
<b>LIABILITIES RELATED TO DISPOSAL GROUPS HELD FOR SALE</b>	<b>-</b>	<b>-</b>	<b>(1,606)</b>

Alcatel-Lucent's share in the market capitalization of Thales at December 31, 2008 was valued at € 1,231 million. The sales price agreed upon with Dassault Aviation is € 1,568 million (refer to Note 3).

The cash flows of discontinued operations are as follows:

<i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net income (loss)	33	610	158
Net cash provided (used) by operating activities before changes in working capital	-	9	91
Other net increase (decrease) in net cash provided (used) by operating activities	-	(86)	81
Net cash provided (used) by operating activities (a)	-	(77)	172
Net cash provided (used) by investing activities (b)	21	652 <sup>(1)</sup>	(24)
Net cash provided (used) by financing activities (c)	-	(352)	(159)
<b>TOTAL (A) + (B) + (C)</b>	<b>21</b>	<b>223</b>	<b>(11)</b>

(1) Including € 670 million of cash received in connection with the contribution of our interests in two joint ventures in the space sector to Thales (refer to Note 3).

## NOTE 11 EARNINGS PER SHARE

Basic earnings per share is computed using the number of shares issued, after deduction of the weighted average number of shares owned by consolidated subsidiaries and the weighting effect of shares issued during the year.

In accordance with IAS 33 revised (paragraph 23), the weighted average number of shares to be issued upon conversion of bonds redeemable for shares is included in the calculation of basic earnings per share.

Diluted earnings per share takes into account share equivalents having a dilutive effect, after deducting the weighted average number of share equivalents owned by consolidated subsidiaries, but not share equivalents that do not have a dilutive effect. Net income (loss) is adjusted for after-tax interest expense relating to convertible bonds.

The dilutive effects of stock option and stock purchase plans are calculated using the "treasury stock method", which provides that proceeds to be received from the exercise of options or purchase of stock are assumed to be used first to purchase shares at market price. The dilutive effects of convertible bonds and notes mandatorily redeemable for shares are calculated on the assumption that the bonds and notes will be systematically redeemed for shares (the "if converted method").

Regarding the Lucent business combination, in 2006, the entire issuance of Alcatel-Lucent shares was taken into account for the earnings per share calculation on a pro rata basis.

The tables below reconcile basic earnings per share to diluted earnings per share for the periods presented:

<b>Net income (loss)</b> <i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net income (loss) – basic	(5,215)	(3,518)	(106)
Adjustment for dilutive securities on net income:			
• Interest expense related to convertible securities	-	-	-
<b>NET INCOME (LOSS) – DILUTED</b>	<b>(5,215)</b>	<b>(3,518)</b>	<b>(106)</b>
Number of shares	2008	2007	2006
<b>Weighted average number of shares – basic</b>	<b>2,259,174,970</b>	<b>2,255,890,753</b>	<b>1,449,000,656</b>
Dilutive effects:			
• Stock option plans	-	-	-
• Alcatel-Lucent's convertible bonds (OCEANE) issued on June 12, 2003	-	-	-
• 7.75% convertible securities	-	-	-
• 2.875% Series A convertible securities	-	-	-
• 2.875% Series B convertible securities	-	-	-
<b>WEIGHTED AVERAGE NUMBER OF SHARES – DILUTED</b>	<b>2,259,174,970</b>	<b>2,255,890,753</b>	<b>1,449,000,656</b>

<b>Earnings per share, attributable to the equity holders of the parent</b> <i>(in euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Basic	(2.31)	(1.56)	(0.07)
Diluted	(2.31)	(1.56)	(0.07)

### ORDINARY SHARES

<b>Ordinary shares owned by consolidated subsidiaries of the Group</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Number of Alcatel-Lucent ordinary shares (weighted average number)	58,351,831	58,630,445	58,466,525
Number of Alcatel-Lucent share equivalents	-	-	-

SHARES SUBJECT TO FUTURE ISSUANCE

	December 31, 2008	December 31, 2007	December 31, 2006
Number of stock options not exercised	221,247,918	201,259,446	192,759,306

The following table summarizes the number of potential ordinary shares that were excluded from the diluted per share calculation, because the effect of including these potential shares was anti-dilutive:

	2008	2007	2006
Equity plans (stock option, RSU)	1,660,424	6,841,930	8,885,037
Alcatel-Lucent's convertible bonds (OCEANE) issued on June 12, 2003	63,192,019	63,192,019	63,192,019
8.00% convertible securities	-	-	3,067,982
7.75% convertible securities	44,463,051	44,463,051	3,705,372
2.875% Series A convertible securities	152,333,655	68,203,544	4,727,274
2.875% Series B convertible securities	178,839,711	80,161,899	5,552,971

NOTE 12 GOODWILL

(in millions of euros)

	Net
<b>GOODWILL AT DECEMBER 31, 2005</b>	<b>3,772</b>
Additions	8,091
Disposals and discontinued operations	(795)
Changes during goodwill allocation period	(101)
Impairment losses for the period	-
Reduction of goodwill related to deferred taxes initially unrecognized	(5)
Net effect of exchange rate changes	(71)
Other changes	-
<b>GOODWILL AT DECEMBER 31, 2006</b>	<b>10,891</b>
Additions	46
Disposals and discontinued operations	-
Changes during goodwill allocation period	-
Impairment losses for the period	(2,657)
Reduction of goodwill related to deferred taxes initially unrecognized	(256)
Net effect of exchange rate changes	(697)
Other changes	1
<b>GOODWILL AT DECEMBER 31, 2007</b>	<b>7,328</b>
Additions	72
Disposals and discontinued operations	-
Changes during goodwill allocation period	(7)
Impairment losses for the period	(3,272)
Reduction of goodwill related to deferred taxes initially unrecognized	-
Net effect of exchange rate changes	92
Other changes	2
<b>GOODWILL AT DECEMBER 31, 2008</b>	<b>4,215</b>

**Main changes accounted for in 2008**

Additions to goodwill include the Motive acquisition (see Note 3). Impairment losses have been recorded in connection with the impairment tests performed in 2008 (see below).

**Main changes accounted for in 2007**

No major change related to new acquisitions during the period. Impairment losses were recorded in connection with the 2007 annual impairment test and the additional impairment tests performed in the fourth quarter 2007 (see below).

Goodwill was reduced in relation to the recognition during 2007 of initially unrecognized deferred tax assets in Lucent, as prescribed by IAS 12 "Income Taxes" (refer to Note 9).

**Main changes accounted for in 2006**

Additions to goodwill related primarily to the business combination with Lucent (see Note 3).

Reduction in goodwill presented in the caption "Disposals and discontinued operations" concerns the goodwill related to the businesses to be disposed of or contributed to Thales (see Note 3).

**Goodwill allocation**

All goodwill recognized in 2008, 2007 and 2006 have been allocated to the cash generating units by December 31 of the relevant year.

Due to the new organization effective January 1, 2009, goodwill has been reallocated, at this date, to the new Business Divisions, corresponding to the Groups of Cash Generating Units, at which level Goodwill is monitored and impairment tested. A specific impairment test triggered by this new organization will be performed as of January 1, 2009.

The goodwill amounts relating to business combinations, for which the initial accounting period has not yet been completed at December 31, 2008, are preliminary.

**Impairment tests of goodwill****2008 annual impairment test and additional test performed in the fourth quarter 2008**

During the second quarter of 2008, revenues from the CDMA business declined at a higher pace than the company had planned. To a large extent, this was due to the unexpected, strong reduction in the capital expenditure of a key customer in North America. Although there are new opportunities in other geographic areas, the uncertainty regarding spending in North America led the company to make more cautious mid-term assumptions about the results of this business.

Following the 2008 annual impairment tests of goodwill (performed in May/June 2008), an impairment loss of € 810 million was accounted for related to the CDMA business.

In view of the difficult financial and economic environment, the continuing material decrease in its market capitalization and the new 2009 outlook, taking into account the estimated consequences of the strategic decisions disclosed in mid-December 2008, Alcatel-Lucent performed an additional impairment test during the fourth quarter 2008.

The re-assessment of the company's near-term outlook taking into account more conservative growth assumptions for the telecommunications equipment and related services market in 2009, coupled with the decision

to streamline the company's portfolio and to use a higher discount rate, led to an additional impairment loss on goodwill of € 2,429 million and other impairment losses on other assets (refer to Note 7).

Impairment losses are related to the following CGUs: € 1,019 million in the Optics Business Division, € 530 million in the CDMA Business Division, € 300 million in the Multicore Business Division, € 241 million in the Applications Business Division and € 264 million in the Fixed Access Business Division.

These impairment losses are presented on a single specific line item on the face of the income statement ("impairment of assets"). The recoverable amount of the impaired assets has been determined as described in Note 1g.

**2007 annual impairment test and additional tests performed in the fourth quarter 2007**

The 2007 annual impairment test of goodwill was performed in May/June 2007 and resulted in the recognition of impairment losses accounted for in the second quarter of 2007 on tangible assets for an amount of € 81 million, on capitalized development costs and other intangible assets for an amount of € 208 million and on goodwill for an amount of € 137 million. These impairment losses of € 426 million were related to the group of cash generating units (CGUs) corresponding to the Business Division UMTS (Universal Mobile Telephone Communications Systems)/W-CDMA (Wideband Code Division Multiple Access). The impairment charge was due to the delay in revenue generation from its products as compared to its initial expectations, and to a reduction in margin estimates for this business.

As described in Note 2c, due to the continuing decrease in the market value of Alcatel-Lucent's shares during the fourth quarter of 2007 and to the company's revised 2007 revenue outlook, an additional test was performed in the fourth quarter 2007 and resulted in recognizing an additional impairment loss on goodwill of € 2,522 million.

Impairment losses of € 2,109 million are related to the CGUs in the CDMA Business Division, € 396 million are related to the CGUs in the IMS (Internet Protocol Multimedia Subsystem business division) and the remainder is related to the CGUs corresponding to the Business Division Network Integration. The impairment charge in the CDMA Business Division was due to a revision in the long-term outlook for this activity, taking into account the recent change in market conditions as well as potential future technology evolutions.

These impairment losses are presented on a single specific line item on the face of the income statement ("impairment of assets"). The recoverable amount of the impaired assets was determined as described in Note 1g.

These tests were performed after allocating the goodwill related to the Lucent business combination to the different Business Divisions (i.e. groups of cash generating units) based upon the carrying values of the Business Divisions at the beginning of the quarter according to the Business Division structure existing before the change of our business organization that was announced and put in place in November 2007.

As prescribed by IAS 36 "Impairment of Assets", a third impairment test was performed in 2007, due to the reorganization of the reporting structure that occurred in November 2007, based upon the same recoverable values and carrying values of the Business Divisions as of December 31, 2007. This test was performed only to ensure that, after the change in our reporting structure, the recoverable values of each Business Division were higher



than the corresponding carrying values. No additional impairment loss was accounted for in relation to this third impairment test.

#### 2006 annual impairment test and additional test performed in the fourth quarter 2006

The 2006 annual impairment tests of goodwill (performed in May/June 2006 on the basis of published data at March 31, 2006) did not result in the recognition of any impairment losses in 2006.

The additional impairment test of goodwill performed in December 2006 (on Alcatel's goodwill excluding Lucent's and Nortel's goodwill) due to the reorganization of the reporting structure did not result in the recognition of any impairment losses in 2006.

In those groups of cash generating units ("CGU" – please refer to Note 1g) in which there is significant goodwill, the data (as of December 31) and assumptions used for the last goodwill impairment tests performed in 2008 and 2007 were as follows:

<b>2008 additional Test – current reporting structure</b> <i>(in millions of euros)</i>	<b>Net carrying amount of Goodwill<sup>(1)</sup></b>	<b>Difference between recoverable amount (A) and carrying amount of the net assets (B) (A) – (B)<sup>(1)</sup></b>	<b>Discount rate</b>	<b>Valuation method</b>
Optics division	1,138	0	12.0%	Discounted cash flows and other data <sup>(2)</sup>
Maintenance division	1,439	694	12.0%	Same as above <sup>(2)</sup>
Other CGU	1,638	-	-	Same as above <sup>(2)</sup>
<b>TOTAL NET</b>	<b>4,215</b>			

(1) As of December 31, 2008. The recoverable amount is the value in use for the Business Divisions disclosed.

(2) Discounted cash flows for 5 years plus a terminal value. Growth rates are those used in the Group's budgets and industry rates for the subsequent periods. Perpetual growth rates used for the residual values are between -10% and +2.5% depending on the CGUs.

<b>2007 additional test</b> <i>(in millions of euros)</i>	<b>Net carrying amount of Goodwill<sup>(1)</sup></b>	<b>Difference between recoverable amount (A) and carrying amount of the net assets (B) (A) – (B)<sup>(1)</sup></b>	<b>Discount rate</b>	<b>Valuation method</b>
CDMA (Code Division Multiple Access) division	1,381	8	10.0%	Discounted cash flows and other data <sup>(2)</sup>
Optics division	2,160	653	10.0%	Same as above <sup>(2)</sup>
Maintenance division	1,388	1,040	10.0%	Same as above <sup>(2)</sup>
Other CGU	2,399	-	-	Same as above <sup>(2)</sup>
<b>TOTAL NET</b>	<b>7,328</b>			

(1) As of December 31, 2007. The recoverable amount is the value in use for the Business Divisions disclosed.

(2) Discounted cash flows for 5 years plus a terminal value. Growth rates are those used in the Group's budgets and industry rates for the subsequent periods. Perpetual growth rates used for the residual values are between -10% and +4% depending on the CGUs.

#### Specific impairment test as of January 1, 2009 in connection with the new organization

Due to the new organization of our reporting structure effective from January 1, 2009 onwards (see Note 5f), an additional impairment test will be performed as of January 1, 2009, on the goodwill for which the underlying Business Divisions have changed. The remaining goodwill as of December 31,

2008 will be reallocated to the new Business Divisions using a relative value approach similar to the one used when an entity disposes of an operation within a Business Division.

The determination of the carrying value of each Business Division is not yet finalized.

**NOTE 13 INTANGIBLE ASSETS****a/ Gross value**

<i>(in millions of euros)</i>	<b>Capitalized development costs</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>AT DECEMBER 31, 2005</b>	<b>1,279</b>	<b>488</b>	<b>1,767</b>
Capitalization	386	-	386
Additions	-	16	16
Assets held for sale, discontinued operations and disposals	(66)	(31)	(97)
Write-offs <sup>(1)</sup>	(522)	(234)	(756)
Business combinations <sup>(2)</sup>	-	5,156	5,156
Net effect of exchange rate changes	(24)	(14)	(38)
Other changes	165	(7)	158
<b>AT DECEMBER 31, 2006</b>	<b>1,218</b>	<b>5,374</b>	<b>6,592</b>
Capitalization	414	34	448
Additions	-	39	39
Assets held for sale, discontinued operations and disposals	(1)	(15)	(16)
Write-offs	(46)	(14)	(60)
Business combinations	-	13	13
Net effect of exchange rate changes	(36)	(525)	(561)
Other changes	(1)	(2)	(3)
<b>AT DECEMBER 31, 2007</b>	<b>1,548</b>	<b>4,904</b>	<b>6,452</b>
Capitalization	410	65	475
Additions	-	13	13
Assets held for sale, discontinued operations and disposals	-	(42)	(42)
Write-offs	(11)	(8)	(19)
Business combinations	-	36	36
Net effect of exchange rate changes	38	257	295
Other changes	-	-	-
<b>AT DECEMBER 31, 2008</b>	<b>1,985</b>	<b>5,225</b>	<b>7,210</b>

(1) Mainly related to discontinued product lines (refer to Notes 3 and 27c).

(2) Mainly related to Lucent business combination (refer to Note 3).

Other intangible assets include primarily intangible assets acquired in business combinations (acquired technologies, in process research and development and customer relationships), patents, trademarks and licenses.

**b/ Amortization and impairment losses**

<i>(in millions of euros)</i>	<b>Capitalized development costs</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>AT DECEMBER 31, 2005</b>	<b>(599)</b>	<b>(349)</b>	<b>(948)</b>
Amortization	(277)	(104)	(381)
Impairment losses	(104)	(40)	(144)
Write-offs <sup>(1)</sup>	325	1	326
Reversals of impairment losses	-	-	-
Assets held for sale, discontinued operations and disposals	37	25	62
Net effect of exchange rate changes	11	20	31
Other changes	(110)	13	(97)
<b>AT DECEMBER 31, 2006</b>	<b>(717)</b>	<b>(434)</b>	<b>(1,151)</b>
Amortization	(258)	(758)	(1,016)
Impairment losses	(41)	(175)	(216)
Write-offs	46	1	47
Reversals of impairment losses	-	-	-
Assets held for sale, discontinued operations and disposals	-	14	14
Net effect of exchange rate changes	18	77	95
Other changes	-	5	5
<b>AT DECEMBER 31, 2007</b>	<b>(952)</b>	<b>(1,270)</b>	<b>(2,222)</b>
Amortization	(308)	(561)	(869)
Impairment losses	(135) <sup>(2)</sup>	(1,276) <sup>(3)</sup>	(1,411)
Write-offs	11	8	19
Reversals of impairment losses	-	-	-
Assets held for sale, discontinued operations and disposals	-	14	14
Net effect of exchange rate changes	(23)	(153)	(176)
Other changes	-	2	2
<b>AT DECEMBER 31, 2008</b>	<b>(1,407)</b>	<b>(3,236)</b>	<b>(4,644)</b>

(1) Mainly related to discontinued product lines (refer to Notes 3 and 27c).

(2) Mainly related to the capitalized development costs related to the WiMAX technology following the decision announced as of December 12, 2008 to limit our WiMAX efforts to supporting fixed and nomadic broadband access applications and to stop the WiMAX full Mobility developments. These impairment losses are presented on the specific line item of the income statement "Impairment of assets".

(3) Impairments resulting from the additional impairment test performed in December 2008 and mainly related to the intangibles recognized on CDMA business in connection with Lucent business combination.

c/ Net value

<i>(in millions of euros)</i>	<b>Capitalized development costs</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>AT DECEMBER 31, 2005</b>	<b>680</b>	<b>139</b>	<b>819</b>
Capitalization	386	-	386
Additions	-	16	16
Amortization	(277)	(104)	(381)
Impairment losses	(104)	(40)	(144)
Write-offs <sup>(1)</sup>	(197)	(233)	(430)
Reversals of impairment losses	-	-	-
Assets held for sale, discontinued operations and disposals	(29)	(6)	(35)
Business combinations <sup>(2)</sup>	-	5,156	5,156
Net effect of exchange rate changes	(13)	6	(7)
Other changes	55	6	61
<b>AT DECEMBER 31, 2006</b>	<b>501</b>	<b>4,940</b>	<b>5,441</b>
Capitalization	414	34	448
Additions	-	39	39
Amortization	(258)	(758)	(1,016)
Impairment losses	(41)	(175)	(216)
Write-offs	-	(13)	(13)
Reversals of impairment losses	-	-	-
Assets held for sale, discontinued operations and disposals	(1)	(1)	(2)
Business combinations	-	13	13
Net effect of exchange rate changes	(18)	(448)	(466)
Other changes	(1)	3	2
<b>AT DECEMBER 31, 2007</b>	<b>596</b>	<b>3,634</b>	<b>4,230</b>
Capitalization	410	65	475
Additions	-	13	13
Amortization	(308)	(561)	(869)
Impairment losses	(135) <sup>(3)</sup>	(1,276) <sup>(4)</sup>	(1,411)
Write-offs	-	-	-
Reversals of impairment losses	-	-	-
Assets held for sale, discontinued operations and disposals	-	(28)	(28)
Business combinations	-	36	36
Net effect of exchange rate changes	15	104	119
Other changes	-	2	2
<b>AT DECEMBER 31, 2008</b>	<b>578</b>	<b>1,989</b>	<b>2,567</b>

(1) Mainly related to discontinued product lines (refer to Notes 3 and 27c).

(2) Mainly related to Lucent business combination (refer to Note 3).

(3) Mainly related to the capitalized development costs related to the WiMAX technology following the decision announced as of December 12, 2008 to limit our WiMAX efforts to supporting fixed and nomadic broadband access applications and to stop the WiMAX full Mobility developments. These impairment losses are presented on the specific line item of the income statement "Impairment of assets".

(4) Impairments resulting from the additional impairment test performed in December 2008 and mainly related to the intangibles recognized on CDMA business in connection with Lucent business combination.

## NOTE 14 PROPERTY, PLANT AND EQUIPMENT

### a/ Changes in property, plant and equipment, gross

<i>(in millions of euros)</i>	Land	Buildings	Plant, equipment and tools	Other	Total
<b>AT DECEMBER 31, 2005</b>	<b>85</b>	<b>1,032</b>	<b>2,687</b>	<b>613</b>	<b>4,417</b>
Additions	1	28	153	100	282
Assets held for sale, discontinued operations and disposals <sup>(1)</sup>	(38)	(364)	(307)	(120)	(829)
Write-offs	-	(17)	(36)	(16)	(69)
Business combinations <sup>(2)</sup>	239	489	237	50	1,015
Net effect of exchange rate changes	(2)	(33)	(95)	(8)	(138)
Other changes	2	(7)	44	(47)	(8)
<b>AT DECEMBER 31, 2006</b>	<b>287</b>	<b>1,128</b>	<b>2,683</b>	<b>572</b>	<b>4,670</b>
Additions	1	43	209	101	354
Assets held for sale, discontinued operations and disposals	(96)	(39)	(153)	(21)	(309)
Write-offs	-	(1)	(18)	(3)	(22)
Business combinations	-	11	5	2	18
Net effect of exchange rate changes	(21)	(74)	(107)	(8)	(210)
Other changes	(2)	(10)	32	(35)	(15)
<b>AT DECEMBER 31, 2007</b>	<b>169</b>	<b>1,058</b>	<b>2,651</b>	<b>608</b>	<b>4,486</b>
Additions	-	46	211	157	414
Assets held for sale, discontinued operations and disposals	(6)	(50)	(119)	(78)	(253)
Write-offs	-	(8)	(33)	(16)	(57)
Business combinations	-	5	(6)	-	(1)
Net effect of exchange rate changes	7	32	49	(5)	83
Other changes	(7)	22	83	(96)	2
<b>AT DECEMBER 31, 2008</b>	<b>163</b>	<b>1,105</b>	<b>2,836</b>	<b>570</b>	<b>4,674</b>

(1) Mainly related to activities disposed of or contributed to Thales in 2007 (refer to Note 3).

(2) Mainly related to Lucent business combination (refer to Note 3).

**b/ Changes in accumulated depreciation of property, plant and equipment and impairment losses**

<i>(in millions of euros)</i>	<b>Land</b>	<b>Buildings</b>	<b>Plant, equipment and tools</b>	<b>Other</b>	<b>Total</b>
<b>AT DECEMBER 31, 2005</b>	<b>(14)</b>	<b>(555)</b>	<b>(2,249)</b>	<b>(488)</b>	<b>(3,306)</b>
Depreciation charge	-	(49)	(177)	(24)	(250)
Impairment losses	-	-	-	(2)	(2)
Reversals of impairment losses	-	-	-	-	-
Write-offs	-	17	36	16	69
Assets held for sale, discontinued operations and disposals <sup>(1)</sup>	3	203	231	89	526
Net effect of exchange rate changes	-	15	82	7	104
Other changes	3	(7)	15	-	11
<b>AT DECEMBER 31, 2006</b>	<b>(8)</b>	<b>(376)</b>	<b>(2,062)</b>	<b>(402)</b>	<b>(2,848)</b>
Depreciation charge	-	(105)	(262)	(49)	(416)
Impairment losses	-	(44)	(29)	(21)	(94)
Reversals of impairment losses	-	-	-	-	-
Write-offs	-	1	18	3	22
Assets held for sale, discontinued operations and disposals	-	28	132	18	178
Net effect of exchange rate changes	-	22	81	4	107
Other changes	-	(7)	8	(8)	(7)
<b>AT DECEMBER 31, 2007</b>	<b>(8)</b>	<b>(481)</b>	<b>(2,114)</b>	<b>(455)</b>	<b>(3,058)</b>
Depreciation charge	-	(103)	(258)	(26)	(387)
Impairment losses	-	-	(39)	-	(39)
Reversals of impairment losses	-	-	-	-	-
Write-offs	-	8	33	16	57
Assets held for sale, discontinued operations and disposals	-	18	106	26	150
Net effect of exchange rate changes	(1)	(14)	(37)	5	(46)
Other changes	-	-	(4)	4	-
<b>AT DECEMBER 31, 2008</b>	<b>(9)</b>	<b>(572)</b>	<b>(2,313)</b>	<b>(430)</b>	<b>(3,323)</b>

(1) Mainly related to activities disposed of or contributed to Thales in 2007 (refer to Note 3).

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**c/ Changes in property, plant and equipment, net**

<i>(in millions of euros)</i>	<b>Land</b>	<b>Buildings</b>	<b>Plant, equipment and tools</b>	<b>Other</b>	<b>Total</b>
<b>AT DECEMBER 31, 2005</b>	<b>71</b>	<b>477</b>	<b>438</b>	<b>125</b>	<b>1,111</b>
Additions	1	28	153	100	282
Depreciation charge	-	(49)	(177)	(24)	(250)
Impairment losses	-	-	-	(2)	(2)
Reversals of impairment losses	-	-	-	-	-
Assets held for sale, discontinued operations and disposals <sup>(1)</sup>	(35)	(161)	(76)	(31)	(303)
Business combinations <sup>(2)</sup>	239	489	237	50	1,015
Net effect of exchange rate changes	(2)	(18)	(13)	(1)	(34)
Other changes	5	(14)	59	(47)	4
<b>AT DECEMBER 31, 2006</b>	<b>279</b>	<b>752</b>	<b>621</b>	<b>170</b>	<b>1,822</b>
Additions	1	43	209	101	354
Depreciation charge	-	(105)	(262)	(49)	(416)
Impairment losses	-	(44)	(29)	(21)	(94)
Reversals of impairment losses	-	-	-	-	-
Assets held for sale, discontinued operations and disposals	(96)	(11)	(21)	(3)	(131)
Business combinations	-	11	5	2	18
Net effect of exchange rate changes	(21)	(52)	(26)	(4)	(103)
Other changes	(2)	(17)	40	(43)	(22)
<b>AT DECEMBER 31, 2007</b>	<b>161</b>	<b>577</b>	<b>537</b>	<b>153</b>	<b>1,428</b>
Additions	-	46	211	157	414
Depreciation charge	-	(103)	(258)	(26)	(387)
Impairment losses	-	-	(39)	-	(39)
Reversals of impairment losses	-	-	-	-	-
Assets held for sale, discontinued operations and disposals	(6)	(32)	(13)	(52)	(103)
Business combinations	-	5	(6)	-	(1)
Net effect of exchange rate changes	7	18	12	-	37
Other changes	(7)	22	79	(92)	2
<b>AT DECEMBER 31, 2008</b>	<b>155</b>	<b>533</b>	<b>523</b>	<b>140</b>	<b>1,351</b>

(1) Mainly related to activities disposed of or contributed to Thales in 2007 (refer to Note 3).

(2) Mainly related to Lucent business combination (refer to Note 3)

**NOTE 15 FINANCE LEASES AND OPERATING LEASES****a/ Finance leases**

Property, plant and equipment held under finance leases have a net carrying amount of € 0 million at December 31, 2008 (€ 0 million at December 31, 2007 and € 45 million at December 31, 2006). Such finance leases relate primarily to plant and equipment.

Future minimum lease payments under non-cancelable finance leases are shown in Note 31a – Off balance sheet commitments.

The main finance lease contract as of December 31, 2006 concerned a company consolidated proportionately at 51%, Alda Marine, which leased four vessels as part of its activity of laying and maintaining submarine cables. The net carrying amount of these vessels recognized in property, plant and

equipment was € 45 million at December 31, 2006. The corresponding obligation to pay future lease payments was € 51 million at December 31, 2006. During 2007, Alda Marine exercised its option to purchase the vessels.

**b/ Operating leases**

Future minimum lease payments under non-cancelable operating leases are shown in Note 31a – Off balance sheet commitments.

Future minimum sublease rentals income expected to be received under non-cancelable operating subleases were € 163 million at December 31, 2008 (€ 180 million at December 31, 2007 and € 202 million at December 31, 2006).

Lease payments under operating leases recognized as an expense in the income statement are analyzed as follows:

<i>(in millions of euros)</i>	2008	2007	2006
Lease payments – minimum	211	204	121
Lease payments – conditional	38	37	37
Sublease rental income	(27)	(22)	(14)
<b>TOTAL RECOGNIZED IN THE INCOME STATEMENT</b>	<b>222</b>	<b>219</b>	<b>144</b>

**NOTE 16 SHARE IN NET ASSETS OF EQUITY AFFILIATES AND JOINT VENTURES****a/ Share in net assets of equity affiliates**

<i>(in millions of euros)</i>	Percentage owned			Value		
	2008	2007	2006	2008	2007	2006
Thales <sup>(1)</sup>	-	20.80%	9.5%	-	1,200	372
Draka Comteq BV <sup>(3)</sup>	-	-	49.9%	-	-	117
2Wire <sup>(2)</sup>	26.7%	26.7%	27.5%	39	62	82
Other (less than € 50 million each)	-	-	-	74	90	111
<b>SHARE IN NET ASSETS OF EQUITY AFFILIATES</b>				<b>113</b>	<b>1,352</b>	<b>682</b>

(1) Although historical Alcatel owned only 9.5% in Thales before the increase of our ownership resulting from the contribution of our railway transport systems business and our critical integration systems business that occurred during the first quarter of 2007, we were nevertheless the largest private shareholder of this group, with three seats on Thales' Board of Directors and therefore had a significant influence on this company. Our stake in Thales was accordingly accounted for using the equity method in 2006. Following the contribution of our railway transport systems and our critical integration systems business to Thales on January 5, 2007, Alcatel-Lucent's stake in Thales increased to 20.95% (20.90% in voting rights). Subsequently, due to various capital increases that occurred in 2007, our stake at December 31, 2007 was 20.80% (21.05% in voting rights).

Following the definitive agreement announced as of December 19, 2008 to sell our stake in Thales to Dassault Aviation, our shares were reclassified from net assets in equity affiliates to assets held for sale at this date.

The Group's share of net income (loss) accounted for in 2006 was based on Thales' results for the second half of 2005, the first half of 2006 and an estimation of the second half of 2006.

The Group's share of net income (loss) of equity affiliates accounted for in 2007 is based on Thales' results for 2007 adjusted for the purchase price allocation entries. The purchase price allocation of the additional shares, received by Alcatel-Lucent in the first quarter of 2007, created additional goodwill of € 402 million.

The Group's share of net income (loss) of equity affiliates accounted for in 2008 is based on Thales' results for 2008 adjusted for the purchase price allocation entries.

- (2) During the first quarter of 2006, Alcatel acquired a 27.5% stake in 2Wire (see Note 3).  
(3) During the last quarter of 2007, Alcatel-Lucent sold its 49.9% stake in Draka Comteq BV (see Note 3)



Alcatel-Lucent's share in the market capitalization of listed equity affiliates at December 31 was as follows:

<i>(in millions of euros)</i>	2008	2007	2006
Thales	-	1,681	615

#### b/ Change in share of net assets of equity affiliates

<i>(in millions of euros)</i>	2008	2007	2006
<b>CARRYING AMOUNT AT JANUARY 1</b>	<b>1,352</b>	<b>682</b>	<b>606</b>
Change in perimeter of equity affiliates <sup>(1)</sup>	(18)	629	82
Share of net income (loss) <sup>(2)</sup>	96	110	22
Net effect of exchange rate changes	4	(10)	(15)
Reclassification to assets held for sale (Thales shares)	(1,303)	-	-
Other changes	(18)	(59)	(13)
<b>CARRYING AMOUNT AT DECEMBER 31</b>	<b>113</b>	<b>1,352</b>	<b>682</b>

(1) Of which € 757 million accounted for in 2007 relates to the contribution of our railway transport systems business and critical integration systems business to Thales and the resulting increase of our ownership in this entity and € (120) million accounted for in 2007 relates to the disposal of Draka Comteq BV.

(2) Including respectively € 3 million and € 8 million of impairment losses in 2007 and 2006 relating to equity affiliate goodwill (see Note 7).

#### c/ Summarized financial information for equity affiliates

##### Summarized financial information for Thales:

<i>(in millions of euros)</i>	December 31, 2008 <sup>(2)</sup>	December 31, 2007 <sup>(1)</sup>	December 31, 2006
<b>Balance sheet</b>			
Non-current assets	-	6,817	4,164
Current assets	-	10,879	10,858
<b>TOTAL ASSETS</b>	<b>-</b>	<b>17,696</b>	<b>15,022</b>
Shareholders' equity	-	3,884	2,294
Non-current liabilities	-	2,867	2,720
Current liabilities	-	10,945	10,008
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>17,696</b>	<b>15,022</b>
<b>Income statement</b>			
Revenues	(2)	12,296	10,264
Income (loss) from operating activities	(2)	1,020	576
Net income (loss) attributable to equity holders of the parent <sup>(1)</sup>	(2)	887	388

(1) The share of net income (loss) of equity affiliates related to Thales was computed based upon a preliminary estimated net income of Thales of approximately € 800 million. Consolidated results of Alcatel-Lucent were authorized for publication by our Board on February 7, 2008, Thales' results were authorized for publication by Thales' board held on March 6, 2008.

(2) The share of net income (loss) of equity affiliates related to Thales was computed based upon a preliminary estimated net income of Thales. Information related to Thales are not yet published.

##### Aggregated financial information for other equity affiliates as if those entities were fully consolidated

<i>(in millions of euros)</i>	2008	2007 <sup>(1)</sup>	2006
Total assets	932	907	1,389
Liabilities (excluding shareholders' equity)	678	497	699
Shareholders' equity	254	410	690
Revenues	572	646	1,148
<b>NET INCOME (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>(41)</b>	<b>(53)</b>	<b>(59)</b>

(1) 2007 aggregated financial information excludes information for Draka Comteq since Alcatel-Lucent sold its interest in this equity affiliate during the fourth quarter of 2007 (see Note 3).

#### d/ Aggregated financial information for joint ventures

Aggregated financial information for the Group's share in the net assets of joint ventures proportionately consolidated (Alda Marine in 2008 and 2007 and Alcatel Alenia Space, Telespazio, Evolium and Alda Marine in 2006) was as follows:

##### Balance sheet data

(in millions of euros)

	2008	2007	2006 <sup>(1)</sup>
Non-current assets	38	41	57
Current assets	6	7	1,723
Shareholders' equity	-	-	776
Other non-current liabilities	-	-	-
Current liabilities	44	48	1,004

(1) Aggregated financial information for Alcatel Alenia Space and Telespazio for 2006 was reported as assets held for sale (included in current assets) and liabilities related to disposal groups held for sale (included in current liabilities) (see Notes 3 and 10).

##### Income statement data

(in millions of euros)

	2008	2007	2006
Revenues	-	-	-
Cost of sales	5	5	28
Income (loss) from operating activities before restructuring, impairment of intangible assets and capital gain on disposal of consolidated entities	5	4	21
Income (loss) from discontinued operations <sup>(1)</sup>	-	(3)	39
<b>NET INCOME (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>-</b>	<b>(3)</b>	<b>56</b>

##### Cash flow statement data

(in millions of euros)

	2008	2007	2006
Net cash provided (used) by operating activities	6	7	28
Net cash provided (used) by investing activities	-	(1)	(26)
Net cash provided (used) by financing activities	(2)	(2)	(3)
Net cash provided (used) by operating activities of discontinued operations <sup>(1)</sup>	-	(71)	134
Net cash provided (used) by investing activities of discontinued operations <sup>(1)</sup>	-	(18)	(26)
Net cash provided (used) by financing activities of discontinued operations <sup>(1)</sup>	-	44	(110)

(1) Aggregated financial information for Alcatel Alenia Space and Telespazio only relates to full year 2006 and to the first three months of 2007. Such financial information has been reported as discontinued operations (see Note 3 and Note 10).

## NOTE 17 FINANCIAL ASSETS

(in millions of euros)

	2008			2007			2006		
	Other non-current financial assets <sup>(1)</sup>	Marketable securities <sup>(2)</sup>	Total	Other non-current financial assets	Marketable securities <sup>(2)</sup>	Total	Other non-current financial assets	Marketable securities <sup>(2)</sup>	Total
Financial assets available for sale	585	253	838	549	261	810	674	1,122	1,796
Financial assets at fair value through profit or loss		653	653		633	633		820	820
Financial assets at amortized cost	111		111	155		155	129		129
<b>TOTAL</b>	<b>696</b>	<b>906</b>	<b>1,602</b>	<b>704</b>	<b>894</b>	<b>1,598</b>	<b>803</b>	<b>1,942</b>	<b>2,745</b>

(1) Of which € 301 million matures within one year.

Of which € 42 million of financial assets at amortized cost represented a loan to one of our joint venturers.

(2) Of which € 0 million is non-current and € 906 million is current as of December 31, 2008 (€ 0 million and € 794 million respectively as of December 31, 2007 and € 697 million and € 1,245 million as of December 31, 2006).

No financial asset is considered as being held to maturity.

The main other non-current financial asset is the restricted cash held in the context of the Winstar litigation (refer to Note 34 g) equal to € 236 million as of December 31, 2008.

The cumulated fair value changes of financial assets available for sale represented a potential gain as of December 31, 2008 of € 65 million that was booked directly in equity.

### a/ Financial assets available for sale

<i>(in millions of euros)</i>	2008			2007			2006		
	Other non-current financial assets	Marketable securities	Total	Other non-current financial assets	Marketable securities	Total	Other non-current financial assets	Marketable securities	Total
<b>NET CARRYING AMOUNT AT JANUARY 1</b>	<b>549</b>	<b>261</b>	<b>810</b>	<b>674</b>	<b>1,122</b>	<b>1,796</b>	<b>122</b>	<b>-</b>	<b>122</b>
Additions/(disposals)	(9)	19	10	(44)	(834)	(878)	18	(556)	(538)
Fair value changes	(8)	(30)	(38)	12	8	20	26	10	36
Impairment losses <sup>(1)</sup>	(12)	(2)	(14)	(16)	-	(16)	(4)	-	(4)
Change in consolidation group	-	-	-	(18)	-	(18)	448	1,423	1,871
Other changes <sup>(2)</sup>	65	5	70	(59)	(35)	(94)	64	245	309
<b>NET CARRYING AMOUNT AT DECEMBER 31</b>	<b>585</b>	<b>253</b>	<b>838</b>	<b>549</b>	<b>261</b>	<b>810</b>	<b>674</b>	<b>1,122</b>	<b>1,796</b>
Of which:									
• at fair value <sup>(3)</sup>	79	199	278	48	257	305	54	1,115	1,169
• at cost	506	54	560	501	4	505	620	7	627

(1) Included in the amounts reported in Note 7

(2) Of which € 232 million is reclassified from marketable securities at fair value through profit and loss to marketable securities available for sale category due to the amendment of IAS 39 related to the fair value option in 2006 (see Note 1u).

(3) Fair value is generally determined by reference to published price quotations in an active market with limited exceptions for other non-current financial assets for which other valuation techniques have been used.

Financial assets available for sale are stated at fair value, except for non-listed financial assets, which are stated at amortized cost, if no reliable fair value exists.

<i>(in millions of euros)</i>	2008	2007	2006
<b>Fair value changes:</b>			
Fair value changes recognized directly in shareholders' equity	(38)	47	36
Changes resulting from gains (losses) previously recognized in shareholders' equity now recognized in net income (loss) due to disposals <sup>(1)</sup>	-	(27)	-

(1) Relates to the disposal of Avanex in 2007.

### b/ Financial assets at fair value through profit or loss

<i>(in millions of euros)</i>	2008	2007	2006
<b>NET CARRYING AMOUNT AT JANUARY 1</b>	<b>633</b>	<b>820</b>	<b>640</b>
Additions/(disposals)	(44)	(181)	431
Fair value changes	19	2	2
Impairment losses	-	-	-
Other changes <sup>(1)</sup>	45	(8)	(253)
<b>NET CARRYING AMOUNT AT DECEMBER 31</b>	<b>653</b>	<b>633</b>	<b>820</b>

(1) Of which € 232 million is reclassified to marketable securities available for sale due to the amendment of IAS 39 related to the fair value option (see Note 1u).

**c/ Financial assets at amortized cost***(in millions of euros)*

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>NET CARRYING AMOUNT AT JANUARY 1</b>	<b>155</b>	<b>129</b>	<b>184</b>
Additions/(disposals)	(26)	32	(44)
Impairment losses <sup>(1)</sup>	-	-	-
Change in consolidation group	-	-	(9)
Other changes (reclassifications)	(18)	(6)	(2)
<b>NET CARRYING AMOUNT AT DECEMBER 31</b>	<b>111</b>	<b>155</b>	<b>129</b>

(1) Included in the amounts reported in Note 7.

**NOTE 18 OPERATING WORKING CAPITAL**

## Operating working capital

*(in millions of euros)*

	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Inventories and work in progress, net	2,196	2,235	2,259
Trade receivables and related accounts, net	4,330	4,163	3,877
Advances and progress payments	99	110	87
Customers' deposits and advances	(929)	(847)	(778)
Trade payables and related accounts	(4,571)	(4,514)	(4,027)
Amounts due from customers on construction contracts	495	704	615
Amounts due to customers on construction contracts	(188)	(407)	(273)
<b>OPERATING WORKING CAPITAL, NET</b>	<b>1,432</b>	<b>1,444</b>	<b>1,760</b>

**Analysis of amounts due from/to customers on construction contracts***(in millions of euros)*

	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Amounts due from customers on construction contracts	495	704	615
Amounts due to customers on construction contracts	(188)	(407)	(273)
<b>TOTAL</b>	<b>307</b>	<b>297</b>	<b>342</b>
Work in progress on construction contracts, gross	219	272	347
Work in progress on construction contracts, depreciation	(25)	(42)	(23)
Customer receivables on construction contracts	363	438	299
Advance payments received on construction contracts	(64)	(224)	(211)
Product sales reserves – construction contracts	(186)	(147)	(70)
<b>TOTAL</b>	<b>307</b>	<b>297</b>	<b>342</b>

<i>(in millions of euros)</i>	December 31, 2007	Cash flow	Change in consolidated companies	Translation adjustments and other	December 31, 2008
Inventories and work in progress <sup>(1)</sup>	2,979	88	1	(24)	3,044
Trade receivables and related accounts <sup>(1)</sup>	4,788	(109)	17	204	4,900
Advances and progress payments	110	(9)	(7)	5	99
Customers' deposits and advances <sup>(1)</sup>	(1,071)	64	(17)	31	(993)
Trade payables and related accounts	(4,514)	(4)	(8)	(45)	(4,571)
<b>OPERATING WORKING CAPITAL, GROSS</b>	<b>2,292</b>	<b>30</b>	<b>(14)</b>	<b>171</b>	<b>2,479</b>
Product sales reserves – construction contracts <sup>(1)</sup>	(147)			(39)	(186)
Cumulated valuation allowances	(701)			(160)	(861)
<b>OPERATING WORKING CAPITAL, NET</b>	<b>1,444</b>	<b>30</b>	<b>(14)</b>	<b>(28)</b>	<b>1,432</b>

(1) Including amounts relating to construction contracts presented in the balance sheet caption "amounts due from/to customers on construction contracts".

#### Receivables sold without recourse

<i>(in millions of euros)</i>	December 31, 2008	December 31, 2007	December 31, 2006
Outstanding amounts of receivables sold without recourse <sup>(1)</sup>	830	877	978

(1) Without recourse in case of payment default by the debtor. See accounting policies in Note 1s.

#### Changes in receivables sold without recourse

<i>(in millions of euros)</i>	2008	2007	2006
Impact on cash flows from operating activities	(47)	(101)	(21)

## NOTE 19 INVENTORIES AND WORK IN PROGRESS

### a/ Analysis of net value

<i>(in millions of euros)</i>	2008	2007	2006
Raw materials and goods	649	564	542
Work in progress excluding construction contracts	972	958	752
Finished products	1,204	1,185	1,320
<b>GROSS VALUE (EXCLUDING CONSTRUCTION CONTRACTS)</b>	<b>2,825</b>	<b>2,707</b>	<b>2,614</b>
Valuation allowance	(629)	(472)	(355)
<b>NET VALUE (EXCLUDING CONSTRUCTION CONTRACTS)</b>	<b>2,196</b>	<b>2,235</b>	<b>2,259</b>
Work in progress on construction contracts, gross <sup>(1)</sup>	219	272	347
Valuation allowance <sup>(1)</sup>	(25)	(42)	(23)
<b>WORK IN PROGRESS ON CONSTRUCTION CONTRACTS, NET</b>	<b>194</b>	<b>230</b>	<b>324</b>
<b>TOTAL, NET</b>	<b>2,390</b>	<b>2,465</b>	<b>2,583</b>

(1) Included in the amounts due from/to customers on construction contracts.

### b/ Change in valuation allowance

<i>(in millions of euros)</i>	2008	2007	2006
<b>AT JANUARY 1</b>	<b>(514)</b>	<b>(378)</b>	<b>(423)</b>
(Additions)/ reversals	(285)	(186)	(77)
Utilization	69	38	54
Changes in consolidation group	-	-	54
Net effect of exchange rate changes and other changes	(75)	12	14
<b>AT DECEMBER 31</b>	<b>(654)</b>	<b>(514)</b>	<b>(378)</b>

**NOTE 20 TRADE RECEIVABLES AND RELATED ACCOUNTS**

<i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Receivables bearing interest	202	263	296
Other trade receivables	4,335	4,087	3,773
<b>GROSS VALUE - (EXCLUDING CONSTRUCTION CONTRACTS)</b>	<b>4,537</b>	<b>4,350</b>	<b>4,069</b>
Accumulated impairment losses	(207)	(187)	(192)
<b>NET VALUE - (EXCLUDING CONSTRUCTION CONTRACTS)</b>	<b>4,330</b>	<b>4,163</b>	<b>3,877</b>
Accrued receivables on construction contracts <sup>(1)</sup>	363	438	299
<b>TOTAL, NET</b>	<b>4,693</b>	<b>4,601</b>	<b>4,176</b>
Of which due after one year on the "Net value - (excluding construction contracts)"	41	54	7

(1) Included in the amounts due from/to customers on construction contracts.

## NOTE 21 OTHER ASSETS AND LIABILITIES

<i>(in millions of euros)</i>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>Other assets</b>			
Other current assets	1,395	1,117	1,006
Other non-current assets	650	389	203
<b>TOTAL</b>	<b>2,045</b>	<b>1,506</b>	<b>1,209</b>
Of which:			
• Currency derivatives	185	203	101
• Interest-rate derivatives - hedging	72	19	36
• Interest-rate derivatives – other	379	198	80
• Commodities derivatives	-	-	-
• Other tax receivables	662	435	304
• Other current and non-current assets	747	651	688
<b>Other liabilities</b>			
Other current liabilities	2,293	1,966	1,934
Other non-current liabilities	443	366	276
<b>TOTAL</b>	<b>2,736</b>	<b>2,332</b>	<b>2,210</b>
Of which:			
• Currency derivatives	339	128	71
• Interest-rate derivatives - hedging	1	16	10
• Interest-rate derivatives – other	381	197	75
• Commodities derivatives	7	-	-
• Other tax payables	331	317	240
• Accrued wages and social charges	968	1,015	1,077
• Other current and non-current liabilities	709	659	737

## NOTE 22 ALLOCATION OF 2007 NET INCOME (LOSS)

Our Board of Directors will propose to the Annual Shareholders' Meeting to be held on May 29, 2009 not to distribute any dividend for the year ended December 31, 2008 (distributions in previous years: no dividend for

the year 2007, a dividend of € 0.16 per share and € 370 million, in the aggregate, was distributed for fiscal 2006).

**NOTE 23 SHAREHOLDERS' EQUITY****a/ Number of shares comprising the capital stock**

Number of shares	2008	2007	2006
<b>Number of ordinary shares issued (share capital)</b>	<b>2,318,041,761</b>	<b>2,317,441,420</b>	<b>2,309,679,141</b>
Treasury shares	(58,385,990)	(58,390,687)	(58,739,991) (1)
Number of shares in circulation	2,259,655,771	2,259,050,733	2,250,939,150
Weighting effect of share issues for stock options exercised and RSU vested	(514,960)	(2,920,222)	(512,996)
Weighting effect of treasury shares	34,159	(239,758)	(273,466)
Weighting effect of share issues in respect of business combinations	-	-	(801,152,032) (2)
<b>NUMBER OF SHARES USED FOR CALCULATING BASIC EARNINGS PER SHARE</b>	<b>2,259,174,970</b>	<b>2,255,890,753</b>	<b>1,449,000,656</b>

(1) Alcatel-Lucent shares owned by Alcatel-Lucent and other consolidated subsidiaries include remaining exchangeable shares related to the Newbridge transaction and considered as issued for accounting purposes.

(2) Business combination with Lucent.

**b/ Capital increase program for employees with subscription stock option plan**

Under a capital increase program for employees of the Group, approved by the Board of Directors on March 7, 2001, 91,926 Class A shares were issued at a price of € 50 per share (all Class A shares are now referred to as ordinary shares). Each share subscribed included the right to receive three options, each exercisable for one Class A share. 275,778 options were granted and were exercisable during the one-year period from July 1, 2004 until July 1, 2005 or from the end of the unavailability period set by Article 163 bis C of the General Tax Code (4 years from July 1, 2004), for the beneficiaries who were employees of a member of the Group whose registered office is located in France at the time the options were granted.

**c/ Capital stock and additional paid-in capital**

At December 31, 2008, the capital stock consisted of 2,318,041,761 ordinary shares of nominal value € 2 (2,317,441,420 ordinary shares of nominal value € 2 at December 31, 2007 and 2,309,679,141 ordinary shares of nominal value € 2 at December 31, 2006).

During 2008, increases in capital stock and additional paid-in capital amounted to € 5 million. These increases related to the following transactions:

- issuance of 6,100 shares for € 0 million, as a result of the exercise of options and warrants (including additional paid-in capital of € 0 million);
- conversion of 544,241 convertible bonds into Alcatel-Lucent shares generating a capital increase of € 5 million (including additional paid-in capital of € 4 million); and
- redemption of 50,000 bonds redeemable for Alcatel-Lucent shares in connection with the acquisition of Spatial Wireless in 2004 to cover stock options, generating a capital increase of € 0 million (including additional paid-in capital of € 0 million).

During 2007, increases in capital stock and additional paid-in capital amounted to € 44 million. These increases related to the following transactions:

- issuance of 2,755,287 shares for € 18 million, as a result of the exercise of options and warrants (including additional paid-in capital of € 13 million);

- conversion of 4,506,992 convertible bonds into Alcatel-Lucent shares generating a capital increase of € 25 million (including additional paid-in capital of € 16 million);
- redemption of 500,000 bonds redeemable for Alcatel-Lucent shares in connection with the acquisition of TiMetra Inc. in 2003 to cover stock options, generating a capital increase of € 4 million (including additional paid-in capital of € 3 million); and
- other increases for € 4 million.

During 2006, increases in capital stock and additional paid-in capital amounted to € 8,942 million. These increases related to the following transactions:

- issuance of 878,139,615 shares related to the business combination with Lucent for € 8,922 million (including additional paid-in capital of € 7,166 million);
- issuance of 2,697,886 shares for € 20 million, as a result of the exercise of 2,697,886 options (including additional paid-in capital of € 11 million); and
- redemption of 300,000 bonds redeemable for Alcatel-Lucent shares in connection with the acquisition of Spatial Wireless in 2004 to cover stock options, generating a capital increase of € 3 million (including additional paid-in capital of € 3 million).

In order to maintain or adjust the capital structure, the Group can adjust the amount of dividends paid to shareholders (see Note 22), or repurchase its own shares (see Note 23f) or issue new shares, or issue convertible bonds or similar instruments (see Note 24).

The Group is not party to any contract restricting the issuance of additional equity.

**d/ Stock options**

At December 31, 2008, stock option plans (excluding Lucent derived plans) were as follows, however only part of the outstanding stock options are in the scope of IFRS 2 (see Note 25e):



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<i>(in number of options)</i>	<b>1999-2000 U.S. Plans</b>	<b>2000 Plans</b>		
<b>Exercise price</b>	<b>U.S. \$ 21.40-U.S. \$ 84.88</b>	<b>€ 48.00</b>	<b>€ 65.00</b>	<b>€ 64.00</b>
Exercise period				
From		04/01/03	12/13/03	12/13/01
		04/01/05	12/13/05	12/13/04
		12/31/05	12/31/05	12/12/08
To		12/31/07	12/31/07	12/12/08
Granted		-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
<b>Outstanding at December 31, 1998</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Granted	7,866,630	-	-	-
Exercised	-	-	-	-
Forfeited	(143,650)	-	-	-
Expired	-	-	-	-
<b>Outstanding at December 31, 1999</b>	<b>7,722,980</b>	<b>-</b>	<b>-</b>	<b>-</b>
Granted	19,407,838	15,239,250	1,235,500	306,700
Exercised	(393,296)	(10,000)	-	-
Forfeited	(3,060,818)	(923,120)	-	-
Expired	-	-	-	-
<b>Outstanding at December 31, 2000</b>	<b>23,676,704</b>	<b>14,306,130</b>	<b>1,235,500</b>	<b>306,700</b>
Exercised	(261,205)	(3,000)	-	-
Forfeited	(3,327,376)	(161,500)	(130,150)	(3,600)
Expired	-	-	-	-
<b>Outstanding at December 31, 2001</b>	<b>20,088,123</b>	<b>14,141,630</b>	<b>1,105,350</b>	<b>303,100</b>
Exercised	-	-	-	-
Forfeited	(3,871,401)	(581,075)	(40,000)	(5,100)
Expired	-	-	-	-
<b>Outstanding at December 31, 2002</b>	<b>16,216,722</b>	<b>13,560,555</b>	<b>1,065,350</b>	<b>298,000</b>
Exercised	-	-	-	-
Forfeited	(2,797,641)	(320,500)	(32,500)	(86,421)
Expired	-	-	-	-
<b>Outstanding at December 31, 2003</b>	<b>13,419,081</b>	<b>13,240,055</b>	<b>1,032,850</b>	<b>211,579</b>
Exercised	-	-	-	-
Forfeited	(2,276,230)	(174,000)	(11,000)	(3,838)
Expired	-	-	-	-
<b>Outstanding at December 31, 2004</b>	<b>11,142,851</b>	<b>13,066,055</b>	<b>1,021,850</b>	<b>207,741</b>
Exercised	-	-	-	-
Forfeited	(476,095)	(203,750)	(18,000)	(10,241)
Expired	(608,141)	-	-	-
<b>Outstanding at December 31, 2005</b>	<b>10,058,615</b>	<b>12,862,305</b>	<b>1,003,850</b>	<b>197,500</b>
Exercised	-	-	-	-
Forfeited	-	(51,000)	(9,500)	(1,500)
Expired	(1,225,128)	(5,182,500)	(448,500)	-
<b>Outstanding at December 31, 2006</b>	<b>8,833,487</b>	<b>7,628,805</b>	<b>545,850</b>	<b>196,000</b>
Exercised	-	-	-	-
Forfeited	-	(95,500)	(500)	-
Expired	(604,010)	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>8,229,477</b>	<b>7,533,305</b>	<b>545,350</b>	<b>196,000</b>
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	(588,006)	7,533,305	545,350	196,000
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>7,641,471</b>	<b>-</b>	<b>-</b>	<b>-</b>

(in number of options)

Exercise price	2001 Plans							
	€ 50.00	€ 41.00	€ 39.00	€ 32.00	€ 19.00	€ 9.00	€ 20.80	€ 9.30
Exercise period								
From	03/07/02 03/07/05	04/02/02	04/02/02	06/15/02 06/15/05	09/03/02 09/03/05	11/15/02 11/15/05	12/19/02 12/19/05	12/19/02 12/19/05
To	03/06/09 03/06/09	04/01/09	04/01/09	06/14/09 06/14/09	09/02/09 09/02/09	11/14/09 11/14/09	12/18/09 12/18/09	12/18/09 12/18/09
Granted	37,668,588	48,850	2,500	977,410	138,200	162,000	27,871,925	565,800
Exercised	-	-	-	-	-	-	-	-
Forfeited	(1,075,160)	(7,050)	-	(19,350)	-	-	-	-
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2001</b>	<b>36,593,428</b>	<b>41,800</b>	<b>2,500</b>	<b>958,060</b>	<b>138,200</b>	<b>162,000</b>	<b>27,871,925</b>	<b>565,800</b>
Exercised	-	-	-	-	-	-	-	-
Forfeited	(1,271,749)	(5,500)	-	(21,175)	(10,300)	(30,000)	(2,283,225)	(37,200)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2002</b>	<b>35,321,679</b>	<b>36,300</b>	<b>2,500</b>	<b>936,885</b>	<b>127,900</b>	<b>132,000</b>	<b>25,588,700</b>	<b>528,600</b>
Exercised	-	-	-	-	-	-	-	(64,444)
Forfeited	(6,345,632)	(24,050)	-	(119,780)	(13,050)	(23,000)	(2,517,719)	(68,750)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2003</b>	<b>28,976,047</b>	<b>12,250</b>	<b>2,500</b>	<b>817,105</b>	<b>114,850</b>	<b>109,000</b>	<b>23,070,981</b>	<b>395,406</b>
Exercised	-	-	-	-	-	(3,000)	-	(42,574)
Forfeited	(1,047,721)	-	-	(33,484)	(8,800)	-	(2,539,840)	(13,326)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2004</b>	<b>27,928,326</b>	<b>12,250</b>	<b>2,500</b>	<b>783,621</b>	<b>106,050</b>	<b>106,000</b>	<b>20,531,141</b>	<b>339,506</b>
Exercised	-	-	-	-	-	-	-	(2,500)
Forfeited	(806,956)	-	-	(15,981)	(2,250)	-	(1,547,776)	(101)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2005</b>	<b>27,121,370</b>	<b>12,250</b>	<b>2,500</b>	<b>767,640</b>	<b>103,800</b>	<b>106,000</b>	<b>18,983,365</b>	<b>336,905</b>
Exercised	-	-	-	-	-	(24,000)	-	(149,967)
Forfeited	(623,065)	-	-	(22,590)	(8,000)	-	(3,606,350)	(77,837)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2006</b>	<b>26,498,305</b>	<b>12,250</b>	<b>2,500</b>	<b>745,050</b>	<b>95,800</b>	<b>82,000</b>	<b>15,377,015</b>	<b>109,101</b>
Exercised	-	-	-	-	-	-	-	(6,500)
Forfeited	(987,543)	(6,250)	-	(27,600)	(1,750)	-	(1,885,430)	(7,400)
Expired	-	-	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>25,510,762</b>	<b>6,000</b>	<b>2,500</b>	<b>717,450</b>	<b>94,050</b>	<b>82,000</b>	<b>13,491,585</b>	<b>95,201</b>
Exercised	-	-	-	-	-	-	-	-
Forfeited	(425,160)	-	-	(14,010)	-	-	(922,695)	2,900
Expired	-	-	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>25,085,602</b>	<b>6,000</b>	<b>2,500</b>	<b>703,440</b>	<b>94,050</b>	<b>82,000</b>	<b>12,568,890</b>	<b>92,301</b>

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<i>(in number of options)</i>	2002 Plans							
	€ 17.20	€ 16.90	€ 14.40	€ 13.30	€ 5.20	€ 3.20	€ 4.60	€ 5.40
Exercise price								
Exercise period								
From	15/02/03 15/02/06	02/04/03	13/05/03 13/05/06	03/06/03 03/06/06	02/09/03 02/09/06	07/10/03 07/10/06	14/11/03 14/11/06	02/12/03 02/12/06
To	14/02/10 14/02/10	01/04/10	12/05/10 12/05/10	02/06/10 02/06/10	01/06/10 01/06/10	06/10/10 06/10/10	13/11/10 13/11/10	01/12/10 01/12/10
Granted	123,620	55,750	54,300	281,000	1,181,050	30,500	111,750	54,050
Exercised	-	-	-	-	-	-	-	-
Forfeited	(14,250)	(1,000)	-	(17,660)	(64,250)	-	-	-
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2002</b>	<b>109,370</b>	<b>54,750</b>	<b>54,300</b>	<b>263,340</b>	<b>1,116,800</b>	<b>30,500</b>	<b>111,750</b>	<b>54,050</b>
Exercised	-	-	-	-	(32,182)	(853)	(3,375)	-
Forfeited	(20,425)	(13,000)	(5,250)	(14,090)	(165,232)	(9,138)	(4,250)	(10,250)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2003</b>	<b>88,945</b>	<b>41,750</b>	<b>49,050</b>	<b>249,250</b>	<b>919,386</b>	<b>20,509</b>	<b>104,125</b>	<b>43,800</b>
Exercised	-	-	-	-	(204,147)	(3,165)	(20,838)	(3,562)
Forfeited	(5,578)	(6,000)	(4,469)	(5,771)	(60,849)	(3,885)	(7,294)	(2,000)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2004</b>	<b>83,367</b>	<b>35,750</b>	<b>44,581</b>	<b>243,479</b>	<b>654,390</b>	<b>13,459</b>	<b>75,993</b>	<b>38,238</b>
Exercised	-	-	-	-	(228,445)	(3,000)	(25,873)	(15,685)
Forfeited	(10,537)	(1,000)	(3,281)	(11,500)	(15,544)	-	-	(10,918)
Expired	-	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	1,104	-
<b>Outstanding at December 31, 2005</b>	<b>72,830</b>	<b>34,750</b>	<b>41,300</b>	<b>231,979</b>	<b>410,401</b>	<b>10,459</b>	<b>51,224</b>	<b>11,635</b>
Exercised	-	-	-	-	(159,016)	(1,649)	(23,524)	-
Forfeited	(18,250)	(7,500)	(4,000)	(4,479)	(5,063)	(251)	(968)	(480)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2006</b>	<b>54,580</b>	<b>27,250</b>	<b>37,300</b>	<b>227,500</b>	<b>246,322</b>	<b>8,559</b>	<b>26,732</b>	<b>11,155</b>
Exercised	-	-	-	-	(32,400)	-	(6,814)	(1,355)
Forfeited	(5,000)	-	(1,500)	(31,000)	(8,054)	-	-	-
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2007</b>	<b>49,580</b>	<b>27,250</b>	<b>35,800</b>	<b>196,500</b>	<b>205,868</b>	<b>8,559</b>	<b>19,918</b>	<b>9,800</b>
Exercised	-	-	-	-	-	(850)	-	-
Forfeited	(12,000)	-	(7,500)	(4,000)	(20,180)	-	-	-
Expired	-	-	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>37,580</b>	<b>27,250</b>	<b>28,300</b>	<b>192,500</b>	<b>185,688</b>	<b>7,709</b>	<b>19,918</b>	<b>9,800</b>

(in number of options)

Exercise price	2003 Plans							
	€ 6.70	€ 6.70	€ 7.60	€ 8.10	€ 9.30	€ 10.90	€ 11.20	€ 11.10
Exercise period								
From	03/07/04 03/07/07	07/01/06 07/01/07	06/18/04 06/18/07	07/01/04 07/01/07	09/01/04 09/01/07	10/01/04 10/01/07	11/14/04 11/14/07	12/01/04 12/01/07
To	03/06/11 03/06/11	06/30/07 06/30/08	06/17/11 06/17/11	06/30/11 06/30/11	08/31/11 08/31/11	09/30/11 09/30/11	11/13/11 11/13/11	11/30/11 11/30/11
Granted	25,626,865	827,348	338,200	53,950	149,400	101,350	63,600	201,850
Exercised	(7,750)	(28)	-	-	-	-	-	-
Forfeited	(1,583,230)	(17,193)	-	-	-	-	-	-
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2003</b>	<b>24,035,885</b>	<b>810,127</b>	<b>338,200</b>	<b>53,950</b>	<b>149,400</b>	<b>101,350</b>	<b>63,600</b>	<b>201,850</b>
Exercised	(1,221,749)	(111)	(6,944)	(473)	(1,603)	-	-	(562)
Forfeited	(1,142,822)	(605)	(31,654)	(23,951)	(6,300)	(29,376)	(2,000)	(37,300)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2004</b>	<b>21,671,314</b>	<b>809,411</b>	<b>299,602</b>	<b>29,526</b>	<b>141,497</b>	<b>71,974</b>	<b>61,600</b>	<b>163,988</b>
Exercised	(1,566,542)	(147)	(10,746)	(1,842)	(833)	-	-	-
Forfeited	(477,617)	(467)	(10,378)	(5,434)	(2,735)	(10,291)	(1,500)	(29,501)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2005</b>	<b>19,627,155</b>	<b>808,797</b>	<b>278,478</b>	<b>22,250</b>	<b>137,929</b>	<b>61,683</b>	<b>60,100</b>	<b>134,487</b>
Exercised	(2,097,255)	(14,658)	(24,573)	(9,154)	(2,062)	(906)	-	(7,660)
Forfeited	(362,806)	(317)	(4,164)	(1,001)	(7,641)	(4,594)	(49,500)	(34,616)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2006</b>	<b>17,167,094</b>	<b>793,822</b>	<b>249,741</b>	<b>12,095</b>	<b>128,226</b>	<b>56,183</b>	<b>10,600</b>	<b>92,211</b>
Exercised	(2,335,784)	(175,884)	(17,098)	(4,399)	-	-	-	-
Forfeited	(428,652)	(257,203)	(4,378)	(2,695)	(4,763)	(4,865)	(2,000)	(17,000)
Expired	-	(34,358)	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>14,402,658</b>	<b>326,377</b>	<b>228,265</b>	<b>5,001</b>	<b>123,463</b>	<b>51,318</b>	<b>8,600</b>	<b>75,211</b>
Exercised	(100)	(150)	-	-	-	-	-	-
Forfeited	(2,160,900)	(9,096)	(14,813)	-	(2,100)	(3,000)	(1,300)	(9,973)
Expired	-	(317,131)	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>12,241,658</b>	<b>-</b>	<b>213,452</b>	<b>5,001</b>	<b>121,363</b>	<b>48,318</b>	<b>7,300</b>	<b>65,238</b>

(in number of options)

2004 Plans

Exercise price	€ 13.20	€ 13.10	€ 12.80	€ 11.70	€ 9.90	€ 9.80	€ 11.20	€ 11.90
Exercise period								
From	03/10/05 03/10/08	04/01/05 04/01/08	05/17/05 05/17/08	07/01/05 07/01/08	09/01/05 09/01/08	10/01/05 10/01/08	11/12/05 11/12/08	12/01/05 12/01/08
To	03/09/12 03/09/12	03/31/12 03/31/12	05/16/12 05/16/12	06/30/12 06/30/12	08/31/12 08/31/12	09/30/12 09/30/12	11/11/12 11/11/12	11/30/12 11/30/12
Granted	18,094,315	48,100	65,100	313,450	38,450	221,300	69,600	42,900
Exercised	-	-	-	-	-	-	-	-
Forfeited	(724,065)	(7,350)	(2,550)	(13,500)	-	-	-	-
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2004</b>	<b>17,370,250</b>	<b>40,750</b>	<b>62,550</b>	<b>299,950</b>	<b>38,450</b>	<b>221,300</b>	<b>69,600</b>	<b>42,900</b>
Exercised	-	-	-	-	-	(300)	-	-
Forfeited	(1,017,737)	(11,292)	(6,050)	(22,450)	(1,300)	(27,700)	(800)	(5,000)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2005</b>	<b>16,352,513</b>	<b>29,458</b>	<b>56,500</b>	<b>277,500</b>	<b>37,150</b>	<b>193,300</b>	<b>68,800</b>	<b>37,900</b>
Exercised	(700)	-	-	(2,399)	(822)	(11,330)	-	-
Forfeited	(1,131,200)	(3,467)	(3,750)	(10,638)	(5,778)	(44,297)	(6,100)	(1,938)
Expired	-	-	-	-	-	-	-	-
<b>Outstanding at December 31, 2006</b>	<b>15,220,613</b>	<b>25,991</b>	<b>52,750</b>	<b>264,463</b>	<b>30,550</b>	<b>137,673</b>	<b>62,700</b>	<b>35,962</b>
Exercised	-	-	-	-	-	(7,148)	-	-
Forfeited	(1,070,056)	(5,191)	(3,000)	(60,462)	(1,000)	(28,757)	(30,000)	(2,162)
Expired	-	-	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>14,150,557</b>	<b>20,800</b>	<b>49,250</b>	<b>204,001</b>	<b>29,550</b>	<b>101,768</b>	<b>32,700</b>	<b>33,800</b>
Exercised	-	-	-	-	-	-	-	-
Forfeited	(927,741)	(3,000)	(4,349)	(6,051)	(500)	(11,979)	(6,000)	-
Expired	-	-	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>13,222,816</b>	<b>17,800</b>	<b>44,901</b>	<b>197,950</b>	<b>29,050</b>	<b>89,789</b>	<b>26,700</b>	<b>33,800</b>

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(in number of options)

Exercise price	2005 Plans				
	€ 11.41	€ 10.00	€ 8.80	€ 9.80	€ 10.20
Exercise period					
From	01/03/06 01/03/09	03/10/06 03/10/09	06/01/06 06/01/09	09/01/06 09/01/09	11/14/06 11/14/09
To	01/02/13 01/02/13	03/09/13 03/09/13	05/31/13 05/31/13	08/31/13 08/31/13	11/13/13 11/13/13
Granted	497,500	16,756,690	223,900	72,150	54,700
Exercised	-	-	-	-	-
Forfeited	(17,400)	(707,210)	(8,800)	-	-
Expired	-	-	-	-	-
<b>Outstanding at December 31, 2005</b>	<b>480,100</b>	<b>16,049,480</b>	<b>215,100</b>	<b>72,150</b>	<b>54,700</b>
Exercised	(7,558)	(158,438)	(965)	-	(1,250)
Forfeited	(61,087)	(654,528)	(27,243)	(7,100)	(8,350)
Expired	-	-	-	-	-
<b>Outstanding at December 31, 2006</b>	<b>411,455</b>	<b>15,236,514</b>	<b>186,892</b>	<b>65,050</b>	<b>45,100</b>
Exercised	-	(133,932)	(6,611)	-	-
Forfeited	(40,427)	(1,080,029)	(32,480)	(5,900)	(4,600)
Expired	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>371,028</b>	<b>14,022,553</b>	<b>147,801</b>	<b>59,150</b>	<b>40,500</b>
Exercised	-	-	-	-	-
Forfeited	(10,671)	(912,558)	(8,720)	(2,638)	(9,000)
Expired	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>360,357</b>	<b>13,109,995</b>	<b>139,081</b>	<b>56,512</b>	<b>31,500</b>

(in number of options)

Exercise price	2006 Plans			
	€ 11.70	€ 12.00	€ 9.30	€ 10.40
Exercise period				
From	03/08/07 03/08/10	05/15/07 05/15/10	08/16/07 08/16/10	11/08/07 11/08/07
To	03/07/14 03/07/14	05/14/14 05/14/14	08/15/14 08/15/14	11/07/14 11/07/14
Granted	17,009,320	122,850	337,200	121,100
Exercised	-	-	-	-
Forfeited	(482,130)	(7,100,)	-	-
Expired	-	-	-	-
<b>Outstanding at December 31, 2006</b>	<b>16,527,190</b>	<b>115,750</b>	<b>337,200</b>	<b>121,100</b>
Exercised	-	-	-	-
Forfeited	(1,272,052)	(11,288)	(42,180)	(19,500)
Expired	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>15,255,138</b>	<b>104,462</b>	<b>295,020</b>	<b>101,600</b>
Exercised	-	-	-	-
Forfeited	(1,083,347)	(3,468)	(8,770)	(5,000)
Expired	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>14,171,791</b>	<b>100,994</b>	<b>286,250</b>	<b>96,600</b>

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<i>(in number of options)</i>		<b>2007 Plans</b>			
<b>Exercise price</b>	<b>€ 10.00</b>	<b>€ 9.10</b>	<b>€ 9.00</b>	<b>€ 6.30</b>	
Exercise period					
From	03/11/08 03/11/11	03/28/08 03/28/11	08/16/08 08/16/11	11/15/08 11/15/08	
To	03/10/15 03/10/15	03/27/15 03/27/15	08/15/15 08/15/15	11/14/15 11/14/15	
Granted	204,584	40,078,421	339,570	294,300	
Exercised	-	-	-	-	
Forfeited	(17,500)	(1,349,135)	-	-	
Expired	-	-	-	-	
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>187,084</b>	<b>38,729,286</b>	<b>339,570</b>	<b>294,300</b>	
Exercised	-	-	-	-	
Forfeited	(17,373)	(3,822,248)	(42,417)	(80,000)	
Expired	-	-	-	-	
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>169,711</b>	<b>34,907,038</b>	<b>297,153</b>	<b>214,300</b>	

<i>(in number of options)</i>		<b>2008 Plans</b>				
<b>Exercise price</b>	<b>€ 3.80</b>	<b>€ 3.80</b>	<b>€ 4.40</b>	<b>€ 3.90</b>	<b>€ 2.00</b>	
Exercise period						
From	03/25/09 03/25/12	04/04/09 04/04/12	07/01/09 07/01/12	09/17/09 09/17/12	12/31/09 12/31/12	
To	03/24/16 03/24/16	04/03/16 04/03/16	06/30/16 06/30/16	09/16/16 09/16/16	12/30/16 12/30/16	
Granted	47,987,716	800,000	223,700	250,000	2,052,400	
Exercised	(5,000)	-	-	-	-	
Forfeited	(2,543,315)	-	-	-	-	
Expired	-	-	-	-	-	
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>45,439,401</b>	<b>800,000</b>	<b>223,700</b>	<b>250,000</b>	<b>2,052,400</b>	

The option plans of companies that were acquired by Alcatel provide for the issuance of Alcatel-Lucent shares or ADSs upon exercise of options granted under such plans in an amount determined by applying the exchange ratio used in the acquisition to the number of shares of the acquired company that were the subject of the options (see the following table).

The following table sets forth the U.S. and Canadian companies (other than Lucent) that issued these plans, the range of exercise prices, the number of outstanding and exercisable options as of December 31, 2008, the weighted average exercise price and the weighted average exercise period.

<b>Company</b>	<b>Exercise price</b>	<b>Outstanding options</b>			<b>Exercisable options</b>	
		<b>Number outstanding at December 31, 2008 <sup>(1)</sup></b>	<b>Weighted Remaining exercise period (years)</b>	<b>Weighted average exercise price</b>	<b>Number exercisable at December 31, 2008 <sup>(1)</sup></b>	<b>Weighted average exercise price</b>
Xylan	U.S. \$ 7.07- U.S. \$ 15.24	263,232	0.12	U.S. \$ 14.37	263,232	U.S. \$ 14.37
Internet Devices Inc	U.S. \$ 0.65- U.S. \$ 1.17	13,575	0.38	U.S. \$ 1.17	13,575	U.S. \$ 1.17
Genesys	U.S. \$ 2.99- U.S. \$ 40.67	1,496,029	0.69	U.S. \$ 26.42	1,496,029	U.S. \$ 26.42
Astral Point	€ 9.95-€ 58.71	25,917	2.32	€ 25.21	25,917	€ 25.21
Telera	€ 0.43-€ 6.36	107,159	1.79	€ 4.93	107,159	€ 4.93
iMagic TV	€ 5.47-€ 17.94	3,557	0.14	€ 5.47	3,557	€ 5.47
TiMetra	€ 0.53-€ 7.97	1,158,423	4.13	€ 6.47	1,158,423	€ 6.47
Spatial Wireless	€ 0.24-€ 9.10	358,619	5.13	€ 4.21	358,619	€ 4.21
<b>TOTAL NUMBER OF OPTIONS</b>		<b>3,426,511</b>			<b>3,426,511</b>	

(1) In number of Alcatel-Lucent shares.

Except in the case of Astral Point, Telera, iMagic TV, TiMetra and Spatial Wireless, upon exercise, Alcatel-Lucent will not issue new ADSs (or, consequently, shares); the options set forth in the above table for Packet Engines, Xylan, Internet Devices, DSC and Genesys entitle the holders to purchase existing ADSs held by Group subsidiaries.

### Former Lucent stock-based awards

As indicated in the business combination agreement with Lucent, each outstanding option to purchase shares granted under Lucent's compensation

or benefit plans or agreements pursuant to which shares may be issued (excluding the Lucent 2001 employee stock purchase plan), whether vested or not vested, was converted into a right to acquire the number of Alcatel-Lucent ordinary shares determined by applying the exchange ratio used in the transaction. The exercise price is equal to the product of (a) the quotient of (i) the U.S. dollar exercise price per share otherwise purchasable pursuant to such Lucent stock option, divided by (ii) the exchange ratio, multiplied by (b) the euro exchange rate of € 1.22.

Stock option activity for former Lucent plans is as follows:

<i>(in number of options)</i>		<b>Former Lucent plans</b>					
<b>Exercise price</b>	<b>€ 9.35</b>	<b>€ 10.89</b>	<b>€ 15.28</b>	<b>€ 12.40</b>	<b>€ 5.49</b>	<b>€ 6.88</b>	
Exercise period							
From	11/01/07	12/01/06	12/01/06	12/01/06	12/01/06	12/01/06	
To	10/31/13	11/30/12	11/30/11	11/30/10	12/15/09	11/24/08	
<b>Outstanding at December 1, 2006</b>	6,088,483	4,576,237	8,010,525	7,658,168	5,328,118	9,205,331	
Granted	-	-	-	-	-	-	
Exercised	-	-	-	-	-	-	
Expired	(73,030)	(21,892)	(19,751)	(12,200)	(7,243)	(13,966)	
<b>Outstanding at December 31, 2006</b>	<b>6,015,453</b>	<b>4,554,345</b>	<b>7,990,774</b>	<b>7,645,968</b>	<b>5,320,875</b>	<b>9,191,365</b>	
Exercised	(11,636)	(9,738)	-	-	(847,800)	(2,792,464)	
Forfeited	(1,195,101)	(418,932)	(696,150)	(657,127)	(121,400)	-	
Expired	-	-	-	-	-	(6,360,315)	
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>4,808,716</b>	<b>4,125,675</b>	<b>7,294,624</b>	<b>6,988,841</b>	<b>4,351,675</b>	<b>38,586</b>	
Exercised	-	-	-	-	-	-	
Forfeited	(1,098,706)	(670,857)	(829,853)	(800,785)	(341,060)	-	
Expired	-	-	-	-	-	(38,586)	
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>3,710,010</b>	<b>3,454,818</b>	<b>6,464,771</b>	<b>6,188,056</b>	<b>4,010,615</b>	<b>-</b>	

<i>(in number of options)</i>		<b>Former Lucent plans</b>				
<b>Exercise price</b>	<b>€ 61.93</b>	<b>€ 224.93</b>	<b>€ 0.28 to 10.00</b>	<b>€ 10.01 to 20.00</b>	<b>€ 20.01 and more</b>	
Exercise period						
From	12/01/06	12/01/06	12/01/06	12/01/06	12/01/06	
To	12/25/10	05/31/10	12/03/06	12/01/06	12/01/06	
			05/03/14	12/01/14	01/05/12	
<b>Outstanding at December 1, 2006</b>	1,484,527	1,260,610	1,392,124	662,880	10,776,344	
Granted	-	-	-	-	-	
Exercised	-	-	-	-	-	
Expired	-	(150)	(3,804)	(35,117)	(64,652)	
<b>Outstanding at December 31, 2006</b>	<b>1,484,527</b>	<b>1,260,460</b>	<b>1,388,320</b>	<b>627,763</b>	<b>10,711,692</b>	
Exercised	-	-	(164,608)	-	-	
Adjustment	-	-	-	126,355	(126,355)	
Forfeited	(1,504)	(110,367)	(519,079)	-	(2,445,915)	
Expired	-	-	-	-	-	
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>1,483,023</b>	<b>1,150,093</b>	<b>704,633</b>	<b>754,118</b>	<b>8,139,422</b>	
Exercised	-	-	(9,296)	-	-	
Forfeited	(107,021)	(12,779)	(224,271)	(233,239)	(3,508,464)	
Expired	-	-	-	-	-	
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>1,376,002</b>	<b>1,137,314</b>	<b>471,066</b>	<b>520,879</b>	<b>4,630,958</b>	



Moreover, each unvested restricted stock unit granted under Lucent's compensation or benefit plans or agreements was converted into the

number of Alcatel-Lucent ordinary shares determined by applying the exchange ratio used in the transaction.

The following table summarizes unvested restricted stock unit activity:

<i>(in number of stocks)</i>	<b>Former Lucent restricted unit activity</b>
<b>Unvested at December 1, 2006</b>	<b>1,684,575</b>
Vested	(961)
Forfeited	(20,918)
<b>Unvested at December 31, 2006</b>	<b>1,662,696</b>
Vested	(679,998)
Forfeited	(69,366)
<b>Unvested at December 31, 2007</b>	<b>913,332</b>
Vested	(807,591)
Forfeited	(85,620)
<b>Unvested at December 31, 2008</b>	<b>20,121</b>

## e/ Share-based payments

Only stock option plans established after November 7, 2002, and whose stock options were not yet fully vested at January 1, 2005, are restated according to IFRS 2 "Share-based Payment". Those stock options that were fully vested at December 31, 2004 will not result in a charge due to the adoption of IFRS in subsequent accounting periods.

By simplification, for historical Alcatel plans, during the vesting period and as a result of employees leaving the Group, no option forfeitures are taken into account when determining compensation expense for stock options granted. During the vesting period and as a result of employees leaving the Group, the accounting impact of option forfeiture is recognized when the forfeiture is made. For options cancelled by forfeiture before the end of the vesting period, this can mean correcting the charge, recognized in prior accounting periods, in the period following the forfeiture.

During the vesting period, estimated annual forfeiture rates of 7% for Lucent plans and 5% for stock options granted by Alcatel-Lucent since March 2007 are applied when determining compensation expense. The estimated forfeiture rate is ultimately adjusted to actual.

Options cancelled after the vesting period and options not exercised do not result in correcting charges previously recognized.

### **Fair value of options granted by historical Alcatel (prior to December 1, 2006) and by Alcatel-Lucent (after December 1, 2006)**

The fair value of stock options is measured at grant date using the Cox-Ross-Rubinstein binomial model. This allows behavioral factors governing the exercise of stock options to be taken into consideration and to consider that all options will not be systematically exercised by the end of the exercise period. The expected volatility is determined as being the implied volatility at the grant date.

Assumptions for the plans representing more than 1,000,000 outstanding options related to historical Alcatel (before December 1, 2006) and Alcatel-Lucent (after December 1, 2006) are as follows:

- expected volatility: 40% for the 2004 and 2005 plans, 32% for the March 2006 plan, 33% for the March 2007 plan and 45% for the March 2008 plan;

- risk-free rate: 3.91% for the March 2004 plan, 3.50% for the March 2005 and the March 2006 plans, 4% for the March 2007 plan and 3.90% for the March 2008 Plan;
- distribution rate on future income: 0% for the March 2004 and 2005 plans, 1% for March 2006 plan and 0.8% for later years.

Based on these assumptions, the fair values of historical Alcatel options (before December 1, 2006) and Alcatel-Lucent options (after December 1, 2006) used in the calculation of compensation expense for share-based payments are as follows:

- March 2004 plan with an exercise price of € 13.20: fair value of € 5.06;
- March 2005 plan with an exercise price of € 10.00: fair value of € 3.72;
- March 2006 plans with an exercise price of € 11.70: fair value of € 3.77;
- March 2007 plan with an exercise price of € 9.10: fair value of € 3.04;
- March 2008 plan with an exercise price of € 3.80: fair value of € 1.50;
- other plans have fair values between € 1.76 and € 4.90 and a weighted average fair value of € 3.37.

### **Lucent stock-based awards**

The fair values were recalculated at November 30, 2006, the business combination date, with the following assumptions:

- expected volatility: 26.20% to 32.37% depending on the remaining life of the options;
- risk-free rate: 3.35% to 3.62% depending on the remaining life of the options;
- distribution rate on future income: 0.8%.

The estimated fair value of outstanding stock awards as of November 30, 2006 amounts to € 133 million, consisting of € 96 million for vested options and € 37 million for unvested options.

### **Impact on income (loss) from operating activities of share-based payments resulting from stock option, stock purchase plans and restricted stock and cash unit**

Compensation expense recognized for share-based payments in accordance with IFRS 2 is analyzed as follows:

<i>(in millions of euros)</i>	2008	2007	2006
Compensation expense for share-based payments	89	102	63
Presented in the income statement:			
• cost of sales	20	25	19
• administrative and selling expenses	40	47	28
• research and development costs	25	27	16
• restructuring costs	4	3	-
Of which equity settled	88	102	63
Of which cash settled	1	-	-

The entire expense recognized due to applying IFRS 2 pertains to share-based payments that are equity settled. None of these transactions results in the outflow of cash but only in the inflow of cash when the options are exercised.

#### **Characteristics of subscription stock option plans or stock purchase plans recognized in compliance with IFRS 2**

##### Vesting conditions:

The following rules are applicable to all plans granted by historical Alcatel in 2004, 2005 and 2006 and by Alcatel-Lucent in 2007 and 2008 except for the September 17, 2008 grant:

- vesting is gradual: options vest in successive portions over 4 years, for which 25% of the options are vested if the employee remains employed after 12 months and, for each month after the first year, 1/48 of the options are vested if the employee remains employed by the Group;
- exercise period depends on country: in some countries, stock options can be exercised as soon as they are vested; in other countries, stock options cannot be exercised during a four-year vesting period. Whatever the beginning of the exercise period is, stock options terminate 8 years after the grant date.

Certain plans that existed at companies acquired in a business combination were converted into historical Alcatel or Alcatel-Lucent subscription stock option plans or stock purchase plans. For plans of companies acquired, the vesting conditions and the options life of the original plans remain in place.

For former Lucent stock options, vesting rules remain unchanged. Stock options usually vest linearly over a 4-year period (25% per year) and can be exercised as soon as they are vested.

The Board decided at its meeting held on September 17, 2008 to award up to 250,000 options at a € 3.90 exercise price to Ben Verwaayen. These options vest linearly over 4 years, (25% per year) based on continued service. In addition, 50% of the total number of options will only be exercisable based on Alcatel-Lucent share price performance compared to competitors' share price performance over the 4 years.

##### Conditions of settlement

All stock options granted by historical Alcatel, Lucent (prior to the business combination) or Alcatel-Lucent are exclusively settled in shares.

##### Number of options granted and changes in number of options

As indicated in Note 1w, only options issued by historical Alcatel after November 7, 2002 and not fully vested at January 1, 2005 and those issued after January 1, 2005 by historical Alcatel or Alcatel-Lucent are accounted for according to IFRS 2. In the case of a business combination, outstanding stock options at the acquisition date of a company acquired by historical Alcatel or Alcatel-Lucent are usually converted into options to purchase Alcatel-Lucent shares using the same exchange ratio as for the acquired shares of the target company. Unvested options at the acquisition date are accounted for at their fair value as deferred compensation in shareholders' equity (included in additional paid-in capital) and are considered as being in the scope of IFRS 2 if the business combination occurred after November 7, 2002.

Stock option plans covered by IFRS 2 (excluding all Lucent plans) and the change in number of stock options generating compensation expense are:

<i>(in number of options)</i>	2004 Plans		2005 Plans		2006 Plans	
	€ 13.20	€ 9.80 to 13.10	€ 10.00	€ 8.80 to 11.41	€ 11.70	€ 9.30 to 12.00
Exercise price						
Exercise period						
From	10/03/05 10/03/08	01/04/05 01/12/08	10/03/06 10/03/09	03/01/06 01/09/09	08/03/07 08/03/10	15/05/07 08/11/10
To	09/03/12 09/03/12	31/03/12 30/11/12	09/03/13 09/03/13	02/01/13 31/08/13	07/03/14 07/03/14	14/05/14 07/11/14
<b>Outstanding at December 31, 2004</b>	<b>17,370,250</b>	<b>775,500</b>			-	-
Granted	-	-	16,756,690	848,250	-	-
Exercised	-	(300)	-	-	-	-
Forfeited	(1,017,737)	(74,592)	(707,210)	(26,200)	-	-
Expired	-	-	-	-	-	-
<b>Outstanding at December 31, 2005</b>	<b>16,352,513</b>	<b>700,608</b>	<b>16,049,480</b>	<b>822,050</b>	-	-
Granted	-	-	-	-	17,009,320	581,150
Exercised	(700)	(14,551)	(158,438)	(9,773)	-	-
Forfeited	(1,131,200)	(75,968)	(654,528)	(103,780)	(482,130)	(7,100)
Expired	-	-	-	-	-	-
<b>Outstanding at December 31, 2006</b>	<b>15,220,613</b>	<b>610,089</b>	<b>15,236,514</b>	<b>708,497</b>	<b>16,527,190</b>	<b>574,050</b>
Granted	-	-	-	-	-	-
Exercised	-	(7,148)	(133,932)	(6,611)	-	-
Forfeited	(1,070,056)	(131,072)	(1,080,029)	(83,407)	(1,272,052)	(72,968)
Expired	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>14,150,557</b>	<b>471,869</b>	<b>14,022,553</b>	<b>618,479</b>	<b>15,255,138</b>	<b>501,082</b>
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited	(927,741)	(31,879)	(912,558)	(31,029)	(1,083,347)	(17,238)
Expired	-	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>13,222,816</b>	<b>439,990</b>	<b>13,109,995</b>	<b>587,450</b>	<b>14,171,791</b>	<b>483,844</b>
Of which could be exercised	13,222,816	439,990	12,263,153	547,396	9,868,700	270,213
<b>Average share price at exercise during the period</b>	-	-	-	-	-	-

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<i>(in number of options)</i>	2007 Plans		2008 Plans		Total 2004 plans to 2008 plans
	€ 9.10	€ 6.30 to 10.0	€ 3.80	€ 2.00 to 4.40	
Exercise price	€ 9.10	€ 6.30 to 10.0	€ 3.80	€ 2.00 to 4.40	
Exercise period					
From	28/03/08 28/03/11	01/03/08 15/11/11	25/03/09 25/03/12	04/04/09 31/12/12	
To	27/03/15 27/03/15	28/02/15 14/11/15	24/03/16 24/03/16	03/04/16 30/12/16	
<b>Outstanding at December 31, 2004</b>	-	-	-	-	<b>18,145,750</b>
Granted	-	-	-	-	17,604,940
Exercised	-	-	-	-	(300)
Forfeited	-	-	-	-	(1,825,739)
Expired	-	-	-	-	-
<b>Outstanding at December 31, 2005</b>	-	-	-	-	<b>33,924,651</b>
Granted	-	-	-	-	17,590,470
Exercised	-	-	-	-	(183,462)
Forfeited	-	-	-	-	(2,454,706)
Expired	-	-	-	-	-
<b>Outstanding at December 31, 2006</b>	-	-	-	-	<b>48,876,953</b>
Granted	40,078,421	838,454	-	-	40,916,875
Exercised	-	-	-	-	(147,691)
Forfeited	(1,349,135)	(17,500)	-	-	(5,076,219)
Expired	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>38,729,286</b>	<b>820,954</b>	-	-	<b>84,569,918</b>
Granted	-	-	47,987,716	3,326,100	51,313,816
Exercised	-	-	(5,000)	-	(5,000)
Forfeited	(3,822,248)	(139,790)	(2,543,315)	-	(9,509,145)
Expired	-	-	-	-	-
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>34,907,038</b>	<b>681,164</b>	<b>45,439,401</b>	<b>3,326,100</b>	<b>126,369,589</b>
Of which could be exercised	15,811,120	211,382	354,500	483,333	53,472,603
<b>Average share price at exercise during the period</b>	-	-	<b>€ 4.83</b>	-	<b>€ 4.83</b>

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For Lucent stock option plans covered by IFRS 2, the changes in number of stock options generating compensation expense are:

<i>(in number of options)</i>	Lucent plans					Total
	€ 9.35	€ 10.89	€ 15.28	€ 0.28 to 10.00	€ 10.01 to 20.00	
Exercise period						
From	11/01/07	12/01/06	12/01/06	12/01/06	12/01/06	
To	10/31/13	11/30/12	11/30/11	12/03/06 05/03/14	12/01/06 02/01/14	
<b>Outstanding at December 1, 2006</b>	<b>6,088,483</b>	<b>4,569,566</b>	<b>5,953,537</b>	<b>283,121</b>	<b>606,827</b>	<b>17,501,534</b>
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Expired/Forfeited	(73,030)	(21,860)	(14,679)	-	(185)	(109,754)
<b>Outstanding at December 31, 2006</b>	<b>6,015,453</b>	<b>4,547,706</b>	<b>5,938,858</b>	<b>283,121</b>	<b>606,642</b>	<b>17,391,780</b>
Granted	-	-	-	-	-	-
Exercised	(11,636)	(9,724)	-	(95,532)	-	(116,892)
Expired/Forfeited	(1,195,101)	(418,321)	(517,389)	(59,667)	(350,903)	(2,541,381)
<b>OUTSTANDING AT DECEMBER 31, 2007</b>	<b>4,808,716</b>	<b>4,119,661</b>	<b>5,421,469</b>	<b>127,922</b>	<b>255,739</b>	<b>14,733,507,</b>
Granted	-	-	-	-	-	-
Exercised	-	-	-	(143)	-	(143)
Expired/Forfeited	(1,098,706)	(669,879)	(616,759)	(58,726)	(169,054)	(, 2,613,124)
<b>OUTSTANDING AT DECEMBER 31, 2008</b>	<b>3,710,010</b>	<b>3,449,782</b>	<b>4,804,710</b>	<b>69,053</b>	<b>86,685</b>	<b>12,120,240</b>
Of which could be exercised	2,056,162	2,677,475	4,804,710	67,989	72,259	9,678,596
<b>Average share price at exercise during the period</b>	-	-	-	<b>€ 4.48</b>	-	<b>€ 4.48</b>

### Restricted Cash Units (RCUs)

The Board decided at its meeting held on April 4, 2008 to award up to 366,300 Restricted Cash Units (RCUs) to Patricia Russo if certain criteria were met over the two-year period following the Board's decision. The RCUs were cancelled upon Patricia Russo's resignation.

### Restricted Stock Unit (RSUs)

The Board decided at its meetings held on September 17, 2008 and October 29, 2008 respectively to award up to 100,000 RSUs to Philippe Camus and 250,000 RSUs to Ben Verwaayen. These RSUs vest at the end of 2 years if such individual remains an employee of the Group and their exercisability is subject to some performance criteria (sales, operating profit, and implementation of the milestones defined by the Board of Directors).

### f/ Treasury stock

Alcatel-Lucent established a buy-back program for the ordinary shares, authorized at the shareholders' ordinary annual general meetings held on September 7, 2006 and June 1, 2007, for the purpose of allocating those shares to employees of the Group under the terms provided by law, of honoring obligations arising from the issuance of securities conferring a right to the capital of the company or for use in an exchange or, as payment for acquisitions. The purchases are limited to a maximum of 10% of the capital stock, and authorization expires 18 months from the most recent shareholders' general meeting at which authorization was given. As part of this program, no shares were purchased through December 31, 2008 (no shares were purchased in 2007 or 2006).

The value of Alcatel-Lucent shares owned by Group consolidated subsidiaries was € 1,566 million at December 31, 2008 (€ 1,567 million at December 31, 2007 and € 1,572 million at December 31, 2006). They are deducted at cost from retained earnings.

## g/ Minority interests

(in millions of euros)

<b>BALANCE AT DECEMBER 31, 2005</b>	<b>475</b>
Other changes (1)	(25)
Minority interests in 2006 income	45
<b>BALANCE AT DECEMBER 31, 2006</b>	<b>495</b>
Other changes (1)	(21)
Minority interests in 2007 income	41
<b>BALANCE AT DECEMBER 31, 2007</b>	<b>515</b>
Other changes (1)	34
Minority interests in 2008 income	42
<b>BALANCE AT DECEMBER 31, 2008</b>	<b>591</b>

(1) This amount primarily relates to dividends distributed to owners of minority interests in certain Group subsidiaries and to net gains (losses) recognized directly in equity attributable to minority interests.

## NOTE 24 COMPOUND FINANCIAL INSTRUMENTS

### Compound financial instruments (convertible bonds)

(in millions of euros)	OCEANE			8% Lucent		
	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2008	December 31, 2007	December 31, 2006
<i>Balance sheet</i>						
<b>Equity component</b>	<b>56</b>	<b>81</b>	<b>105</b>	-	-	<b>76</b>
Shareholders' equity	56	81	105	-	-	76
Convertible bonds – due after one year	1,002	941	916	-	-	-
Convertible bonds – due within one year and interest paid and payable	49	48	49	-	-	310
<b>Financial debt</b>	<b>1,051</b>	<b>989</b>	<b>965</b>	-	-	<b>310</b>
<i>Income statement</i>						
Finance costs relating to gross debt	(74)	(72)	(70)	-	(7)	(3)

(in millions of euros)	7.75% Lucent			2.875% A, Lucent			2.875% B, Lucent		
	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2008	December 31, 2007	December 31, 2006
<i>Balance sheet</i>									
<b>Equity component</b>	<b>109</b>	<b>119</b>	<b>142</b>	<b>208</b>	<b>205</b>	<b>237</b>	<b>272</b>	<b>266</b>	<b>306</b>
Shareholders' equity	109	119	142	208	205	237	272	266	306
Convertible bonds – due after one year	654	655	726	345	319	349	386	357	392
Convertible bonds – due within one year and interest paid and payable	3	3	3	1	1	1	1	1	1
<b>Financial debt</b>	<b>657</b>	<b>658</b>	<b>729</b>	<b>346</b>	<b>320</b>	<b>350</b>	<b>387</b>	<b>358</b>	<b>393</b>
<i>Income statement</i>									
Finance costs relating to gross debt	(64)	(69)	(6)	(22)	(23)	(2)	(24)	(26)	(2)

**a/ OCEANE (Obligations Convertibles ou Échangeables en Actions Nouvelles ou Existantes)**

On June 12, 2003, historical Alcatel issued 63,192,019 bonds having a nominal value of € 16.18 each, convertible into new or existing ordinary shares (OCEANE) for a total value of € 1,022 million. These bonds mature on January 1, 2011 and bear interest at a rate of 4.75% per annum.

These bonds have a buy-back option that Alcatel-Lucent can exercise in the period from June 12, 2008 to December 31, 2010.

The OCEANE bonds are considered a compound financial instrument containing an equity component and a debt component. Early application of the buy-back option does not require any separate accounting, as the repurchase price is at nominal value and the buy-back option is a derivative closely linked to the debt issuance. The buy-back option is therefore included in the debt component of this compound financial instrument. At the time of issuance, the debt component was valued at € 861 million, which corresponded to the present value of a similar bond issue but without any equity component. The equity component included in shareholders' equity was valued at € 162 million at the date of issuance. The contra entry to the equity component, which is amortized to net result over the life of the debt, increases the interest cost of this financial debt by € 25 million in 2008, 23 million in 2007 and by € 22 million in 2006.

The effective rate of interest of the debt component is 7.83% including debt issuance costs.

At December 31, 2008, the fair value of the debt component of the OCEANE bonds was € 849 million (see Note 26h) and the market value of the OCEANE

bonds was € 859 million (€ 1,012 million and € 1,030 million respectively as of December 31, 2007 and € 1,059 million and € 1,144 million respectively as of December 31, 2006).

**b/ Compound financial instruments issued by Lucent before the business combination**

**2.875% Series A and B Convertible Debentures**

Alcatel-Lucent launched a joint solicitation of consent from holders of record as of December 14, 2006, of Lucent's 2.75% Series A Convertible Senior Debentures due 2023 and 2.75% Series B Convertible Senior Debentures due 2025 (collectively, the "Debentures") to amend the Indenture for the Debentures, in return for a full and unconditional guaranty from Alcatel-Lucent, which is unsecured and subordinated to its senior debt, a one time adjustment to the conversion ratio, a further adjustment to the conversion ratios upon cash dividends or distributions on Alcatel-Lucent ordinary shares in excess of € 0.08 per share annually and a change of the interest rate to 2.875% from 2.75%.

The amendment allows Alcatel-Lucent to provide such information, documents and other reports that are required to be filed by Alcatel-Lucent pursuant to Sections 13 and 15(d) of the U.S. Securities Exchange Act of 1934, to holders of the Debentures, instead of having to produce separate statements for Lucent after the completion of the business combination. The consent solicitation was completed on December 29, 2006. As a result, the terms of Lucent's 2.75% convertible senior debentures were modified as follows:

	Series A		Series B	
	Old Terms	New Terms	Old Terms	New Terms
Coupon rate	2.75%	2.875%	2.75%	2.875%
Conversion ratio	58.4431	59.7015	62.5641	65.1465

The benefit granted to the bondholders corresponding to the adjustment of the conversion ratio amounted to € 18 million and was accounted for in "Other financial loss" in 2006 (see Note 8).

The debentures rank equal in priority with all of the existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of Lucent's existing and future subordinated indebtedness. The terms governing the debentures limit the ability to create liens, secure certain indebtedness and merge with or sell substantially all of its assets to another entity.

As a result of the acquisition, the debentures are convertible into Alcatel-Lucent ADSs (American Depositary Shares) and cash in lieu of fractional ADSs. The debentures are convertible into ADSs only if (1) the sale price of the ADSs for at least twenty trading days during the period of thirty consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the applicable conversion price, (2) the trading price of the debentures is less than 97% of the product of the sale price of the ADSs and the conversion rate during any five consecutive trading-day periods, (3) the debentures have been called for redemption by Lucent or (4) certain specified corporate actions occur.

At Lucent's option, the debentures are redeemable for cash after certain dates (optional redemption periods) at 100% of the principal amount plus any accrued and unpaid interest. In addition, at Lucent's option, the debentures are redeemable earlier (provisional redemption periods) if the sale price of the ADSs exceeds 130% of the applicable conversion price. Under these circumstances, the redemption price would also include a make-whole payment equal to the present value of all remaining scheduled interest payments through the end of the optional redemption periods.

At the option of the holder, the debentures are redeemable on certain dates at 100% of the principal amount plus any accrued and unpaid interest. In these circumstances, Lucent may pay the purchase price with cash, ADSs (with the ADSs to be valued at a 5% discount from the then current market price) or a combination of both.

The following table summarizes the specific terms of these securities.

	Series A	Series B
Amount	\$ 750,000,000	\$ 880,500,000
Conversion ratio	59.7015	65.1465
Conversion price	\$ 16.75	\$ 15.35
Redemption periods at the option of the issuer:		
Provisional redemption periods	June 20, 2008 through June 19, 2010	June 20, 2009 through June 19, 2013
Optional redemption periods	After June 19, 2010	After June 19, 2013
Redemption dates at the option of the holder	June 15, 2010, 2015 and 2020	June 15, 2013 and 2019
Maturity dates	June 15, 2023	June 15, 2025

The effective rate of interest of the debt component is 6.70% for Series A and 6.73% for Series B.

At December 31, 2008, the fair value of the debt component of the convertible bonds (see Note 26h) was € 375 million for Series A and € 220 million for Series B (€ 331 million and € 282 million respectively as of December 31, 2007 and € 349 million and € 386 million respectively as of December 31, 2006) and the market value of the convertible bonds was € 437 million for Series A and € 296 million for Series B (€ 467 million and € 473 million respectively as of December 31, 2007 and € 613 million and € 744 million respectively as of December 31, 2006).

### 7.75% Convertible Securities (Liability to Subsidiary Trust Issuing Preferred Securities)

During fiscal 2002, Lucent Technologies Capital Trust I (the "Trust") sold 7.75% cumulative convertible trust preferred securities for an aggregate amount of \$1.75 billion. The Trust used the proceeds to purchase Lucent Technologies Inc. 7.75% convertible subordinated debentures due March 15, 2017, which represent all of the Trust's assets. The terms of the trust preferred securities are substantially the same as the terms of the debentures. Lucent

Technologies Inc. (now known as Alcatel-Lucent USA Inc.) owns all of the common securities of the Trust and as a result consolidates the Trust.

Lucent may redeem the debentures, in whole or in part, for cash at premiums ranging from 103.88% beginning March 20, 2007, to 100.00% on March 20, 2012 and thereafter. To the extent Lucent redeems debentures, the Trust is required to redeem a corresponding amount of trust preferred securities. Lucent has irrevocably and unconditionally guaranteed, on a subordinated basis, the payments due on the trust preferred securities to the extent Lucent makes payments on the debentures to the Trust.

The ability of the Trust to pay dividends depends on the receipt of interest payments on the debentures. Lucent has the right to defer payments of interest on the debentures for up to 20 consecutive quarters. If payment of interest on the debentures is deferred, the Trust will defer the quarterly distributions on the trust preferred securities for a corresponding period. Deferred interest accrues at an annual rate of 9.25%. At the option of the holder, each trust preferred security is convertible into Alcatel-Lucent ADSs, subject to an additional adjustment under certain circumstances. The following table summarizes the terms of this security.

Conversion ratio	40.3306
Conversion price	\$ 24.80
Redemption period at Lucent option	After March 19, 2007
Maturity date	March 15, 2017

The effective rate of interest of the debt component is 9.86%.

Some of these bonds were repurchased during the fourth quarter of 2008 (see Note 26).

At December 31, 2008, the fair value of the remaining debt component of the convertible bonds was € 198 million and the market value of the remaining convertible bonds was € 241 million (€ 478 million and € 549 million respectively as of December 31, 2007 and € 725 million and € 853 million respectively as of December 31, 2006).

### 8% Convertible Securities

Lucent's 8% convertible securities were redeemed on March 29, 2007 at Lucent's option for an aggregate amount of U.S. \$ 486 million. The consideration was allocated to the liability component (U.S. \$ 408 million) and the equity component (U.S. \$ 78 million), resulting in a financial loss of € 12 million (see Notes 8 and 26 (c)).



## NOTE 25 PENSIONS, RETIREMENT INDEMNITIES AND OTHER POST-RETIREMENT BENEFITS

In accordance with the laws and customs of each country, the Group provides to its employees pension plans, certain medical insurance and reimbursement of medical expenses. In France, Group employees benefit from a retirement indemnity plan. In other countries, the plans depend upon local legislation, the business and the historical practice of the subsidiary concerned.

In addition to state pension plans, the plans can be defined contribution plans or defined benefit plans. In the latter case, such plans are wholly or partially funded by assets solely to support these plans (listed shares, bonds, insurance contracts or other types of dedicated investments).

### State plans

In certain countries, and more particularly in France and Italy, the Group participates in mandatory social security plans organized at state or industry level, for which contributions expensed correspond to the contributions due to such state or equivalent organizations. Such plans are considered to be defined contribution plans. However, in certain countries, the element of social security contributions paid that relates to pension plans is not clearly identifiable.

### Other defined contribution plans

The benefits paid out depend solely on the amount of contributions paid into the plan and the investment returns arising from the contributions. The Group's obligation is limited to the amount of contributions that are expensed.

Contributions made to defined contribution plans (excluding mandatory social security plans organized at state or industry level) were € 78 million for 2008 (€ 79 million for 2007 and € 56 million for 2006).

### Defined benefit plans

Independent actuaries calculate annually the Group's obligation in respect of these plans, using the projected unit credit method. Actuarial assumptions comprise mortality, rates of employee turnover, projection of future salary levels, healthcare cost trend rates and revaluation of future benefits. Future estimated benefits are discounted using discount rates appropriate to each country.

These plans have differing characteristics:

- life annuity: the retirees benefit from receiving a pension during their retirement. These plans are to be found primarily in Germany, United Kingdom and the United States;
- lump-sum payment on the employee's retirement or departure. These plans are to be found primarily in France, Belgium and Italy;
- post-employment medical care during retirement. In the United States, Alcatel-Lucent reimburses medical expenses of certain retired employees.

Pensions and retirement obligations are determined in accordance with the accounting policies presented in Note 1k.

For former Lucent activities, Alcatel-Lucent maintains defined benefit pension plans covering employees and retirees, a majority of which are located in the U.S., as well as other post-retirement benefit plans for U.S. retirees that include health care, dental benefits and life insurance coverage. The U.S. pension plans feature a traditional service-based program, as well as a cash balance program. The cash balance program was added to the defined benefit pension plan for U.S. management employees hired after December 31, 1998. No employees were transitioned from the traditional program to the cash balance program. Additionally, employees covered by the cash balance program are not eligible to receive company-paid post-retirement health and Group life coverage. U.S. management employees with less than 15 years of service as of June 30, 2001 are not eligible to receive post-retirement Group life and health care benefits. As of January 1, 2008, there are no new entrants into the defined benefit plan for management retirees.

### a/ Actuarial assumptions

To determine actuarial valuations, actuaries have determined general assumptions on a country-by-country basis and specific assumptions (rate of employee turnover, salary increases) company by company. The assumptions for 2008, 2007 and 2006 are as follows (the rates indicated are weighted average rates):

	2008	2007	2006
Discount rate	6.08%	6.04%	5.54%
Future salary increases	3.91%	3.83%	3.90%
Expected long-term return on assets	7.04%	7.39%	7.35%
Post-retirement cost trend rate	6.90% to 5.90%	7.70% to 5.90%	8.20% to 5.00%

The above rates are broken down by geographical segment as follows for 2008, 2007 and 2006:

	Discount rate	Future salary increases	Estimated long-term return on assets
<b>2008</b>			
France	5.25%	3.42%	5.40%
Belgium	5.25%	4.00%	5.30%
United Kingdom	6.00%	4.97%	6.67%
Germany	5.25%	3.00%	4.95%
Rest of Europe	4.77%	3.44%	5.10%
United States of America	6.21%	3.99%	7.25%
Other	5.19%	5.32%	4.30%
<b>2007</b>			
France	5.20%	3.36%	5.40%
Belgium	5.20%	3.80%	5.30%
United Kingdom	5.50%	4.49%	6.75%
Germany	5.20%	2.75%	4.33%
Rest of Europe	4.71%	3.01%	4.96%
United States of America	6.19%	3.97%	7.62%
Other	4.69%	4.28%	4.21%
<b>2006</b>			
France	4.10%	3.41%	5.10%
Belgium	4.11%	3.71%	4.48%
United Kingdom	5.21%	4.53%	6.59%
Germany	4.13%	2.76%	4.26%
Rest of Europe	4.20%	2.54%	4.14%
United States of America	5.72%	4.01%	7.62%
Other	4.12%	4.18%	4.35%

The discount rates are obtained by reference to market yields on high quality bonds (government and prime-rated corporations – AA or AAA) in each country having maturity dates equivalent to those of the plans.

For the euro Zone and United Kingdom the discount rates used are the Bloomberg Corporate AA yields and for the U.S. the CitiGroup pension discount yield curve was used. These references comply with IAS 19 requirements and have been retained consistently by us for years.

The returns on plan assets are determined plan by plan and depend upon the asset allocation of the investment portfolio and the expected future performance.

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**b/ Components of net periodic cost of post-employment benefit**

<i>(in millions of euros)</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Service cost	(126)	(158)	(73)
Interest cost	(1,503)	(1,575)	(256)
Expected return on plan assets	1,852	2,119	286
Amortization of prior service cost	(1)	(4)	(7)
Effect of curtailments and settlements	(41)	(12)	-
Non represented healthcare plan amendment	65	258	-
<b>NET PERIODIC BENEFIT (COST)</b>	<b>246</b>	<b>628</b>	<b>(50)</b>
Of which:			
• Recognized in Income (loss) from operating activities before restructuring costs, impairment of intangible assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments	(127)	(162)	(81)
• Recognized in restructuring costs	(41)	(12)	-
• Non-represented healthcare plan amendment	65	258	-
• Recognized in other financial income (loss)	349	544	31

### c/ Change in the obligation recorded in the balance sheet

<i>(in millions of euros)</i>	2008	2007	2006
<b>Change in benefit obligation</b>			
<b>Benefit obligation at January 1</b>	<b>(25,425)</b>	<b>(30,230)</b>	<b>(3,503)</b>
Service cost	(126)	(158)	(73)
Interest cost	(1,503)	(1,575)	(256)
Plan participants' contributions	(133)	(165)	(15)
Amendments	66	249	(5)
Business combinations	(4)	(8)	(27,694)
Disposals	-	-	138
Curtailments	(27)	27	2
Settlements	3	21	14
Special termination benefits	(14)	(32)	1
Actuarial gains and (losses)	365	1,135	759
Benefits paid	2,401	2,645	434
Medical Part D Subsidy	(30)	(33)	-
Foreign currency translation and other	(1,071)	2,699	(32)
<b>Benefit obligation at December 31</b>	<b>(25,498)</b>	<b>(25,425)</b>	<b>(30,230)</b>
Benefit obligation excluding effect of future salary increases	(25,004)	(24,927)	(29,659)
Effect of future salary increases	(494)	(498)	(571)
<b>Benefit obligation</b>	<b>(25,498)</b>	<b>(25,425)</b>	<b>(30,230)</b>
Pertaining to retirement plans	(22,310)	(22,029)	(25,848)
Pertaining to post-employment medical care plans	(3,188)	(3,396)	(4,382)
<b>Change in plan assets</b>			
<b>Fair value of plan assets at January 1</b>	<b>28,231</b>	<b>30,197</b>	<b>2,286</b>
Expected return on plan assets	1,852	2,119	286
Actuarial gains and (losses)	(4,119)	1,072	57
Employers' contributions	192	257	129
Plan participants' contributions	133	165	15
Amendments	-	(15)	-
Business combinations	2	-	27,825
Disposals	-	-	(30)
Curtailments	-	-	-
Settlements	(1)	(16)	(14)
Benefits paid/Special termination benefits	(2,334)	(2,580)	(395)
Foreign currency translation and other	1,113	(2,968)	38
<b>Fair value of plan assets at December 31</b>	<b>25,069</b>	<b>28,231</b>	<b>30,197</b>
Present value of defined benefit obligations that are wholly or partly funded	(23,875)	(23,635)	(27,984)
Fair value of plan assets	25,069	28,231	30,197
<b>Funded status of defined benefit obligations that are wholly or partly funded</b>	<b>1,194</b>	<b>4,596</b>	<b>2,213</b>
Present value of defined benefit obligations that are wholly unfunded	(1,623)	(1,790)	(2,246)
<b>Funded status</b>	<b>(429)</b>	<b>2,806</b>	<b>(33)</b>
Unrecognized prior service cost	-	1	-
Unrecognized surplus (due to application of asset ceiling and IFRIC14)	(2,080)	(3,782)	(1,981)
<b>NET AMOUNT RECOGNIZED</b>	<b>(2,509)</b>	<b>(975)</b>	<b>(2,014)</b>
Of which:			
• prepaid pension costs	2,298	3,472	3,435
• pensions, retirement indemnities and other post-retirement benefit obligations	(4,807)	(4,447)	(5,449)

CHANGE IN PENSION AND POST-RETIREMENT NET ASSET (LIABILITY) RECOGNIZED

(in millions of euros)

	December 31, 2008			December 31, 2007			December 31, 2006		
	Pension benefits	Post-retirement benefits	Total	Pension benefits	Post-retirement benefits	Total	Pension benefits	Post-retirement benefits	Total
<b>Net asset (liability) recognized as of January 1</b>	<b>1,910</b>	<b>(2,885)</b>	<b>(975)</b>	<b>1,503</b>	<b>(3,517)</b>	<b>(2,014)</b>	<b>(1,244)</b>	<b>(20)</b>	<b>(1,264)</b>
Operational charge	(121)	(6)	(127)	(152)	(10)	(162)	(80)	(1)	(81)
Financial income <sup>(1)</sup>	516	(167)	349	719	(175)	544	49	(18)	31
Curtailment <sup>(2)</sup>	(37)	(4)	(41)	(12)	-	(12)	-	-	-
Non represented healthcare plan amendment <sup>(3)</sup>	-	65	65	-	258	258	-	-	-
Total recognized in profits (losses)	<b>358</b>	<b>(112)</b>	<b>246</b>	<b>555</b>	<b>73</b>	<b>628</b>	<b>(31)</b>	<b>(19)</b>	<b>(50)</b>
Actuarial gains and (losses) for the period	(3,798)	44 <sup>(5)</sup>	(3,754)	2,110	97	2,207	737	79	816
Asset ceiling limitations and IFRIC 14 effect	1,789	-	1,789	(2,164)	-	(2,164)	(184)	-	(184)
<b>Total recognized in Statement Of Recognized Income and Expense<sup>(4)</sup></b>	<b>(2,009)</b>	<b>44</b>	<b>(1,965)</b>	<b>(54)</b>	<b>97</b>	<b>43</b>	<b>553</b>	<b>79</b>	<b>632</b>
Contributions and benefits paid	158	71	229	186	111	297	154	17	171
420 transfer	(444)	444	-	-	-	-	(382)	382	-
Change in consolidated companies	-	-	-	(8)	-	(8)	2,469	(3,949)	(1,480)
Other (reclassifications and exchange rate changes)	97	(141)	(44)	(272)	351	79	(16)	(7)	(23)
<b>Net asset (liability) recognized as of December 31</b>	<b>70</b>	<b>(2,579)</b>	<b>(2,509)</b>	<b>1,910</b>	<b>(2,885)</b>	<b>(975)</b>	<b>1,503</b>	<b>(3,517)</b>	<b>(2,014)</b>
Of which:									
• prepaid pension costs	2,298	-	2,298	3,472	-	3,472	3,435	-	3,435
• pension, retirement indemnities and post-retirement benefits liability	(2,228)	(2,579)	(4,807)	(1,562)	(2,885)	(4,447)	(1,932)	(3,517)	(5,449)

(1) This income is mainly due to the expected return on plan assets (refer to Note 8).

(2) Accounted for in restructuring costs.

(3) Accounted for on a specific line item "Post-retirement benefit plan amendment" in the income statement.

(4) The amounts recognized directly in the Statement Of Recognized Income and Expense (SORIE) indicated in the table above differ from the ones disclosed in the SORIE on page 5, due to the amounts related to discontinued activities, which are excluded in the above table.

(5) This amount includes € 83 million related to the U.S. management healthcare plan amendment.

Funding requirements are usually determined for each individual plan, and as a result excess plan assets for over funded plans cannot be used for under funded plans. The under funded status, which amounted to € 429 million at December 31, 2008 (over funded status amounted to € 2,806 million at December 31, 2007 and under funded status amounted € 33 million at December 31, 2006) relates primarily to U.S. post-retirement benefits (see below) and to plans in France and Germany. Decisions on funding the benefit obligations are taken based on each country's legal

requirements and the tax-deductibility of the contributions made. In France and Germany, the funding of pension obligations relies primarily on defined contribution plans; setting up other funding arrangements is not common practice. Furthermore, in Germany, the benefits accruing to employees are guaranteed in the event of bankruptcy through a system of mutual insurance common to all companies involved in similar plans. See section 25g below for information on U.S. plans.

The benefit obligation, the fair value of the plan assets and the actuarial gains (losses) generated for the current year and the previous years are as follows:

<i>(in millions of euros)</i>	Benefit obligation	Plan assets	Funded (unfunded) status	Experience adjustments generated on the benefit obligation		Experience adjustments generated on the plan assets	
				Amount	In percentage of the benefit obligation	Amount	In percentage of the plan assets
2008	(25,498)	25,069	(429)	290	1.14%	(4,119)	16.43%
2007	(25,425)	28,231	2,806	(166)	0.65%	1,072	3.80%
2006	(30,230)	30,197	(33)	21	0.07%	57	0.19%

In respect of the medical care plans, a change of one percentage point in the assumed medical costs has the following impact (in millions of euros):

	Increase of 1%	Decrease of 1%
Impact on the current service cost and interest costs	(6)	5
Impact on the benefit obligation	(103)	92

The plan assets of retirement plans are invested as follows:

<i>(in millions of euros and percentage)</i>	Bonds	Equity securities	Private equity and other	Real estate	Total
2008	15,682	4,169	3,128	2,090	25,069
	63%	17%	12%	8%	100%
2007	17,154	5,628	3,139	2,310	28,231
	61%	20%	11%	8%	100%
2006	14,382	10,966	2,537	2,312	30,197
	48%	36%	8%	8%	100%

As part of the prudent management of its funds relative to the corresponding obligations, the Group reduced the exposure of its defined benefit pension plans to equity markets in November 2007. As of December 31, 2008, the global asset allocation of the Group's plans was as follows: 17% in equity securities, 63% in bonds and 20% in alternatives (i.e., real estate, private equity and hedge funds). This compares to respectively 20%, 61% and 19% as of December 31, 2007 and respectively 36%, 48% and 16% as of December 31, 2006.

For historical Alcatel companies, the investment policy relating to plan assets within the Group depends upon local practices. In all cases, the

proportion of equity securities cannot exceed 80% of plan assets and no individual equity security may represent more than 5% of total equity securities within the plan. The equity securities held by the plan must be listed on a recognized exchange. The bonds held by the plan must have a minimum "A" rating according to Standard & Poor's or Moody's rating criteria.

The contributions and benefits paid directly by the Group to retirees that are expected to be paid for 2009 are € 217 million for the pension and other post-retirement benefit plans.

Expected benefit payments made for beneficiaries from defined benefit plans through 2018 are as follows:

<b>Total</b> <i>(in millions of euros)</i>	Expected benefit payments
2009	2,287
2010	2,207
2011	2,160
2012	2,260
2013	2,080
2014-2018	9,785

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**d/ Cumulative amounts for actuarial differences (before taxes) booked against the Consolidated Statements of Recognized Income and Expense**

<i>(in millions of euros)</i>	2008	2007	2006
<b>Balance at January 1</b>	<b>2,973</b>	<b>766</b>	<b>(34)</b>
Net actuarial (losses)/gains during the period	(3,754)	2,207	816
Change due to discontinued activities (Thales) and related to the creation of two joint ventures with Finmeccanica	-	-	(1,4)
<b>BALANCE AT DECEMBER 31</b>	<b>(781)</b>	<b>2,973</b>	<b>766</b>

**e/ U.S. healthcare plan amendment**

<i>(in millions of euros)</i>	December 31, 2008	December 31, 2007	December 31, 2006
Benefit obligation	(25,498)	(25,425)	(30,230)
Fair value of plan assets	25,069	28,231	30,197
<b>Funded status</b>	<b>(429)</b>	<b>2,806</b>	<b>(33)</b>
Unrecognized prior service cost and surplus (due to application of asset ceiling and IFRIC14)	(2,080)	(3,781)	(1,981)
<b>NET AMOUNT RECOGNIZED</b>	<b>(2,509)</b>	<b>(975)</b>	<b>(2,014)</b>

**f/ Lucent's U.S. pension and post-retirement obligations**

**2008 plan amendment**

On July 30, 2008, certain changes to Lucent's management retiree healthcare benefits were approved by the Board of Directors of Lucent Technologies Inc. (now known as Alcatel-Lucent USA Inc.) and announced to retirees between August and the beginning of October. Among these changes that are effective January 1, 2009, post-retirement medical benefits for Medicare eligible management participants will be provided through a fully insured Medicare Advantage Private Fee-For-Service (PFSS) Plan.

Under this plan, the PFFS contracts directly with the Centers for Medicare & Medicaid Services to provide all Medicare Parts A and B benefits for Medicare eligible management retirees. These changes imply a € 148 million benefit obligation decrease for the management retiree healthcare plan. € 83 million of this decrease, which related to management employees who retired before March 1, 1990, is considered as a change in actuarial assumptions and is recognized in the Statements Of Recognized Income and Expenses. € 65 million of this decrease, which related to management employees who retired on or after March 1, 1990 and who are subject to defined caps, is considered as a plan amendment and is recognized in the income statement in the specific line item "Post-retirement benefit plan amendments".

<i>(in millions of euros)</i>	Before amendment	Amendment effect for pre-01/03/1990 retirees <sup>(1)</sup>	Amendment effect for post-01/03/1990 retirees <sup>(2)</sup>	After amendment
Projected benefit obligation	(529)	83	65	(381)
Deferred taxes		(33)	(25)	
<b>NET IMPACT AFTER DEFERRED TAXES</b>		<b>50</b>	<b>40</b>	

(1) Recognized in the Statements of Recognized of Income and Expenses.

(2) Recognized in the Income Statement.

**2007 plan amendment**

During June 2007, certain changes to Lucent's management retiree healthcare benefits were approved. Effective January 1, 2008, prescription drug coverage offered to former Lucent management retirees was changed

to a drug plan design similar to the Medicare Part D program. The impact of this change resulted in additional net income of € 77 million as summarized in the following table.

<i>(in millions of euros)</i>	Before amendment	Amendment effect	After amendment
Gross Projected Benefit Obligation (PBO)	(1,106)	463	(643)
Part D subsidy (tax free)	205	(205)	-
<b>NET PBO</b>	<b>(901)</b>	<b>258<sup>(1)</sup></b>	<b>(643)</b>
Deferred taxes <sup>(2)</sup>		(181)	
<b>NET IMPACT AFTER DEFERRED TAXES</b>		<b>77</b>	

(1) Accounted for on a specific line item "Post-retirement benefit plan amendments" in the income statement.

(2) Refer to Note 9.

## g/ Alcatel-Lucent's U.S. pension and post-retirement obligations

The following tables summarize changes in the benefit obligation, the plan assets and the funded status of Alcatel-Lucent's U.S. pension and post-retirement benefit plans as well as the components of net periodic benefit costs, including key assumptions. The measurement dates for plan assets and obligations were December 31, 2008 and December 31,

2007. In addition, interim measurements were made to the major plans as of March 31, June 30, and September 30, to reflect the funded status of those plans in the financial statements at the end of those periods. These interim measurements impact the pension and post-retirement cost for the immediately succeeding period. All these data are included in the figures presented on a consolidated basis in Notes 25b, c, d and e).

### 2008

(in millions)

	Pension benefits		Post-retirement benefits	
	USD	€	USD	€
<b>Change in benefit obligation:</b>				
Benefit obligation at January 1, 2008	(27,296)	(18,542)	(4,981)	(3,384)
Service cost	(101)	(69)	(8)	(5)
Interest cost	(1,673)	(1,137)	(289)	(196)
Actuarial gains (losses)	278	189	209	142
Amendments	-	-	96	65
Transfer from U.S. Alcatel plan	(21)	(14)	(17)	(12)
Benefits paid	2,451	1,666	791	538
Medicare Part D subsidy	-	-	(45)	(31)
Plan participant contributions	-	-	(186)	(126)
Settlements	-	-	-	-
Curtailments	(49)	(33)	(5)	(3)
Special termination benefits	(20)	(14)	(1)	(1)
Other (reclassification and exchange rate changes)	-	(1,038)	-	(175)
<b>Benefit obligation at December 31, 2008</b>	<b>(26,431)</b>	<b>(18,992)</b>	<b>(4,436)</b>	<b>(3,188)</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at January 1, 2008	36,275	24,642	753	511
Actual return on plan assets	(2,720)	(1,849)	(102)	(69)
Benefits paid	(2,451)	(1,666)	(791)	(538)
Plan participant contributions	-	-	186	126
Company contributions	36	24	149	101
Transfer from U.S. Alcatel plan	4	3	-	-
420 transfer	(653)	(444)	653	444
Other (external transfer and exchange rate changes)	(3)	1,197	-	34
<b>Fair value of plan assets at December 31, 2008</b>	<b>30,488</b>	<b>21,907</b>	<b>848</b>	<b>609</b>
Funded status of the plan	4,057	2,915	(3,588)	(2,579)
Unrecognized prior service cost (credit)	-	-	-	-
Unrecognized surplus due to asset ceiling	(2,724)	(1,957)	-	-
Net asset (liability) recognized	1,333	958	(3,588)	(2,579)
<b>Amounts recognized in the consolidated balance sheets:</b>				
Prepaid pension costs	2,494	1,792	-	-
Pensions, retirement indemnities and other post-retirement benefit obligations	(1,161)	(834)	(3,588)	(2,579)
<b>NET ASSET (LIABILITY) RECOGNIZED</b>	<b>1,333</b>	<b>958</b>	<b>(3,588)</b>	<b>(2,579)</b>

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**2007**

(in millions)

	Pension benefits		Post-retirement benefits	
	USD	€	USD	€
<b>Change in benefit obligation:</b>				
Benefit obligation at January 1, 2007	(28,742)	(21,824)	(5,754)	(4,369)
Service cost	(126)	(92)	(13)	(10)
Interest cost	(1,640)	(1,196)	(297)	(217)
Actuarial gains (losses)	1,036	755	136	100
Amendments	(6)	(5)	353	258
Transfer from U.S. Alcatel plan	(253)	(184)	-	-
Benefits paid	2,482	1,810	864	631
Medicare Part D subsidy	-	-	(46)	(33)
Plan participant contributions	-	-	(218)	(159)
Settlements	-	-	-	-
Curtailments	-	-	-	-
Special termination benefits	(47)	(34)	(1)	(0)
Other (reclassification and exchange rate changes)	-	2,228	(5)	415
<b>Benefit obligation at December 31, 2007</b>	<b>(27,296)</b>	<b>(18,542)</b>	<b>(4,981)</b>	<b>(3,384)</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at January 1, 2007	34,444	26,153	1,141	866
Actual return on plan assets	4,117	3,003	61	45
Benefits paid	(2,482)	(1,810)	(864)	(631)
Plan participant contributions	-	-	218	159
Company contributions	38	27	197	144
Transfer from U.S. Alcatel plan	213	156	-	-
Other (external transfer and exchange rate changes)	(55)	(2,886)	-	(72)
<b>Fair value of plan assets at December 31, 2007</b>	<b>36,275</b>	<b>24,642</b>	<b>753</b>	<b>511</b>
Funded status of the plan	8,979	6,100	(4,228)	(2,873)
Unrecognized prior service cost (credit)	-	-	-	-
Unrecognized surplus due to asset ceiling	(5,364)	(3,644)	-	-
Net asset (liability) recognized	3,615	2,456	(4,228)	(2,873)
<b>Amounts recognized in the consolidated balance sheets:</b>				
Prepaid pension costs	4,001	2,718	-	-
Pensions, retirement indemnities and other post-retirement benefit obligations	(386)	(262)	(4,228)	(2,873)
<b>NET ASSET (LIABILITY) RECOGNIZED</b>	<b>3,615</b>	<b>2,456</b>	<b>(4,228)</b>	<b>(2,873)</b>

### Additional Information

#### December 31, 2008

(in millions)

	Pension benefits		Post-retirement benefits December 31, 2006	
	USD	€	USD	€
<i>Benefit obligation by major plans:</i>				
U.S. management	(16,130)	(11,590)	-	-
U.S. occupational	(9,903)	(7,116)	-	-
Supplemental	(378)	(272)	-	-
Non-represented health	-	-	(558)	(401)
Formerly represented health	-	-	(2,437)	(1,752)
Group life and other	(20)	(14)	(1,441)	(1,035)
<b>Benefit obligation at end of year</b>	<b>(26,431)</b>	<b>(18,992)</b>	<b>(4,436)</b>	<b>(3,188)</b>
<i>Plan assets by major plans:</i>				
U.S. management	15,363	11,039	-	-
U.S. occupational	15,122	10,866	-	-
Supplemental	-	-	-	-
Formerly represented health	-	-	379	272
Group life and other	3	2	469	337
<b>Fair value of plan assets at end of year</b>	<b>30,488</b>	<b>21,907</b>	<b>848</b>	<b>609</b>

#### December 31, 2007

(in millions)

	Pension benefits		Post-retirement benefits December 31, 2006	
	USD	€	USD	€
<i>Benefit obligation by major plans:</i>				
U.S. management	(16,412)	(11,149)	-	-
U.S. occupational	(10,497)	(7,131)	-	-
Supplemental	(387)	(262)	-	-
Non-represented health	-	-	(837)	(569)
Formerly represented health	-	-	(2,721)	(1,848)
Group life and other	-	-	(1,423)	(967)
<b>Benefit obligation at end of year</b>	<b>(27,296)</b>	<b>(18,542)</b>	<b>(4,981)</b>	<b>(3,384)</b>
<i>Plan assets by major plans:</i>				
U.S. management	18,994	12,903	-	-
U.S. occupational	17,281	11,739	-	-
Supplemental	-	-	-	-
Formerly represented health	-	-	108	74
Group life and other	-	-	645	437
<b>Fair value of plan assets at end of year</b>	<b>36,275</b>	<b>24,642</b>	<b>753</b>	<b>511</b>

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### Components of Net Periodic Benefit (Cost)

#### December 31, 2008

<i>(in millions)</i>	Pension benefits		Post-retirement benefits	
<i>Pension credit/post-retirement benefit (cost):</i>	<i>USD</i>	<i>€</i>	<i>USD</i>	<i>€</i>
Service cost	(101)	(69)	(8)	(5)
Interest cost on benefit obligation	(1,673)	(1,137)	(289)	(197)
Expected return on plan assets	2,442	1,660	43	29
Amortization of unrecognized prior service costs	-	-	-	-
<b>SUBTOTAL</b>	<b>668</b>	<b>454</b>	<b>(254)</b>	<b>(173)</b>
Special termination benefits	(20)	(14)	(1)	(1)
Curtailments	(49)	(33)	(5)	(3)
Settlements	-	-	-	-
<b>Pension credit/post-retirement benefit (cost)</b>	<b>599</b>	<b>407</b>	<b>(260)</b>	<b>(177)</b>
U.S. healthcare plan amendment	-	-	96	65
<b>PENSION CREDIT/POST-RETIREMENT BENEFIT (COST)</b>	<b>599</b>	<b>407</b>	<b>(164)</b>	<b>(112)</b>

#### December 31, 2007

<i>(in millions)</i>	Pension benefits		Post-retirement benefits	
<i>Pension credit/post-retirement benefit (cost):</i>	<i>USD</i>	<i>€</i>	<i>USD</i>	<i>€</i>
Service cost	(126)	(92)	(13)	(10)
Interest cost on benefit obligation	(1,640)	(1,196)	(297)	(217)
Expected return on plan assets	2,633	1,921	58	42
Amortization of unrecognized prior service costs	(6)	(5)	-	-
<b>SUBTOTAL</b>	<b>861</b>	<b>628</b>	<b>(252)</b>	<b>(185)</b>
Special termination benefits	(47)	(34)	(1)	(0)
Curtailments	-	-	-	-
Settlements	-	-	-	-
<b>Pension credit/post-retirement benefit (cost)</b>	<b>814</b>	<b>594</b>	<b>(253)</b>	<b>(185)</b>
U.S. healthcare plan amendment	-	-	353	258
<b>PENSION CREDIT/POST-RETIREMENT BENEFIT (COST)</b>	<b>814</b>	<b>594</b>	<b>100</b>	<b>73</b>

### Key assumptions

<b>Assumptions used to determine:</b>	<b>December 2008</b>	<b>December 2007</b>
<i>Benefit obligations – discount rate</i>		
Pension	6.22%	6.20%
Post-retirement health care and other	6.16%	5.88%
Post-retirement life	6.16%	6.32%
Rate of compensation increase	3.96%	3.97%
<i>Net benefit cost or credit – discount rate</i>		
Pension	6.71%	5.95%
Post-retirement health care and other	6.41%	5.71%
Post-, retirement life	6.79%	5.98%
<i>Expected return on plan assets</i>		
Pension	7.27%	7.66%
Post-retirement health care	4.20%	5.25%
Post-retirement life	6.95%	7.25%

The weighted average expected rate of return on plan assets that will be used to determine the calendar 2009 net periodic benefit cost is 7.13%

for pensions, 2.25% for post-retirement health care benefits and 6.67% for post-retirement life insurance benefits.

	December 31, 2008	December 31, 2007
<i>Assumed health care cost trend rates</i>		
Health care cost trend rate assumed for next year	6.90%	7.7%
Health care cost trend rate assumed for next year (excluding post-retirement dental benefits)	7.00%	7.8%
Rate that the cost trend rate gradually declines to	5.90%	5.9%
Year that the rate reaches the rate it is assumed to remain at	2012	2012

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

<i>(in millions of U.S. dollars)</i>	<b>1 percentage point</b>	
	<b>Increase</b>	<b>Decrease</b>
Effect on total of service and interest cost components	(9)	8
Effect on post-retirement benefit obligation	(143)	128

Alcatel-Lucent uses the Original CitiGroup Pension Discount Curve to develop discount rates. The benefit obligation cash flows are matched with the corresponding Original CitiGroup Pension Discount Curve duration to develop a single discount rate which produces the same present value as produced by the Original CitiGroup yield curve. Rates are developed distinctly for each major plan; some very small plans are grouped for this process. The average duration of Alcatel-Lucent major pension obligations and post-retirement health care obligations were 9.31 years and 5.92 years, respectively, as of December 31, 2008 (9.47 years and 6.09 years, respectively, as of December 31, 2007).

Alcatel-Lucent considered several factors in developing its expected rate of return on plan assets, including its historical returns and input from its external advisors. Individual asset class return forecasts were developed based upon current market conditions, for example, price-earnings levels and yields and long-term growth expectations. The expected long-term rate of return is the weighted average of the target asset allocation of each individual asset class. Alcatel-Lucent's long-term expected rate of return on plan assets included an anticipated premium over projected market returns received from its external advisors of 7.63% for its management plan and 6.04% for its occupational plan as of December 31, 2008 (0.12% for its management plan and 0.46% for its occupational plan as of December 31, 2008). Its actual 10-year annual rate of return on pension plan assets was 6.57% for the year ending December 31, 2008 (9.22% for the year ending December 31, 2007).

On December 8, 2003, the President of the United States signed the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Alcatel-Lucent currently sponsors retiree health care plans that provide prescription drug benefits to its U.S. retirees that its plan actuaries have determined are actuarially equivalent to Medicare Part D.

During the third quarter of 2008, Alcatel-Lucent amended its post-retirement healthcare plan for management retirees. Alcatel-Lucent replaced the indemnity option for management retirees and dependents of management retirees who are Medicare eligible, with a fully insured Medicare Advantage plan called a Private Fee for Service Plan. This resulted in a reduction in the benefit obligation of \$ 218 million, consisting of an income of \$ 96 million and a \$ 123 million actuarial gain.

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## Plan Assets

The following table summarizes the target asset allocation ranges and our actual allocation of our pension and post-retirement trusts by asset category.

	Pension target allocation range	Percentage of pension plan assets	Post-retirement target allocation	Percentage of post-retirement plan assets
<i>December 31, 2008</i>				
<b>Asset category</b>				
Equity securities	16%-30%	17%	27%	24%
Fixed income securities	54%-70%	64%	41%	44%
Real estate	4%-8%	8%		
Private equity and other	6%-12%	11%		
Cash		-	32%	32%
<b>TOTAL</b>		<b>100%</b>		<b>100%</b>
<i>December 31, 2007</i>				
<b>Asset category</b>				
Equity securities	16%-30%	19%	50%	42%
Fixed income securities	54%-70%	63%	50%	58%
Real estate	4%-8%	7%	-	-
Private equity and other	7%-13%	11%	-	-
Cash		-	-	-
<b>TOTAL</b>		<b>100%</b>		<b>100%</b>

The majority of Alcatel-Lucent's U.S. pension plan assets are held in a master pension trust. Alcatel-Lucent's U.S. post-retirement plan assets are held in two separate trusts in addition to the amount set aside in the master pension trust for retiree healthcare. Plan assets are managed by independent investment advisors with the objective of maximizing surplus returns with a prudent level of surplus risk. Alcatel-Lucent periodically completes asset-liability studies to assure that the optimal asset allocation is maintained in order to meet future benefit obligations. The Board of Directors formally approves the target allocation ranges every two to three years upon completion of a study by the external advisors and internal investment management. During the fourth quarter of 2007, the allocation of the U.S. pension plan assets was changed as part of a routine periodic review. The overall pension plan asset portfolio now reflects a balance of investments split about 37.5/62.5 between equity (which includes alternative investments for this purpose) and fixed income securities compared to the previous split of about 50/50 between equity and fixed income. Alcatel-Lucent believes this action was prudent given the demographics, funded status and future obligations for its pension plans. Investment advisors managing plan assets may use derivative financial instruments including futures contracts, forward contracts, options and interest rate swaps to manage market risk.

Pension plan assets included \$ 0.0 million of Alcatel-Lucent ADSs (American Depository Shares) as of December 31, 2008 (\$ 0.4 million and \$ 2 million of Alcatel-Lucent ADSs as of December 31, 2007 and December 31, 2006, respectively).

## Contributions

Alcatel-Lucent contributes to its pension and post-retirement benefit plans to make benefit payments to plan participants and to pre-fund some benefits by means of trust funds. For Alcatel-Lucent's U.S. pension plans,

the funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts as Alcatel-Lucent may determine to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants.

On December 27, 2006, Alcatel-Lucent made a Section 420 "collectively bargained transfer" of excess pension assets from the occupational pension plan in the amount of \$ 504 million to fund healthcare benefits for formerly represented retirees for the period beginning October 1, 2006 through December 31, 2007. On December 29, 2008, Alcatel-Lucent made a Section 420 "collectively bargained transfer" of excess pension assets from the occupational pension plan in the amount of \$ 653 million to fund healthcare benefits for formerly represented retirees for the period beginning January 1, 2008 through about September 30, 2009. Alcatel-Lucent expects to make another "collectively bargained" transfer during 2009 to fund healthcare benefits for formerly represented retirees for the remainder of 2009 through the first nine months of 2010.

The following table summarizes expected contributions (net of Medicare Part D subsidies) to its various pension and post-retirement plans through calendar 2018. Alcatel-Lucent does not have to make contributions to its qualified U.S. pension plans during calendar 2009, and does not expect to make any during 2010. Alcatel-Lucent is unable to estimate the expected contributions to its qualified U.S. pension plans beyond calendar 2010. Actual contributions may differ from expected contributions, due to various factors, including performance of plan assets, interest rates and potential legislative changes. The table below reflects the use of excess pension assets to fund 2009 healthcare costs for formerly represented retirees.

	Pension		Post-retirement	
	Non-qualified pension plans	Formerly represented retiree health plans	Non-represented retiree health plans	Other benefit plans
<i>(in millions of U.S. dollars)</i>				
2009	31	(34)	67	10
2010	31	298	61	10
2011	31	294	57	9
2012	30	467	56	28
2013	30	233	53	56
2014-2018	150	905	249	295

### Benefit Payments

The following table summarizes expected benefit payments from Lucent's various pension and post-retirement plans through calendar 2018. Actual

benefit payments may differ from expected benefit payments. These amounts are reflected net of expected plan participant contributions and the annual Medicare Part D subsidy of approximately \$ 40 million.

	Pension			Post-retirement		
	Qualified U.S. management pension plans	Qualified U.S. occupational pension plans	Non-qualified pension plans	Formerly represented retiree health plans	Non-represented retiree health plans	Other benefit plans
<i>(in millions of U.S. dollars)</i>						
2009	1,366	1,039	31	327	67	96
2010	1,333	984	31	316	61	98
2011	1,318	957	31	294	57	99
2012	1,305	931	30	467	56	100
2013	1,292	905	30	233	53	101
2014-2018	6,262	4,087	150	905	249	513

The actuarial assumptions used to determine if pension plan funding is required are specified by the Pension Protection Act of 2006 (PPA) as modified by the Worker, Retiree and Employer Recovery Act of 2008 (WRER). These bills allow a pension plan sponsor to choose among a limited set of options for ascertaining the plan asset and obligation values used to determine funding requirements. Certain of these actuarial assumptions differ from those used for accounting purposes in a way that becomes significant in volatile markets. While the basis of developing discount rates in both cases are corporate bond yields, for accounting purposes we use a yield curve developed by CitiGroup as of the close of the last business day of December, whereas the PPA allows either a daily average yield curve for the month of December or a two-year average yield curve. Also, available fair value of assets as of the close of the last business day of December must be used for accounting purposes, but the PPA and the WRER provide for "asset smoothing" options that average fair values over periods as long as two years with limited expected returns being included in the averaging. Both of these sets of options minimize the impact of sharp changes in asset values and corporate bond yields in

volatile markets. Corporate bond yields dropped sharply during the last two weeks of December 2008 which resulted in a financial reporting discount rate that is significantly (more than 70 basis points) lower than the one used for regulatory funding valuation. A preliminary evaluation of the funded status of the U.S. Management Pension Plan for regulatory funding valuation purposes indicates that this plan is over 100% funded at year end. On the other hand this plan was underfunded by U.S. \$ 767 million on December 31, 2008 for accounting purposes (refer to Note 25 g). In addition, under the PPA transition target rules, we would only need to fund this plan if the funded ratio were to decline below 94%. We see little probability of contributions being required for that plan through 2010. We cannot be certain about 2010 until all private equity and real estate values as of December 31, 2008 have been made available and the plan obligations have been updated with the January 1, 2009 census data. We expect to complete this evaluation by the end of the second quarter of 2009.

## NOTE 26 FINANCIAL DEBT

### a/ Analysis of financial debt, net

<i>(in millions of euros)</i>	2008	2007	2006
Marketable securities – short term, net	906	894	1,245
Marketable securities – long term, net	-	-	697
<b>Cash and cash equivalents</b>	<b>3,687</b>	<b>4,377</b>	<b>4,749</b>
Cash, cash equivalents and marketable securities	4,593	5,271	6,691
(Convertible and other bonds – long-term portion)	(3,931)	(4,517)	(4,901)
(Other long-term debt)	(67)	(48)	(147)
(Current portion of long-term debt)	(1,097)	(483)	(1,161)
<b>(Financial debt, gross)</b>	<b>(5,095)</b>	<b>(5,048)</b>	<b>(6,209)</b>
Derivative interest rate instruments – other current and non-current assets	72	19	36
Derivative interest rate instruments – other current and non-current liabilities	(1)	(16)	(10)
Loan to co-venturer – financial asset	42	45	-
<b>CASH (FINANCIAL DEBT), NET</b>	<b>(389)</b>	<b>271</b>	<b>508</b>

### b/ Analysis of financial debt, gross - by type

<i>(in millions of euros)</i>	2008	2007	2006
Convertible bonds	2,387	2,273	2,682
Other bonds	2,320	2,381	2,672
Bank loans, overdrafts and other financial debt	254	237	504
Commercial paper	-	18	138
Finance lease obligations	-	-	52
Accrued interest	134	139	161
<b>FINANCIAL DEBT, GROSS</b>	<b>5,095</b>	<b>5,048</b>	<b>6,209</b>

### c/ Bonds

Balances at December 31, 2007 and at December 31, 2008:

Remaining amounts to be reimbursed <i>(in millions of euros)</i>	December 31, 2007	Currency translation impact	Other changes during 2008	December 31, 2008
<i>Issued by Alcatel:</i>				
4.375% – € 777 million <sup>(4)</sup> due February 2009 <sup>(1)</sup>	805	-	(28)	777
OCEANE 4.75% – € 1,022 million <sup>(4)</sup> due January 2011 <sup>(1)</sup>	1,022	-	-	1,022
6.375% – € 462 million <sup>(4)</sup> due April 2014 <sup>(1)</sup>	462	-	-	462
<i>Issued by Lucent:</i>				
7.75% – U.S. \$ 1,030 million <sup>(4)</sup> due March 2017 <sup>(2)</sup>	777	41	(50)	768
2.875% – U.S. \$ 750 million <sup>(4)</sup> Series A due June 2023 <sup>(2)(3)</sup>	524	31	-	555
2.875% – U.S. \$ 881 million <sup>(4)</sup> Series B due June 2025 <sup>(2)(3)</sup>	624	37	-	661
6.50% – U.S. \$ 300 million <sup>(4)</sup> due January 2028	183	11	-	194
6.45% – U.S. \$ 1,360 million <sup>(4)</sup> due March 2029	832	47	-	879
5.50% – U.S. \$ 202 million <sup>(4)</sup> due November 2008	137	-	(137)	-
<b>SUBTOTAL</b>	<b>5,366</b>	<b>167</b>	<b>(215)</b>	<b>5,318</b>
Equity component of OCEANE issued by Alcatel	(81)	-	25	(56)
Equity component of convertible bonds issued by Lucent	(590)	(32)	32	(590)
Fair value of interest rate instruments relating to bonds and expenses included in the calculation of the effective interest rate	(41)	-	76	35
<b>CARRYING AMOUNT OF BONDS</b>	<b>4,654</b>	<b>135</b>	<b>(82)</b>	<b>4,707</b>

(1) Benefit from a full and unconditional subordinated guaranty from Lucent Technologies Inc. (now known as Alcatel-Lucent USA Inc.).

(2) See Note 24 for details of put and call conditions.

(3) Benefit from a full and unconditional subordinated guaranty from Alcatel-Lucent SA.

(4) Face amounts outstanding as at December 31, 2008.

**Changes in 2008:**

## Repurchases (redemption before maturity date):

Certain bonds were repurchased and cancelled in 2008, using an aggregate amount of € 44 million (two repurchases of € 27 million and U.S. \$ 23 million), corresponding to a nominal value of € 28 million and U.S. \$ 72 million, detailed as follows:

**Nominal value repurchased:**

- Alcatel-Lucent 4.375% EUR due February 2009: € 27,801,000.
- Lucent convertible bond 7.75% USD due March 2017: U.S. \$ 72,229,000.

The consideration paid in connection with an early redemption of a convertible bond is allocated at the date of redemption between the liability and the equity components with an allocation method consistent with the method used initially. The amount of gain or loss relating to the liability component is recognized in "other financial income (loss)" and the amount of consideration relating to the equity component is recognized in shareholders' equity.

For straight bonds, the difference between the repurchased amount and the nominal value is included in financial income (loss) in other financial income (loss), net.

The gains related to these repurchases were respectively € 1 million and € 30 million for the Alcatel-Lucent 4.375% bond and the Lucent 7.75% bond representing a total gain of € 31 million in other financial income (loss), net (see Note 8).

## Repayments

Lucent's 5.50% USD bond was repaid in November 2008 for a nominal value of € 137 million.

**Changes in 2007:**

## Repurchases (redemption before maturity date):

Lucent's 8% convertible debentures were redeemed in March 2007, for an aggregate amount of U.S. \$ 486.5 million corresponding to the nominal value:

**Nominal value repurchased:**

- Lucent's 8% convertible: U.S. \$ 486,545,000.

A financial loss of € 12 million was accounted for in connection with this early redemption.

For more information on the accounting treatment, refer to Note 8.

## Repayments

Historical Alcatel's 5.625% EUR bond was repaid in March 2007 for a residual nominal value of € 154 million.

**Changes in 2006:**

## Repurchases

Certain other bonds were repurchased and cancelled in 2006, amounting to € 117 million and corresponding to a nominal value of € 115 million, detailed as follows:

**Nominal value repurchased:**

- 7% EUR due December 2006 € 60,485,000.
- 4.375% EUR due February 2009 € 54,166,000.

The difference between the repurchased amount and the nominal value, corresponding to a charge of € 2 million, was included in other financial income (loss), net (see Note 8) in 2006.

## Repayments

The balance of the historical Alcatel Zero-rate coupon was repaid in June 2006 for a residual nominal amount of € 36 million.

The balance of the historical Alcatel 7% bonds was repaid in December 2006 for a residual nominal amount of € 365 million.

**d/ Analysis by maturity date**

(in millions of euros)

	2008	2007	2006
Current portion of long-term debt	776	137	453
Short-term debt	322	346	708
<b>Financial debt due within one year</b>	<b>1,098</b>	<b>483</b>	<b>1,161</b>
Of which:			
within 3 months	992		
between 3 and 6 months	86		
between 6 and 9 months	10		
above 9 months	10		
2008	-	-	251
2009	-	806	802
2010	357	328	359
2011	1,039	951	924
2012	6	9	-
2013 and thereafter	2,595	2,471	2,712
<b>Financial debt due after one year<sup>(1)</sup></b>	<b>3,997</b>	<b>4,565</b>	<b>5,048</b>
<b>TOTAL</b>	<b>5,095</b>	<b>5,048</b>	<b>6,209</b>

(1) The convertible securities may be retired earlier based on early redemption or buy back options. See Note 24.



## e/ Debt analysis by rate

<i>(in millions of euros)</i>	Amounts	Effective interest rate	Interest rate after hedging
<b>2008</b>			
Convertible bonds	2,387	8.06%	7.38%
Other bonds	2,320	6.37%	5.73%
Bank loans and overdrafts and finance lease obligations	254	3.50%	3.50%
Commercial paper	-	-	-
Accrued interest	134	NA	NA
<b>FINANCIAL DEBT, GROSS</b>	<b>5,095</b>	<b>6.85%</b>	<b>6.24%</b>
<b>2007</b>			
Convertible bonds	2,273	8.09%	8.27%
Other bonds	2,381	6.28%	6.56%
Bank loans and overdrafts and finance lease obligations	237	3.29%	2.84%
Commercial paper	18	4.28%	4.28%
Accrued interest	139	NA	NA
<b>FINANCIAL DEBT, GROSS</b>	<b>5,048</b>	<b>6.77%</b>	<b>6.97%</b>
<b>2006</b>			
Convertible bonds	2,682	8.34%	8.36%
Other bonds	2,672	6.39%	6.21%
Bank loans and overdrafts and finance lease obligations	556	5.37%	5.13%
Commercial paper	138	3.66%	3.66%
Accrued interest	161	NA	NA
<b>FINANCIAL DEBT, GROSS</b>	<b>6,209</b>	<b>6.91%</b>	<b>6.82%</b>

## f/ Debt analysis by type of rate

<i>(in millions of euros)</i>	2008		2007		2006	
	Before hedging	After hedging	Before hedging	After hedging	Before hedging	After hedging
Total fixed rate debt	5,047	2,860	4,989	3,147	6,174	4,155
Total floating rate debt	48	2,235	59	1,901	35	2,054
<b>TOTAL</b>	<b>5,095</b>	<b>5,095</b>	<b>5,048</b>	<b>5,048</b>	<b>6,209</b>	<b>6,209</b>

## g/ Debt analysis by currency

<i>(in millions of euros)</i>	2008		2007		2006	
	Before hedging	After hedging	Before hedging	After hedging	Before hedging	After hedging
Euro	2,552	2,552	2,465	2,465	3,000	3,000
U.S. Dollar	2,520	2,520	2,543	2,543	3,171	3,171
Other	23	23	40	40	38	38
<b>TOTAL</b>	<b>5,095</b>	<b>5,095</b>	<b>5,048</b>	<b>5,048</b>	<b>6,209</b>	<b>6,209</b>

## h/ Fair value of debt

The fair value of Alcatel-Lucent's debt is determined for each loan by discounting the future cash flows using a discount rate corresponding to bond yields, adjusted by the Group's credit rate risk. The fair value of debt and bank overdrafts at floating interest rates approximates the net carrying amounts. The fair value of the financial instruments that hedge the debt is calculated in accordance with the same method, based on the net present value of the future cash flows.

- At December 31, 2008, the fair value of debt before hedging (and credit spread) was € 3,722 million.

- At December 31, 2008, the fair value of the debt after hedging (and credit spread) was € 3,651 million.
- At December 31, 2007, the fair value of debt before hedging (and credit spread) was € 4,679 million.
- At December 31, 2007, the fair value of the debt after hedging (and credit spread) was € 4,676 million.
- At December 31, 2006, the fair value of debt before hedging (and credit spread) was € 6,365 million.
- At December 31, 2006, the fair value of the debt after hedging (and credit spread) was € 6,339 million.

## i/ Credit rating

### Credit ratings of Alcatel-Lucent and Lucent post business combination

At February 3, 2009, Alcatel-Lucent credit ratings were as follows:

Rating Agency	Long-term debt	Short-term debt	Outlook	Last update of the rating	Last update of the outlook
Moody's	Ba3	Not Prime	Negative	November 7, 2007	April 3, 2008
Standard & Poor's	BB-	B	On Credit Watch with negative implication	December 5, 2006	December 12, 2008

At February 3, 2009, Lucent's credit ratings were as follows:

Rating Agency	Long-term debt	Short-term debt	Outlook	Last update of the rating	Last update of the outlook
Moody's	Corporate Family Rating withdrawn <sup>(1)</sup>	n.a	n.a	December 11, 2006	n.a
Standard & Poor's	BB-	B-1	On Credit Watch with negative implication	December 5, 2006	December 12, 2008

(1) Except for preferred notes and bonds that continue to be rated (last update November 7, 2007).

Moody's: on April 3, 2008, Moody's had affirmed the Alcatel-Lucent Corporate Family Rating as well as that of the debt instruments originally issued by historical Alcatel and Lucent. The outlook was changed from stable to negative.

On November 7, 2007, Moody's had lowered the Alcatel-Lucent Corporate Family Rating, as well as the rating of the senior debt of the Group, from Ba2 to Ba3. The Not-Prime rating was confirmed for the short-term debt. The stable outlook was maintained. The trust preferred notes of Lucent Technologies Capital Trust were downgraded from B1 to B2.

On March 29, 2007, the rating for senior, unsecured debt of Lucent was upgraded to Ba2, thus aligning Lucent's rating with Alcatel-Lucent at the time. The subordinated debt and trust preferred notes of Lucent Technologies Capital Trust were rated at B1. On December 11, 2006, Lucent's Corporate Family Rating was withdrawn based upon the premise that the management of the two entities would be fully integrated over the following several months. Lucent's obligations were upgraded to a range of B3 to Ba3.

Standard & Poor's: on December 12, 2008, Standard & Poor's placed on Credit Watch with negative implications the long-term corporate credit ratings of Alcatel-Lucent and Lucent, as well as all issue ratings on both companies. At the same time, the long-term credit ratings were affirmed.

On July 31, 2008, Standard & Poor's revised to negative from stable its outlook on Alcatel-Lucent and Lucent long-term corporate credit ratings. At the same time, the long and short-term debt ratings of Alcatel-Lucent and of Lucent were affirmed.

On March 19, 2008, the remainder of Lucent's senior unsecured debt was raised to BB-. The trust preferred notes of Lucent Technologies Capital Trust were rated B-.

On September 13, 2007, Standard & Poor's reset the outlook of the long-term corporate credit rating of Alcatel-Lucent and of Lucent. Both outlooks were revised from Positive to Stable. At the same time, Alcatel-Lucent's BB- long term corporate rating, which had been set on December 5, 2006, was affirmed. The Alcatel-Lucent B short-term corporate credit rating and the Lucent B-1 short-term credit rating, both of which had been affirmed on December 5, 2006, were also confirmed.

On June 4, 2007, the ratings of Lucent's Series A and Series B 2.875% senior unsecured debt were raised to BB- from B+ and the B+ rating of Lucent's remaining senior unsecured debt was affirmed.

On December 5, 2006, Lucent's long-term corporate credit rating was equalized with that of Alcatel-Lucent to BB-.

### Credit ratings of historical Alcatel and Lucent pre-business combination

#### RECENT HISTORY OF ALCATEL-LUCENT'S LONG-TERM DEBT CREDIT RATING

Date	Moody's	Date	Standard & Poor's
December 11, 2006	Ba2 – Outlook Stable	December 5, 2006	BB- – Outlook Positive
April 3, 2006	Ba1 – Under review	March 24, 2006	BB – On credit watch
April 11, 2005	Ba1 – Outlook Positive	November 10, 2004	BB – Outlook Stable

#### RECENT HISTORY OF LUCENT'S LONG-TERM DEBT CREDIT RATING

Date	Moody's (Corporate Family Rating)	Date	Standard & Poor's
December 11, 2006	Withdrawn	December 5, 2006	BB- <sup>(1)</sup>
May 16, 2005	B1	March 10, 2004	B

(1) While the S&P long-term corporate credit rating for Lucent is BB-, its long-term senior debt securities are rated B+.

### Rating clauses affecting Alcatel-Lucent and Lucent debt at December 31, 2008

Alcatel-Lucent's short-term debt rating allows a limited access to the French commercial paper market for short periods of time.

Alcatel-Lucent's and Lucent's outstanding bonds do not contain clauses that could trigger an accelerated repayment in the event of a lowering of their respective credit ratings.

### j/ Bank credit agreements

#### Alcatel-Lucent syndicated bank credit facility

On April 5, 2007, Alcatel-Lucent obtained a € 1.4 billion multi-currency syndicated five-year revolving bank credit facility (with two one-year extension options). This facility replaced the undrawn €1.0 billion syndicated

facility, maturing in June 2009. On March 21, 2008, € 837 million of availability under the facility was extended until April 5, 2013.

The availability of this syndicated credit facility of €1.4 billion is not dependent upon Alcatel-Lucent's credit ratings. Alcatel-Lucent's ability to draw on this facility is conditioned upon its compliance with a financial covenant linked to the capacity of Alcatel-Lucent to generate sufficient cash to repay its net debt. The facility was undrawn at the date of approval by Alcatel-Lucent's Board of Directors of these 2008 financial statements.

## NOTE 27 PROVISIONS

### a/ Balance at closing

(in millions of euros)	2008	2007	2006
Provisions for product sales	575	557	599
Provisions for restructuring	595	698	413
Provisions for litigation	392	366	419
Other provisions	862	945	935
<b>TOTAL <sup>(1)</sup></b>	<b>2,424</b>	<b>2,566</b>	<b>2,366</b>
(1) Of which:			
– portion expected to be used within one year	1,630	1,421	1,461
– portion expected to be used after one year	794	1,145	905

### b/ Change during 2008

(in millions of euros)	December 31,				Change in consolidated companies		December 31,
	2007	Appropriation	Utilization	Reversals		Other	2008
Provisions for product sales <sup>(1)</sup>	557	354	(292)	(135)	-	91	575
Provisions for restructuring	698	563	(588)	(30)	-	(48)	595
Provisions for litigation	366	52	(22)	(20)	-	16	392
Other provisions	945	82	(68)	(154)	-	57	862
<b>TOTAL</b>	<b>2,566</b>	<b>1,051</b>	<b>(970)</b>	<b>(339)</b>	<b>-</b>	<b>116</b>	<b>2,424</b>
Effect on the income statement:							
• income (loss) from operating activities before restructuring, impairment of assets, capital gain on disposal of consolidated entities and post-retirement benefit plan amendments		(443)		208			(235)
• restructuring costs		(556)		30			(526)
• post-retirement benefit plan amendments <sup>(2)</sup>		(18)		-			(18)
• other financial income (loss)		(20)		30			10
• income taxes		(12)		31			19
• income (loss) from discontinued operations and gain/(loss) on disposal of consolidated shares		(2)		40			38
<b>TOTAL</b>		<b>(1,051)</b>		<b>339</b>			<b>(712)</b>

(1) Excluding provisions for product sales on construction contracts, which are accounted for in amounts due to/from customers on construction contracts (see Note 18).

(2) Accounted for on a specific line item "Post-retirement benefit plan amendments" in the income statement. The reserve of € 18 million as of December 31, 2008 related to the litigation disclosed in Note 21 (Lucent's employment and benefits related cases) that concerns a previous healthcare plan amendment has been posted in this specific line item.

At period-end, contingent liabilities exist with regard to ongoing tax disputes and outstanding litigations related to the Foreign Corrupt Practices Act (FCPA) as disclosed in Note 34 a, b and c. Neither the financial impact nor the timing of any cash payment that could result from an unfavorable

outcome for certain of these disputes can be estimated at present and therefore nothing was reserved as of December 31, 2008.

### c/ Analysis of restructuring provisions

<i>(in millions of euros)</i>	2008	2007	2006
<b>Opening balance</b>	<b>698</b>	<b>413</b>	<b>417</b>
Utilization during the period	(588)	(530)	(263)
Charge of the period <sup>(1)</sup>	533	815	243
Effect of acquisition (disposal) of consolidated subsidiaries	-	-	34
Cumulative translation adjustments and other changes	(48)	-	(18)
<b>CLOSING BALANCE</b>	<b>595</b>	<b>698</b>	<b>413</b>

(1) For 2008, total restructuring costs were € 562 million (see d/ below), representing € 38 million of costs, a valuation allowance of assets of € 35 million and € 489 million of new restructuring plans and adjustments to previous plans. In addition, a finance cost of € 6 million, related to reversing the discount element included in provisions, was recorded in other financial income (loss).

For 2007, total restructuring costs were € 856 million (see d/ below), representing € 186 million of costs, a valuation allowance of assets of € 47 million and € 623 million of new restructuring plans and adjustments to previous plans. In addition, a finance cost of € 6 million, related to reversing the discount element included in provisions, was recorded in other financial income (loss).

For 2006, total restructuring costs were € 707 million (see d/ below), representing € 137 million of costs and € 470 million of valuation allowances or write-offs of assets mainly associated with the discontinuance of certain product lines (please refer to Note 3 regarding the Nortel deal) for which the Group was committed at year end, € 100 million of new restructuring plans or adjustments to previous plans (accounted for in restructuring costs) and € 6 million recorded in other financial income (loss) for the amount related to reversing the discount element included in provisions.

### d/ Restructuring costs

<i>(in millions of euros)</i>	2008	2007	2006
Social costs	(489)	(623)	(100)
Valuation allowances or write-offs of assets <sup>(1)</sup>	(35)	(47)	(470)
Other monetary costs	(38)	(186)	(137)
<b>TOTAL RESTRUCTURING COSTS</b>	<b>(562)</b>	<b>(856)</b>	<b>(707)</b>

(1) For 2006, mainly related to the discontinuance of some product lines following the business combination with Lucent and the acquisition of Nortel's UMTS technologies (refer to Note 3 and 13).

## NOTE 28 MARKET-RELATED EXPOSURES

The Group has a centralized treasury management in order to minimize the Group's exposure to market risks, including interest rate risk, foreign exchange risk, and counterparty risk. The Group uses derivative financial instruments to manage and reduce its exposure to fluctuations in interest rates and foreign exchange rates. These instruments are not complex and the determination of their fair values does not represent any particular difficulties.

Alcatel-Lucent's debt is issued in euros and in U.S. dollars. Interest rate derivatives are used primarily to convert fixed rate debt into floating rate debt.

Estimated future cash flows (for example firm commercial contracts or commercial bids) are hedged by forward foreign exchange transactions or currency options.

## a/ Interest rate risk

Derivative financial instruments held at December 31, 2008 are intended to reduce the cost of debt and to hedge interest rate risk. At December 31, 2008, 2007 and 2006, outstanding interest rate derivatives have the following characteristics:

### i. Outstanding interest rate derivatives at December 31

#### ANALYSIS BY TYPE AND MATURITY DATE

(in millions of euros)	2008					2007		2006	
	Contract notional amounts					Total	Market value	Total	Market value
	Maturity date								
	Less than one year	1 to 5 years	After 5 years	Total	Market value				
<b>Interest rate swaps</b>									
Pay fixed rate	4,366	6,583	41	10,990	(383)	11,151	(174)	7,942	(25)
Pay floating rate	5,671	7,480	460	13,611	452	13,104	178	10,177	54
<b>Caps</b>									
Buy						68	0	1,515	3
Sell						68	0	1,515	(3)
<b>Options on interest rate swaps USD</b>									
<b>Libor</b>									
Buy						-	-	-	-
Sell						-	-	-	-
<b>TOTAL MARKET VALUE</b>					<b>69</b>		<b>4</b>		<b>29</b>

#### ANALYSIS BY ACCOUNTING CATEGORY

(in millions of euros)	Market value		
	2008	2007	2006
Fair value hedges	71	3	26
Cash flow hedges	-	-	-
Instruments not qualifying for hedge accounting	(2)	1	3
<b>TOTAL</b>	<b>69</b>	<b>4</b>	<b>29</b>

### ii. Interest rate sensitivity

#### Interest rate sensitivity in terms of financial cost

An immediate increase in interest rates of 1%, applied to financial liabilities of which the impact is accounted for in the income statement after taking into account the hedging instruments, would increase interest expense by € 22 million for 2008 (€ 19 million in 2007 and € 21 million in 2006).

An immediate increase in interest rates of 1%, applied to financial assets of which the impact is accounted for in the income statement after taking into account the hedging instruments, would decrease interest expense by € 42 million for 2008 (€ 47 million in 2007 and € 66 million in 2006).

Financial assets are mainly short-term, and we assume that they are reinvested in assets of the same nature.

An immediate increase in interest rates of 1%, applied to marketable securities of which the impact is accounted for in equity after taking into account the hedging instruments, would decrease shareholders' equity by € 6 million.

#### Interest rate sensitivity in terms of mark-to-market

An increase of 1% of the interest rate curve, applied to interest rate derivatives qualified as a fair value hedge would have a negative impact of € 37 million in 2008 (€ 32 million in 2007 and € 46 million in 2006).

An increase of 1% of the interest rate curve, applied to the hedged debt qualified as a fair value hedge would have a corresponding positive impact of € 37 million in 2008 (€ 32 million in 2007 and € 46 million in 2006).

The impact on income statement would be zero.

An increase of 1% of the interest rate curve, applied to interest rate derivatives that do not qualify for hedge accounting, would not have a significant impact on the income statement.

An increase of 1% of the interest rate curve, applied to financial debt after taking into account hedging instruments, would have a positive impact of € 49 million on its market value for 2008 (€ 209 million in 2007 and € 449 million for 2006). However, this impact would not be accounted for, as the debt is reassessed to its fair value only when it is hedged. As a result, it would have an impact neither on the income statement nor on shareholders' equity.

(in millions of euros)	2008				2007				2006			
	Booked value	Fair value	Fair value variation if rates fall by 1%	Fair value variation if rates rise by 1%	Booked value	Fair value	Fair value variation if rates fall by 1%	Fair value variation if rates rise by 1%	Booked value	Fair value	Fair value variation if rates fall by 1%	Fair value variation if rates rise by 1%
<b>Assets</b>												
Marketable securities	906	906	7	(7)	894	894	10	(10)	1,942	1,942	10	(11)
Cash	3,687	3,687	-	-	4,377	4,377	-	-	4,749	4,749	-	-
<b>SUBTOTAL</b>	<b>4,593</b>	<b>4,593</b>	<b>7</b>	<b>(7)</b>	<b>5,271</b>	<b>5,271</b>	<b>10</b>	<b>(10)</b>	<b>6,691</b>	<b>6,691</b>	<b>10</b>	<b>(11)</b>
<b>Liabilities</b>												
Convertible bonds	(2,387)	(1,779)	(47)	44	(2,273)	(2,051)	(136)	123	(2,682)	(2,768)	(314)	273
Non convertible bonds	(2,320)	(1,555)	(42)	42	(2,381)	(2,234)	(134)	118	(2,672)	(2,741)	(256)	221
Other financial debt	(388)	(388)	-	-	(394)	(394)	-	-	(855)	(856)	(1)	1
<b>SUBTOTAL</b>	<b>(5,095)</b>	<b>(3,722)</b>	<b>(89)</b>	<b>86</b>	<b>(5,048)</b>	<b>(4,679)</b>	<b>(270)</b>	<b>241</b>	<b>(6,209)</b>	<b>(6,365)</b>	<b>(571)</b>	<b>495</b>
Interest rate derivative	71	71	40	(37)	3	3	34	(32)	26	26	49	(46)
Loan to co-venturer-financial asset	42	42	-	-	45	45	-	-	-	-	-	-
<b>DEBT/CASH POSITION</b>	<b>(389)</b>	<b>984</b>	<b>(42)</b>	<b>42</b>	<b>271</b>	<b>640</b>	<b>(226)</b>	<b>199</b>	<b>508</b>	<b>352</b>	<b>(512)</b>	<b>438</b>

## b/ Currency risk

### i. Outstanding currency derivatives at December 31

#### ANALYSIS BY TYPE AND CURRENCY

(in millions of euros)	2008					2007			2006	
	U.S. dollar	British pound	Other	Total	Market value	Total	Market value	Total	Market value	
<b>Buy/Lend foreign currency</b>										
Forward exchange contracts	2,151	145	390	2,686	(77)	2,735	(52)	1,604	(18)	
Short-term exchange swaps	347	281	53	681	(61)	500	(5)	-	-	
Cross currency swaps	-	-	-	-	-	-	-	1,063	(19)	
Currency option contracts:										
• Buy call	-	82	135	217	16	1,697	29	1,120	5	
• Sell put	304	-	3,682	3,986	38	3,081	(34)	3,339	(35)	
<b>TOTAL</b>	<b>2,802</b>	<b>508</b>	<b>4,260</b>	<b>7,570</b>	<b>(84)</b>	<b>8,013</b>	<b>(62)</b>	<b>7,126</b>	<b>(67)</b>	

(in millions of euros)	2008					2007			2006
	U.S. dollar	British pound	Other	Total	Market value	Total	Market value	Total	Market value
<i>Sell/Borrow foreign currency</i>									
Forward exchange contracts	1,218	76	305	1,599	(11)	2,466	74	2,644	30
Short-term exchange swaps	1,496	131	138	1,765	(6)	915	15	1,283	20
Cross currency swaps	-	-	-	-	-	-	-	-	-
Currency option contracts:									
• Sell call	-	82	190	272	(17)	1,553	(23)	911	(4)
• Buy put	304	-	3,347	3,651	(36)	3,870	71	4,223	52
<b>TOTAL</b>	<b>3,018</b>	<b>289</b>	<b>3,980</b>	<b>7,287</b>	<b>(70)</b>	<b>8,804</b>	<b>137</b>	<b>9,061</b>	<b>98</b>
<b>Total market value</b>					<b>(154)</b>		<b>75</b>		<b>31</b>

### ANALYSIS BY TYPE AND MATURITY

(in millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
<i>Buy/Lend</i>				
Forward exchange contracts		2,686	-	2,686
Short-term exchange swaps		681	-	681
Cross currency swaps		-	-	-
Currency option contracts:				
• Buy call		217	-	217
• Sell put		3,986	-	3,986
<b>TOTAL</b>		<b>7,570</b>		<b>7,570</b>

(in millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
<i>Sell/Borrow</i>				
Forward exchange contracts		1,599	-	1,599
Short-term exchange swaps		1,765	-	1,765
Cross currency swaps		-	-	-
Currency option contracts:				
• Buy call		272	-	272
• Sell put		3,651	-	3,651
<b>TOTAL</b>		<b>7,287</b>		<b>7,287</b>

### ANALYSIS BY ACCOUNTING CATEGORY

(in millions of euros)	Market value		
	2008	2007	2006
Fair value hedges	(117)	34	18
Cash flow hedges	(6)	(10)	3
Instruments not qualifying for hedge accounting	(31)	51	10
<b>TOTAL</b>	<b>(154)</b>	<b>75</b>	<b>31</b>

### ii. Exchange rate sensitivity

The most used cross currencies in the Group are USD against EUR, GBP against USD and USD against CNY. The sensitivity is calculated by increasing or decreasing USD by 6% against other currencies.

An increase of foreign currency exchange rates versus euro of 6%, applied to foreign exchange derivatives, would have a negative impact of € 42 million in 2008 (against € 50 million in 2007 and € 92 million in 2006). This impact would affect the income statement only for foreign exchange derivatives, which do not qualify for hedge accounting.

For foreign exchange derivatives qualified as a fair value hedge, an increase of 6% in foreign currency exchange rate would have a negative impact of € 39 million in 2008 (against € 37 million in 2007 and € 73 million in 2006). However, this negative effect would be offset by a positive impact due to the re-evaluation of the underlying items. The impact on income statement would therefore be zero.

For foreign exchange derivatives qualified as a cash flow hedge, a 6% increase in foreign currency exchange rate would have a positive impact of € 12 million on shareholders' equity in 2008 (against a positive impact of € 17 million in 2007 and a negative impact of € 3 million in 2006).

(in millions of euros)	2008			2007			2006		
	Fair value	Fair value variation if USD falls by 6%	Fair value variation if USD rises by 6%	Fair value	Fair value variation if USD falls by 6%	Fair value variation if USD rises by 6%	Fair value	Fair value variation if USD falls by 6%	Fair value variation if USD rises by 6%
<b>Outstanding foreign exchange derivatives</b>									
Fair value hedges	(117)	34	(39)	34	37	(37)	18	76	(73)
Cash flow hedges	(6)	(12)	12	(10)	(16)	17	3	(4)	3
Derivatives not qualifying for hedge accounting	(31)	17	(15)	51	47	(30)	10	36	(22)
<b>TOTAL OUTSTANDING DERIVATIVES</b>	<b>(154)</b>	<b>39</b>	<b>(42)</b>	<b>75</b>	<b>68</b>	<b>(50)</b>	<b>31</b>	<b>108</b>	<b>(92)</b>
Impact of outstanding derivatives on financial result	(10)	16	(14)	10	8	(7)	(1)	14	(13)
Impact of outstanding derivatives on income (loss) from operating activities	(21)	1	(1)	41	39	(23)	11	22	(9)
Impact of outstanding derivatives on shareholders' equity	(6)	(12)	12	(10)	(16)	17	3	(4)	3

### iii. Reclassification to income statement of gains or losses on hedging transactions that were originally recognized in equity

(in millions of euros)

<b>Cash flow hedges accounted for in shareholders' equity at December 31, 2005</b>	<b>2</b>
Changes in fair value <sup>(1)</sup>	(5)
Reclassification of gains or losses to income statement <sup>(1)</sup>	(2)
<b>Cash flow hedges accounted for in shareholders' equity at December 31, 2006</b>	<b>(5)</b>
Changes in fair value	(7)
Reclassification of gains or losses to income statement <sup>(1)</sup>	2
<b>Cash flow hedges accounted for in shareholders' equity at December 31, 2007</b>	<b>(10)</b>
Changes in fair value	(9)
Reclassification of gains or losses to income statement <sup>(1)</sup>	19
<b>CASH FLOW HEDGES ACCOUNTED FOR IN SHAREHOLDERS' EQUITY AT DECEMBER 31, 2008</b>	<b>0</b>

(1) The amounts recognized directly in the shareholders' equity indicated in this schedule differ from the one disclosed in the Statement Of Recognized Income and Expense (SORIE) in page 5, due to the amounts related to discontinued activities and commodities derivatives, which are excluded in the above schedule.

### c/ Stock market risk

Alcatel-Lucent and its subsidiaries are not engaged in speculative trading in the stock markets. Subject to approval by Alcatel-Lucent, subsidiaries may make equity investments in selected companies.

### d/ Credit risk

#### i. Maximum exposure to credit risk

The Group considers that its exposure is as follows:

(in millions of euros)	2008	2007	2006
Trade receivables and related accounts	4,330	4,163	3,877
Marketable securities	906	894	1,942
Cash and cash equivalents	3,687	4,377	4,749
Other financial assets	696	704	803
Foreign exchange derivative assets <sup>(1)</sup>	185	203	101
Interest rate derivative assets <sup>(1)</sup>	451	217	116
Other assets <sup>(1)</sup>	1,409	1,086	992
Financial guarantees and off-balance sheet commitments <sup>(2)</sup>	501	547	639
<b>MAXIMUM EXPOSURE TO CREDIT RISK</b>	<b>12,165</b>	<b>12,191</b>	<b>13,219</b>

(1) See Note 21.

(2) See Note 31.



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**ii. Credit risk concentration**

Due to the diversification of its customers and their geographical dispersion, management considers that there is no significant credit risk concentration. The credit risk for the top five customers does not exceed 20% of trade receivables.

**iii. Outstanding financial assets not impaired**

<i>(in millions of euros)</i>	Carrying value at December 31, 2008	Of which amounts neither overdue nor impaired	Of which amounts not impaired but overdue at closing date				Total
			< 1 month	From 1 to 6 months	From 6 months to 1 year	> 1 year	
<i>Trade receivables and related accounts</i>							
Interest-bearing receivables	202	202	-	-	-	-	-
Other trade receivables	4,335	3,523	370	134	60	41	605
<b>Gross value</b>	<b>4,537</b>						
Valuation allowance	(207)						
<b>NET VALUE</b>	<b>4,330</b>	<b>3,725</b>	<b>370</b>	<b>134</b>	<b>60</b>	<b>41</b>	<b>605</b>

<i>(in millions of euros)</i>	Carrying value at December 31, 2007	Of which amounts neither overdue nor impaired	Of which amounts not impaired but overdue at closing date				Total
			< 1 month	From 1 to 6 months	From 6 months to 1 year	> 1 year	
<i>Trade receivables and related accounts</i>							
Interest-bearing receivables	263	263	-	-	-	-	-
Other trade receivables	4,087	3,067	223	205	94	54	576
<b>Gross value</b>	<b>4,350</b>						
Valuation allowance	(187)						
<b>NET VALUE</b>	<b>4,163</b>	<b>3,363</b>	<b>223</b>	<b>205</b>	<b>94</b>	<b>54</b>	<b>576</b>

<i>(in millions of euros)</i>	Carrying value at December 31, 2006	Of which amounts neither overdue nor impaired	Of which amounts not impaired but overdue at closing date				Total
			< 1 month	From 1 to 6 months	From 6 months to 1 year	> 1 year	
<i>Trade receivables and related accounts</i>							
Interest-bearing receivables	296	296	-	-	-	-	-
Other trade receivables	3,773	3,067	122	263	122	7	514
<b>Gross value</b>	<b>4,069</b>						
Valuation allowance	(192)						
<b>NET VALUE</b>	<b>3,877</b>	<b>3,363</b>	<b>122</b>	<b>263</b>	<b>122</b>	<b>7</b>	<b>514</b>

Other overdue financial assets not impaired are not material.

**iv. Changes to trade receivable valuation allowances***(in millions of euros)*

	<b>Amounts</b>
<b>Valuation allowance at December 31, 2005</b>	<b>(228)</b>
Net result impact	(18)
Write-offs	25
Translation adjustments	7
Other changes	22
<b>Valuation allowance at December 31, 2006</b>	<b>(192)</b>
Net result impact	(3)
Write-offs	38
Translation adjustments	4
Other changes	(34)
<b>Valuation allowance at December 31, 2007</b>	<b>(187)</b>
Net result impact	(17)
Write-offs	22
Translation adjustments	(4)
Other changes	(21)
<b>VALUATION ALLOWANCE AT DECEMBER 31, 2008</b>	<b>(207)</b>

**v. Credit Risk on derivatives**

The Group is exposed to credit risk on its marketable securities, cash, cash equivalents and financial derivative instruments if a counterparty defaults on its commitments. The Group diversifies the counterparties in order to dilute the credit risk. This risk is followed daily, with strict limits based on the counterparties' rating. All counterparties are classified in the investment grade category as of December 31, 2008. The exposure, with regard to each counterparty is calculated by taking into account the nature and duration of the transactions as well as the volatility and fair value of the marketable securities, cash, cash equivalents and financial derivative instruments.

**e/ Liquidity risk****i. Liquidity risk on the financial debt**

The Group considers that its available treasury, the expected proceeds from the sale of its share in Thales and the available syndicated bank credit facility are sufficient to cover its operating expenses and capital expenditures and its financial debt requirements for the next twelve months.

See Note 31 Contractual obligations and disclosures related to off balance sheet commitments.

**ii. Liquidity risk on foreign exchange derivatives**

The mark-to-market of foreign exchange derivatives (see part B, paragraph a/ Outstanding currency derivatives at December 31) appropriately conveys the liquidity risk.

Assets and liabilities related to foreign exchange derivatives are given in Note 21 Other assets and liabilities.

**iii. Liquidity risk on guarantees and off-balance sheet commitments**

See Note 31 Contractual obligations and disclosures related to off balance sheet commitments.

**NOTE 29 CUSTOMERS' DEPOSITS AND ADVANCES***(in millions of euros)*

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Advance payments received on construction contracts <sup>(1)</sup>	333	403	332
Other deposits and advances received from customers	660	668	656
<b>TOTAL CUSTOMERS' DEPOSITS AND ADVANCES</b>	<b>993</b>	<b>1,071</b>	<b>988</b>
Of which:			
• portion due within one year	930	1,025	846
• portion due after one year	63	46	142

(1) Including amounts reported in the balance sheet captions "amounts due to/from customers on construction contracts" (€ 64 million in 2008, € 224 million for 2007 and € 210 million for 2006).

## NOTE 30 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL, INTEREST AND TAXES

<i>(in millions of euros)</i>	2008	2007	2006
<b>Net income (loss) attributable to the equity holders of the parent</b>	<b>(5,215)</b>	<b>(3,518)</b>	<b>(106)</b>
<b>Minority interests</b>	<b>42</b>	<b>41</b>	<b>45</b>
<b>Adjustments:</b>			
Depreciation and amortization of tangible and intangible assets	1,241	1,456	631
Of which impact of capitalized development costs	308	261	277
Impairment of assets	4,725	2,944	141
Post-retirement benefit plan amendment	(47)	(258)	-
Changes in pension and other post-retirement benefit obligations, net	(452)	(679)	(122)
Provisions, other impairment losses and fair value changes	71	641	516
Net (gain) loss on disposal of assets	(74)	(129)	(134)
Share in net income (losses) of equity affiliates (net of dividends received)	(55)	(66)	(8)
(Income) loss from discontinued operations	(33)	(610)	(158)
Finance costs	212	173	98
Share-based payments	85	102	63
Taxes and related reduction of goodwill	153	316	(37)
<b>SUB-TOTAL OF ADJUSTMENTS</b>	<b>5,826</b>	<b>3,890</b>	<b>990</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL, INTEREST AND TAXES</b>	<b>653</b>	<b>413</b>	<b>929</b>

## NOTE 31 CONTRACTUAL OBLIGATIONS AND DISCLOSURES RELATED TO OFF BALANCE SHEET COMMITMENTS

### a/ Contractual obligations

The following table presents minimum payments that the Group will have to make in the future under contracts and firm commitments as of December 31, 2008. Amounts related to financial debt, finance lease

obligations and the equity component of Alcatel-Lucent's convertible bonds are fully reflected in the consolidated balance sheet.

<i>(in millions of euros)</i>	Maturity date				Total
	Less than one year	2010-2011	2012-2013	2014 and after	
<b>Contractual payment obligations</b>					
Financial debt (excluding finance leases)	1,097	1,397	398	2,203	5,095
Finance lease obligations	-	-	-	-	-
Equity component of convertible bonds	-	264	272	110	646
<b>SUB-TOTAL – INCLUDED IN BALANCE SHEET</b>	<b>1,097</b>	<b>1,661</b>	<b>670</b>	<b>2,313</b>	<b>5,741</b>
Finance costs on financial debt <sup>(1)</sup>	259	431	364	1,190	2,244
Operating leases	238	419	288	351	1,296
Commitments to purchase fixed assets	38	-	-	-	38
Unconditional purchase obligations <sup>(2)</sup>	144	37	-	-	181
<b>SUB TOTAL – COMMITMENTS NOT INCLUDED IN BALANCE SHEET</b>	<b>679</b>	<b>887</b>	<b>652</b>	<b>1,541</b>	<b>3,759</b>
<b>TOTAL – CONTRACTUAL OBLIGATIONS</b>	<b>1,776</b>	<b>2,548</b>	<b>1,322</b>	<b>3,854</b>	<b>9,500</b>

(1) To compute finance costs on financial debt, all put dates have been considered as redemption dates. For debentures with calls but no puts call dates have not been considered as redemption dates. Further details on put and call dates are given in Note 24. If all outstanding debentures at December 31, 2008 were not redeemed at their respective put dates, an additional finance cost of approximately € 420 million (of which € 39 million would be incurred in 2010-2011 and the remaining part in 2012 or later) would be incurred until redemption at their respective contractual maturities.

(2) Other unconditional purchase obligations result mainly from obligations under multi-year supply contracts linked to the sale of businesses to third parties.

(3-) Obligations related to pensions, post-retirement health and welfare benefits and postemployment benefit obligations are excluded from the table. Refer to Note 25 for a summary of our expected contributions to these plans.

## b/ Off balance sheet commitments

Off balance sheet commitments of the Group were primarily as follows:

- certain guarantees given to the Group's customers for contract execution (performance bonds, guarantees on advances received issued by financial institutions);

- guarantee relating to the maximum intraday bank overdraft allowed for Group subsidiaries under the Group's cash pooling agreement with certain banks;
- guarantees given under securitization programs or on sale of receivables (see description below).

Alcatel-Lucent does not rely on special purpose entities to deconsolidate these risks.

Guarantees given in the normal course of the Group's business are presented below.

For guarantees given for contract performance, only those granted by financial institutions are presented below:

<i>(in millions of euros)</i>	2008	2007	2006
Guarantees given on contracts made by entities within the Group and by non-consolidated subsidiaries	1,232	1,172	1,454
Discounted notes receivables	5	3	8
Other contingent commitments	770	797	782
<b>SUB-TOTAL - CONTINGENT COMMITMENTS</b>	<b>2,007</b>	<b>1,972</b>	<b>2,244</b>
Secured borrowings <sup>(1)</sup>	24	25	60
Cash pooling guarantee	473	522	579
<b>TOTAL - CONTINUING ACTIVITIES</b>	<b>2,504</b>	<b>2,519</b>	<b>2,883</b>
Commitments of discontinued activities <sup>(2)</sup>	-	54	794
<b>TOTAL - INCLUDING DISCONTINUED ACTIVITIES</b>	<b>2,504</b>	<b>2,573</b>	<b>3,677</b>

(1) Excluding the subordinated guaranties described below on certain bonds.

(2) Commitments related to businesses sold or contributed to Thales in 2007. Commitments that were still in the process of being transferred to Thales as of December 31, 2007, are counter-guaranteed by Thales (Thales agreed to indemnify Alcatel-Lucent for and against any payment that any Alcatel-Lucent entity is required to make pursuant to any obligation under any guarantees related to the businesses sold or contributed to Thales).

## Contingent commitments at December 31, 2008

<i>(in millions of euros)</i>	Maturity date					Total
	Less than one year	1 to 3 years	4 to 5 years	After 5 years		
<b>Contingent commitments</b>						
Guarantees on Group contracts <sup>(1)</sup>	629	340	5	21	996	
Guarantees on third-party contracts	138	68	13	17	236	
Discounted notes receivable and other	5	-	-	-	5	
Other contingent commitments	388	228	92	62	770	
<b>TOTAL</b>	<b>1,160</b>	<b>636</b>	<b>111</b>	<b>100</b>	<b>2,007</b>	
<b>Counter guarantees received</b>	<b>111</b>	<b>67</b>	<b>51</b>	<b>64</b>	<b>293</b>	

(1) Reflected in balance sheet.

The amounts reflected in the preceding tables represent the maximum potential amounts of future payments (undiscounted) that the Group could be required to make under current guarantees granted by the Group. These amounts are not reduced by any amounts that may be recovered under recourse, collateralization provisions in the guarantees or guarantees given by customers for the Group's benefit, which are included in the "counter-guarantees received" line.

Commitments related to product warranties, pension, retirement indemnities and other post-retirement benefits are not included in the preceding table. These commitments are fully reflected in the financial statements. Contingent liabilities arising out of litigation, arbitration or regulatory actions are not included in the preceding table with the exception of those linked to Group construction contracts. For more information concerning contingencies, see Note 34.

Guarantees given on Group construction contracts consist of performance bonds issued by financial institutions to customers and bank guarantees given to secure advance payments received from customers (excluding security interests and restricted cash which are included in the table below "Guarantees granted on debt, advance payments received, contingencies and security interests granted at December 31, 2008" of this note). Alcatel-Lucent gives guarantees related to advances and payments received from customers, or commits to indemnify the customer, if the contractor does not perform the contract in compliance with the terms of the contract. In the event that, due to occurrences, such as delay in delivery or litigation related to failure in performance on the underlying contracts, it becomes likely that Alcatel-Lucent will become liable for such guarantees, the estimated risk is reserved for on the consolidated balance sheet under the caption "provisions" (see Note 27) or in inventory reserve. The amounts concerned are given in the preceding table in the specific caption "(1) Reflected in balance sheet".

Commitments, which are related to contracts that have been cancelled or interrupted due to the default or bankruptcy of the customer are included in the above-mentioned "Guarantees on Group contracts" as long as the legal release of the guarantee has not been obtained.

Additionally, most of the performance guarantees given to Group customers are insured. The evaluation of risk related to guarantees takes into account the insurance proceeds that may be received in case of a claim.

Guarantees given on third-party construction contracts could require the Group to make payments to the guaranteed party based on a non-consolidated company's failure to perform under an agreement. The fair value of these contingent liabilities, corresponding to the premiums received by the guarantor for issuing the guarantees, was € 2 million at December 31, 2008 (€ 2 million at December 31, 2007 and € 2 million at December 31, 2006).

Alcatel-Lucent licenses to its customers software and rights to use intellectual property that might provide the licensees with an

indemnification against any liability arising from third-party claims of patent, copyright or trademark infringement. Alcatel-Lucent cannot determine the maximum amount of losses that Alcatel-Lucent could incur under this type of indemnification, because Alcatel-Lucent often may not have enough information about the nature and scope of an infringement claim until it has been submitted.

Alcatel-Lucent indemnifies its directors and certain of its current and former officers for third-party claims alleging certain breaches of their fiduciary duties as directors or officers. Certain costs incurred for providing such indemnification may be recovered under various insurance policies. Alcatel-Lucent is unable to reasonably estimate the maximum amount that could be payable under these arrangements since these exposures are not capped and due to the conditional nature of its obligations and the unique facts and circumstances involved in each agreement. Historically, payments made under these agreements have not had a material effect on Alcatel-Lucent's business, financial condition, results of operations or cash flows.

### Guarantees granted on debt, advance payments received, contingencies and security interests granted at December 31, 2008

(in millions of euros)

Guarantees on borrowings and advance payments received	Maturity date				Total	Total of the balance sheet caption	% of the balance sheet caption
	Less than one year	1 to 3 years	4 to 5 years	After 5 years			
Security interests granted	-	-	-	-	-	-	-
Other guarantees given	9	7	-	8	24	-	-
<b>TOTAL</b>							
Net book value of assets given in guarantee:							
• intangible assets	-	-	-	-	-	2,567	0.00%
• tangible assets	-	-	-	-	-	1,351	0.00%
• financial assets	-	-	-	-	-	696	0.00%
• inventories and work in progress	-	-	-	-	-	2,196	0.00%
<b>TOTAL</b>	-	-	-	-	-		

### Guarantee on cash pooling

The cash pooling guarantee is granted to the banks operating the Group's cash pooling. This guarantee covers the risk involved in any overdrawn position that could remain outstanding after the many daily transfers between Alcatel-Lucent's Central Treasury accounts and those of its subsidiaries. As of December 31, 2008, this guarantee was € 0.5 billion (€ 0.5 billion as of December 31, 2007 and € 0.6 billion as of December 31, 2006).

### Specific commitments of historic Alcatel

#### Sale of carry-back receivable

In May 2002, historic Alcatel sold to a credit institution a carry-back receivable with a face value of € 200 million resulting from historic Alcatel's decision to carry back 2001 tax losses. Until its maturity in May 2007, this receivable was maintained in the consolidated balance sheet with the contra entry in financial debt because of the Group's ability to recover this receivable before its maturity date.

Alcatel-Lucent was required to indemnify the purchaser in case of any error or inaccuracy concerning the amount or nature of the receivable sold. The sale would have been retroactively cancelled in the event of

a modification to the law or regulations that would have substantially changed the rights attached to the receivable sold.

#### Securitization of customer receivables

In December 2003, historic Alcatel entered into a securitization program for the sale of customer receivables without recourse. Eligible receivables can be sold to a special purpose vehicle, which benefits from a subordinated financing from the Group representing an overcollateralization determined on the basis of the portfolio of receivables sold. This special purpose vehicle is fully consolidated in accordance with SIC 12. This program was temporarily suspended in December 2006. The balance of receivables sold at December 31, 2008, December 31, 2007 and December 31, 2006 was therefore zero. The receivables that were sold prior to these dates were maintained in the consolidated balance sheet and were € 61 million at December 31, 2005. The December 2006 freeze has no impact on the Group's balance sheet.

At December 31, 2008, the maximum amount of receivables that could be sold amounted to € 150 million (€ 150 million at December 31, 2007 and € 150 million at December 31, 2006), representing a credit line available to the Group. This amount can be increased to € 250 million. The purpose of this securitization program is to optimize the management and recovery of receivables in addition to providing extra financing.

## Specific commitments of Lucent

### Lucent's Separation Agreements

Lucent is party to various agreements that were entered into in connection with the separation of Lucent and former affiliates, including AT&T, Avaya, LSI Corporation (former Agere Systems before merging with LSI Corporation in April 2007) and NCR Corporation. Pursuant to these agreements, Lucent and the former affiliates agreed to allocate certain liabilities related to each other's business, and agreed to share liabilities based on certain allocations and thresholds. Lucent is not aware of any material liabilities to its former affiliates as a result of the separation agreements that are not otherwise reflected in the consolidated financial statements. Nevertheless, it is possible that potential liabilities for which the former affiliates bear primary responsibility may lead to contributions by Lucent.

### Lucent's Other Commitments

#### Contract Manufacturers

Lucent outsources most of its manufacturing operation to electronic manufacturing service (EMS) providers. Until 2008, two EMS providers, Celestica and Solectron (acquired by Flextronics in October 2007), had exclusive arrangements with Lucent to supply most of Lucent-designed wireless and wireline products. Although no longer exclusive suppliers, Celestica continues to manufacture most of Lucent's existing wireless products and Solectron continues to consolidate the outsourced manufacturing of Lucent's portfolio of wireline products. Lucent generally does not have minimum purchase obligations in its contract-manufacturing relationships with EMS providers and therefore the contractual obligations schedule, presented above in Note 31a, does not include any commitments related to Contract Manufacturers.

### Lucent's guarantees and Indemnification Agreements

Lucent divested certain businesses and assets through sales to third-party purchasers and spin-offs to its common shareowners. In connection with these transactions, certain direct or indirect indemnifications are provided to the buyers or other third parties doing business with the divested entities. These indemnifications include secondary liability for certain leases of real property and equipment assigned to the divested entity and certain specific indemnifications for certain legal and environmental contingencies, as well as vendor supply commitments. The time durations of such indemnifications vary but are standard for transactions of this nature.

Lucent remains secondarily liable for approximately \$ 105 million of lease obligations as of December 31, 2008 (\$ 131 million as of December 31,

2007 and \$ 162 million as of December 31, 2006), that were assigned to Avaya, LSI Corporation (former Agere) and purchasers of other businesses that were divested. The remaining terms of these assigned leases and the corresponding guarantees range from one month to 10 years. The primary obligor under assigned leases may terminate or restructure the lease obligation before its original maturity and thereby relieve Lucent of its secondary liability. Lucent generally has the right to receive indemnity or reimbursement from the assignees and Alcatel-Lucent has not reserved for losses on this form of guarantee.

Lucent is party to a tax-sharing agreement to indemnify AT&T and is liable for tax adjustments that are attributable to its lines of business, as well as a portion of certain other shared tax adjustments during the years prior to its separation from AT&T. Lucent has similar agreements with Avaya and LSI Corporation (former Agere). Certain proposed or assessed tax adjustments are subject to these tax-sharing agreements. The outcome of these other matters is not expected to have a material adverse effect on the Group's consolidated results of operations, consolidated financial position or near-term liquidity.

### Subordinated guaranties provided to some Alcatel-Lucent and Lucent Technologies Inc. ("Lucent") public bonds

#### *Alcatel-Lucent guaranty of Lucent Technologies Inc. 2.875% Series A & B Convertibles*

On December 29, 2006, Alcatel-Lucent provided its full and unconditional guaranty to Lucent's 2.875% Series A Convertible Senior Debentures due 2023 and to Lucent's 2.875% Series B Convertible Senior Debenture due 2025. These guaranties were delivered in the frame of a joint solicitation of consent from the holders of such debentures and are unsecured and subordinated to Alcatel-Lucent's senior debt.

#### *Lucent guaranty of Alcatel-Lucent public bonds*

On March 27, 2007, Lucent provided its full and unconditional guaranty to the following Alcatel-Lucent public bonds:

- 4.375% EUR due February 2009;
- OCEANE 4.75% due January 2011;
- 6.375% EUR due April 2014.

These guaranties are unsecured and subordinated to Lucent's senior debt.

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## NOTE 32 RELATED PARTY TRANSACTIONS

Related parties are mainly:

- shareholders of Alcatel-Lucent;
- share of the transactions of jointly controlled entities (consolidated using proportionate consolidation) related to other venturers;
- investments in associates (accounted for using equity method);
- non-consolidated entities;
- key management personnel.

To the Group's knowledge, shareholders holding 5% or more of the parent company's share capital are:

- Brandes Investment Partners; and
- T. Rowe Price Group, Inc.

Transactions with related parties (as defined by IAS 24 "Related Party Disclosures") during 2008, 2007 and 2006 were as follows:

<i>(in millions of euros)</i>	2008	2007	2006
<b>Revenues</b>			
Non-consolidated affiliates	37	35	39
Joint ventures	-	-	-
Equity affiliates	15	18	27
<b>Cost of sales</b>			
Non-consolidated affiliates	(42)	(24)	(41)
Joint ventures	(25)	(39)	(128)
Equity affiliates	(10)	(10)	(38)
<b>Research and development costs</b>			
Non-consolidated affiliates	(6)	(4)	(7)
Joint ventures	-	-	(17)
Equity affiliates	(5)	(53)	(48)

Outstanding balances arising from related party transactions at December 31, 2008, 2007 and 2006 were as follows:

<i>(in millions of euros)</i>	2008	2007	2006
<b>Other assets</b>			
Non-consolidated affiliates	26	23	31
Joint ventures	5	2	2
Equity affiliates	11	16	24
Valuation allowances		-	(12)
<b>Other liabilities</b>			
Non-consolidated affiliates	(17)	(4)	(10)
Joint ventures	-	-	(17)
Equity affiliates	(20)	(35)	(23)
<b>Cash (financial debt), net</b>			
Non-consolidated affiliates	-	-	(1)
Joint ventures	(42) <sup>(1)</sup>	(45) <sup>(1)</sup>	(60)
Equity affiliates	(27)	(21)	(30)

(1) Loan to a co-venturer (refer to Note 26).

Members of the Board of Directors and members of the Group's executive committee are those present during the year and listed in the Corporate Governance section of the Annual Report. In 2008, 2007 and 2006, compensation, benefits and social security contributions attributable to members of the Board of Directors and to the executive committee members ("Key management personnel") were as follows:

**RECORDED EXPENSE IN RESPECT OF COMPENSATION AND RELATED BENEFITS ATTRIBUTABLE TO KEY MANAGEMENT PERSONNEL DURING THE YEAR**

<i>(in millions of euros)</i>	2008	2007	2006
<b>Short-term benefits</b>			
Fixed remuneration	5	4	7
Variable remuneration <sup>(1)</sup>	4	4	5
Directors' fees	1	1	1
Employer's social security contributions	3	2	5
Termination benefits and retirement indemnities	8	7	7
<b>Other benefits</b>			
Post-employment benefits	2	4	6
Share-based payments (stock option plans)	8	6	4
<b>TOTAL</b>	<b>31</b>	<b>28</b>	<b>35</b>

(1) Variable remuneration and retention bonuses.

**NOTE 33 EMPLOYEE BENEFIT EXPENSES, STAFF TRAINING RIGHTS AND AUDIT FEES****a/ Employee benefit expenses and staff training rights**

<i>(in millions of euros)</i>	2008	2007	2006
Wages and salaries <sup>(1)</sup>	5,266	5,494	3,392
Restructuring costs <sup>(2)</sup>	489	623	100
Post-retirement benefit plan amendment <sup>(3)</sup>	(65)	(258)	-
Financial component of pension and post-retirement benefit costs <sup>(4)</sup>	(349)	(544)	(31)
<b>NET EMPLOYEE BENEFIT EXPENSES</b>	<b>5,341</b>	<b>5,315</b>	<b>3,461</b>

(1) Including social security expenses and operational pension costs. This is reported in Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments.

(2) See Note 27d.

(3) See Note 25f.

(4) See Note 8.

The law of May 4, 2004 in France provides French company employees with the right to receive individual training of at least 20 hours per year that can be accumulated over six years. Rights related to terminated or dismissed employees exercised during the notice period and rights exercised by employees considered as not adapted to the needs of their employer or not professional in nature, are assimilated to short and long-term employee benefits as defined in IAS 19 and have been provided for accordingly. All other rights are accounted for as incurred, as Alcatel-Lucent expects to receive economic benefits from the future training to be taken that will exceed the costs to be incurred to settle the present obligation.

Accumulated individual staff training rights represented 953,570 hours at December 31, 2008 (844,515 hours at December 31, 2007 and 652,811 hours at December 31, 2006). Rights exercised so far are not material.

**b/ Audit fees**

The unaudited amount of audit fees is disclosed in section 11.4 of the 20-F, which is available on Internet (<http://alcatel-lucent.com>).



## NOTE 34 CONTINGENCIES

In addition to legal proceedings incidental to the conduct of its business (including employment-related collective actions in France and the United States) which management believes are adequately reserved against in the financial statements or will not result in any significant costs to the Group, Alcatel-Lucent is involved in the following legal proceedings.

### a/ Costa Rica

Beginning in early October 2004, Alcatel learned that investigations had been launched in Costa Rica by the Costa Rican prosecutors and the National Congress, regarding payments alleged to have been made by consultants on behalf of Alcatel CIT, a French subsidiary now called Alcatel-Lucent France ("CIT"), or other Alcatel subsidiaries to various public officials in Costa Rica, two political parties in Costa Rica and representatives of ICE, the state-owned telephone company, in connection with the procurement by CIT of several contracts for network equipment and services from ICE. Upon learning of these allegations, Alcatel commenced an investigation into this matter, which is ongoing.

Alcatel terminated the employment of the then-president of Alcatel de Costa Rica in October 2004 and of a vice president Latin America of CIT. CIT is also pursuing criminal actions in France against the latter and in Costa Rica against these two former employees and certain local consultants, based on CIT's suspicion of their complicity in a bribery scheme and misappropriation of funds. The United States Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") are aware of the allegations and Alcatel-Lucent has stated it will cooperate fully in any inquiry or investigation into these matters. The SEC and the DOJ are conducting an investigation into possible violations of the Foreign Corrupt Practices Act ("FCPA") and the federal securities laws. In connection with that investigation, the DOJ and the SEC also have requested information regarding Alcatel's operations in other countries. If the DOJ or the SEC determine that violations of law have occurred, they could seek civil or, in the case of the Department of Justice, criminal sanctions, including monetary penalties against Alcatel-Lucent.

In connection with these allegations, on December 19, 2006, the DOJ indicted the former CIT employee on charges of violations of the FCPA, money laundering, and conspiracy. On March 20, 2007, a grand jury returned a superseding indictment against the same former employee and the former president of Alcatel de Costa Rica, based on the same allegations contained in the previous indictment. On June 11, 2007, the former CIT employee entered into a Plea Agreement in the U.S. District Court for the Southern District of Florida and pleaded guilty to violations of the FCPA. On September 23, 2008, the former CIT employee was sentenced to 30 months' imprisonment, three years' supervised release, the forfeiture of U.S. \$ 261,500 and a U.S. \$ 200 special assessment.

Neither the DOJ nor the SEC has informed Alcatel-Lucent what action, if any, they will take against Alcatel-Lucent and its subsidiaries.

Nothing has been reserved so far due to the lack of reliable estimate of any potential impact on this litigation.

In connection with the aforementioned allegations, on July 27, 2007, the Costa Rican Prosecutor's Office indicted eleven individuals, including the former president of Alcatel de Costa Rica, on charges of aggravated corruption, unlawful enrichment, simulation, fraud and others. Two of those individuals have since pled guilty. Shortly thereafter, the Costa Rican Attorney

General's Office and ICE, acting as victims of this criminal case, each filed amended civil claims against the eleven criminal defendants, as well as five additional civil defendants (one individual and four corporations, including CIT) seeking compensation for damages in the amounts of U.S. \$ 52 million (in the case of the Attorney General's Office) and U.S. \$ 20 million (in the case of ICE). The Attorney General's claim supersedes two prior claims, of November 25, 2004 and August 31, 2006. On November 25, 2004, the Costa Rican Attorney General's Office commenced a civil lawsuit against CIT to seek pecuniary compensation for the damage caused by the alleged payments described above to the people and the Treasury of Costa Rica, and for the loss of prestige suffered by the Nation of Costa Rica (social damages). The ICE claim, which supersedes its prior claim of February 1, 2005, seeks pecuniary compensation for the damage caused by the alleged payments described above to ICE and its customers, for the harm to the reputation of ICE resulting from these events (moral damages), and for damages resulting from an alleged overpricing it was forced to pay under its contract with CIT. During preliminary court hearings held in San José during September 2008, ICE filed a report in which the damages allegedly caused by CIT are valued at U.S. \$ 71.6 million. No formal notice of a revised civil claim has so far been received by CIT.

Alcatel-Lucent intends to defend these actions vigorously and deny any liability or wrongdoing with respect to these claims.

French authorities are also conducting an investigation of CIT's payments to consultants in the Costa Rica matter.

Alcatel-Lucent is cooperating with the U.S., French and Costa Rican authorities in the respective investigations described above.

Additionally, in August 2007, ICE notified CIT of the commencement of an administrative proceeding to terminate the 2001 contract for CIT to install 400,000 GSM cellular telephone lines (the "400KL GSM Contract"), in connection with which ICE is claiming compensation of U.S. \$ 59.8 million for damages and loss of income. By March 2008, CIT and ICE concluded negotiations of a draft settlement agreement for the implementation of a "Get Well Plan," in full and final settlement of the above-mentioned claim. This settlement agreement was not approved by ICE's Board of Directors that resolved, instead, to resume the aforementioned administrative proceedings to terminate the operations and maintenance portion of the 400KL GSM Contract, claim penalties and damages in the amount of U.S. \$ 59.8 million and call the performance bond. CIT was notified of this ICE resolution on June 23, 2008. ICE has made additional damages claims and penalty assessments related to the 400KL GSM Contract that bring the overall exposure under the contract to U.S. \$ 64.7 million in the aggregate.

In June 2008, CIT filed an administrative appeal against the resolution mentioned above. ICE called the performance bond in August 2008, and on September 16, 2008 CIT was served notice of ICE's request for payment of the remainder amount of damages claimed, U.S. \$ 44.7 million. On September 17, 2008, the Costa Rican Supreme Court ruled on the appeal filed by CIT stating that: (i) the \$ 15.1 million performance bond amount is to be reimbursed to CIT and (ii) the \$ 44.7 million claim is to remain suspended until final resolution by the competent Court of the case. Following a clarification request filed by ICE, the Court finally decided that the \$ 15.1 million performance bond amount is to remain deposited in an escrow account held by the Court, until final resolution of the case. On October 8, 2008 CIT filed a claim against ICE

requesting the court to overrule ICE's contractual resolution regarding the 400KL GSM Contract and claiming compensation for the damages caused to CIT.

On October 14, 2008, the Costa Rican authorities notified CIT of the commencement of an administrative proceeding to ban CIT from government procurement contracts in Costa Rica for up to 5 years.

Alcatel-Lucent is unable to predict the outcome of these investigations and civil lawsuits and their effect on CIT's business. If the Costa Rican authorities conclude criminal violations have occurred, CIT may be banned from participating in government procurement contracts within Costa Rica for a certain period. Alcatel-Lucent expects to generate approximately € 3 million in revenue from Costa Rican contracts in 2009. Based on the amount of revenue expected from these contracts, Alcatel-Lucent does not believe a loss of business in Costa Rica would have a material adverse effect on the Alcatel-Lucent Group as a whole. However, these events may have a negative impact on the reputation of Alcatel-Lucent in Latin America.

## b/ Taiwan

Certain employees of Taisel, a Taiwanese affiliate of Alcatel-Lucent, and Siemens's Taiwanese distributor, along with a few suppliers and a legislative aide, have been the subject of an investigation by the Taipei Investigator's Office of the Ministry of Justice relating to an axle counter supply contract awarded to Taisel by Taiwan Railways in 2003. It has been alleged that persons in Taisel, Alcatel-Lucent Deutschland AG (a German subsidiary of Alcatel-Lucent involved in the Taiwan Railway contract), Siemens Taiwan, and subcontractors hired by them were involved in a bid-rigging and illicit payment arrangement for the Taiwan Railways contract.

Upon learning of these allegations, Alcatel commenced and is continuing an investigation into this matter. As a result of the investigation, Alcatel terminated the former president of Taisel. A director of international sales and marketing development of the German subsidiary resigned during the investigation.

On February 21, 2005, Taisel, the former president of Taisel, and others were indicted in Taiwan for violation of the Taiwanese Government Procurement Act.

On November 15, 2005, the Taipei criminal district court found Taisel not guilty of the alleged violation of the Government Procurement Act. The former President of Taisel was not judged because he was not present or represented at the proceedings. The court found two Taiwanese businessmen involved in the matter guilty of violations of the Business Accounting Act. That not guilty verdict for Taisel was upheld by the Taiwan High Court and the Taiwan Prosecutor Office has stated that it will not appeal the ruling any further.

Other allegations made in connection with this matter may still be under ongoing investigation by the Taiwanese authorities.

The SEC and the DOJ are also looking into these allegations.

As a Group, Alcatel-Lucent expects to generate approximately € 99 million of revenue from Taiwanese contracts in 2009, of which only a part is generated from governmental contracts. Based on the amount of revenue expected from these contracts, Alcatel-Lucent does not believe a loss of business in, Taiwan would have a material adverse effect on the Alcatel-Lucent Group as a whole.

## c/ Kenya

The SEC and the DOJ have asked Alcatel-Lucent to look into payments made in 2000 by CIT to a consultant arising out of a supply contract between CIT and a privately-owned company in Kenya. Alcatel-Lucent understands that the French authorities are also conducting an investigation to ascertain whether inappropriate payments were received by foreign public officials in connection with such project. Alcatel-Lucent is cooperating with the U.S. and French authorities and has submitted to these authorities its findings regarding those payments.

## d/ Government investigations related to Lucent China

In April 2004, Lucent reported to the DOJ and the SEC that an internal FCPA compliance audit and an outside counsel investigation found incidents and internal control deficiencies in Lucent's operations in China that potentially involve FCPA violations. Lucent cooperated with those agencies. On December 21, 2007, Lucent entered into agreements with the DOJ and the SEC to settle their respective investigations. Lucent signed a non-prosecution agreement with the DOJ. Pursuant to that agreement, the DOJ agreed not to charge Lucent with any crime in connection with the allegations in China. Lucent agreed to pay a U.S. \$ 1 million monetary penalty and adopt or modify its existing internal controls, policies, and procedures.

On December 21, 2007, the SEC filed civil charges against Lucent in the United States District Court for the District of Columbia alleging violations of the books and records and internal controls provisions of the FCPA. That same day, Lucent and the SEC entered into a consent agreement, resolving those charges. Pursuant to that consent agreement, Lucent, without admitting or denying the allegations in the SEC's complaint, agreed to a permanent injunction enjoining Lucent from any future violations of the internal controls and books and records provisions of the FCPA. Lucent further agreed to pay a civil penalty of U.S. \$ 1.5 million.

If Lucent abides by the terms of its agreements with the DOJ and the SEC, Lucent does not anticipate any further actions by the DOJ and the SEC with respect to allegations regarding Lucent's conduct in China.

## e/ Lucent's employment and benefits related cases

Lucent has implemented various actions to address the rising costs of providing retiree health care benefits and the funding of Lucent pension plans. These actions have led to the filing of cases against Lucent and may lead to the filing of additional cases. Purported Class Action lawsuits have been filed against Lucent in connection with the elimination of the death benefit from its U.S. management pension plan in early 2003. Three such cases have been consolidated into a single action pending in the U.S. District Court in New Jersey, captioned *In Re Lucent Death Benefits ERISA Litigation*. The elimination of this benefit reduced Lucent future pension obligations by U.S. \$ 400 million. The benefit was paid out of the pension plan assets to certain qualified surviving dependents, such as spouses or dependent children of management retirees. The case alleges that Lucent wrongfully terminated this death benefit and requests that it be reinstated, along with other remedies. This case has been dismissed by the court and the appellate court. The time for the plaintiffs to have filed an appeal with the US Supreme court has expired. Another such case, *Chastain, et al. v. AT&T*, was filed in the U.S. District Court in the Western District of Oklahoma. The *Chastain* case also involves claims related to changes to retiree health care benefits. That case

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has also been dismissed, by the court and appellate court, but an appeal to the U.S. Supreme court is possible.

In October 2005, a purported Class Action was filed by Peter A. Raetsch, Geraldine Raetsch and Curtis Shiflett, on behalf of themselves and all others similarly situated, in the U.S. District Court for the District of New Jersey. The plaintiffs in this case allege that Lucent failed to maintain health care benefits for retired management employees for each year from 2001 through 2006 as required by the Internal Revenue Code, the Employee Retirement Income Security Act, and the Lucent pension and medical plans. Upon motion by Lucent, the court remanded the claims to Lucent's claims review process. A Special Committee was appointed and reviewed the claims of the plaintiffs and Lucent filed a report with the Court on December 28, 2006. The Special Committee denied the plaintiffs' claims and the case has returned to the court, where limited discovery has been completed.

By Opinion and Order, each dated June 11, 2008, the Court granted in part and denied in part the plaintiffs' motion for summary judgment (as to liability) and denied Lucent's cross-motion for summary judgment (also as to liability). Specifically, the Court found that Lucent had violated the Plan's maintenance of benefits requirement with respect to the 2003 plan year but that the record before the Court contained insufficient facts from which to conclude whether those provisions were violated for years prior to 2003. The Court also "tentatively" ruled that Lucent had not violated the Plan's maintenance of cost provisions for the years 2004 through 2006. The Court ordered the parties to engage in further discovery proceedings. Finally, the Court denied, without prejudice, the plaintiff's motion for class certification. On June 26, 2008, Lucent requested the Court to certify the case for appeal to the Third Circuit Court of Appeals in its discretion. This request was denied.

The company believes it has meritorious defenses to the claims for each year and intends to continue to defend this case vigorously. However, as a result of the Court's findings for 2003, the company established a provision for € 18 million during the second quarter of 2008. The amount was determined based on internal estimates from 2002 of the potential impact of the benefit plan changes for the 2003 plan year. The company is currently unable to determine the actual impact of the related benefit plan changes for the 2003 plan year because, even if the company is finally determined to be liable, the method of determining damages to participants has not been determined. Although the plaintiffs have alleged damages in excess of the amount provided for by the company, the company believes that those amounts are without merit. Because of the Court's directions with respect to years other than 2003, the company has not reflected any provision for plan years other than 2003.

The Equal Employment Opportunity Commission (EEOC) filed a purported Class Action lawsuit against Lucent, EEOC v. Lucent Technologies Inc., in the U.S. District Court in California. The case alleges gender discrimination in connection with the provision of service credit to a class of present and former Lucent employees who were on maternity leave prior to 1980 and seeks the restoration of lost service credit prior to April 29, 1979, together with retroactive pension payment adjustments, corrections of service records, back pay and recovery of other damages and attorneys fees and costs. The case is stayed pending the disposition of another case raising similar issues. In the related case, the U.S. Ninth Circuit Court of Appeals recently found against the defendant employer. The defendant employer in

the related case has filed an appeal to the U.S. Supreme Court. The Supreme Court heard argument of this case for December 10, 2008.

**f/ Intellectual property cases**

Each of Alcatel-Lucent, Lucent and certain other entities of the Group is a defendant in various cases in which third parties claim infringement of their patents, including certain cases where infringement claims have been made against its customers in connection with products the applicable Alcatel-Lucent entity has provided to them, or challenging the validity of certain patents.

**Microsoft**

On February 22, 2007, after a three-week trial in the U.S. District Court in San Diego, California, a jury returned a verdict in favor of Lucent against Microsoft in the first of a number of scheduled patent trials. In this first trial involving two of Lucent's "Audio Patents", the jury found all the asserted claims of the patents valid and infringed, and awarded Lucent damages in an amount exceeding U.S. \$ 1.5 billion. On August 6, 2007, the U.S. District Court in San Diego issued a judgment as a matter of law reversing the jury verdict and entering judgment in favor of Microsoft. On September 25, 2008, the Court of Appeals for the Federal Circuit in Washington, D.C. affirmed the lower court's ruling.

Lucent, Microsoft and Dell have been involved in a number of patent lawsuits in various jurisdictions. In the summer of 2003, certain Dell and Microsoft lawsuits in San Diego, California, were consolidated in federal court in the Southern District of California. The court scheduled a number of trials for groups of the Lucent patents, including the trial described above. Additional trials in this case against Microsoft and Dell were held in 2008. In one of the additional San Diego trials, on April 4, 2008, a jury awarded Alcatel-Lucent approximately U.S. \$ 368 million in damages on additional patents and the Judge granted prejudgment interest on that award on April 28, 2008.

On December 15, 2008, Microsoft and Alcatel Lucent executed a settlement and license agreement whereby the parties agreed to settle the majority of their outstanding litigations. This settlement included dismissing all pending patent claims in which Alcatel Lucent is a defendant and provided Alcatel Lucent with licenses to all Microsoft patents-in-suit in these cases. Only the appeal of the April 2008 judgment against Microsoft and Dell remains currently pending in the Court of Appeals for the Federal Circuit.

**g/ Other Lucent litigation**

**Winstar**

Lucent is a defendant in an adversary proceeding originally filed in U.S. Bankruptcy Court in Delaware by Winstar and Winstar Wireless, Inc. in connection with the bankruptcy of Winstar and various related entities. The trial for this matter concluded in June 2005. The trial pertained to breach of contract and other claims against Lucent, for which the trustee for Winstar was seeking compensatory damages of approximately U.S. \$ 60 million, as well as costs and expenses associated with litigation. The trustee was also seeking recovery of a payment Winstar made to Lucent in December 2000 of approximately U.S. \$ 190 million plus interest. On December 21, 2005, the judge rendered his decision and the verdict resulted in a judgment against Lucent for approximately U.S. \$ 244 million, plus statutory interest

and other costs. As a result, Lucent has recognized a U.S. \$ 315 million provision (including related interest and other costs of approximately U.S. \$ 71 million) as of December 31, 2008. In addition, U.S. \$ 328 million of cash is collateralizing a letter of credit that was issued during the second quarter of fiscal year 2006 in connection with this matter. Additional charges for post-judgment interest will be recognized in subsequent periods until this matter is resolved. On April 26, 2007, the U.S. District Court for the District of Delaware affirmed the decision of the Bankruptcy Court. Lucent has filed a notice of appeal of this decision with the United States Court of Appeals.

On February 3, 2009, the Court issued its opinion affirming the District Court's Order with some modification. Lucent is considering its options for further appeal.

#### **h/ Effect of the various investigations and procedures**

Alcatel-Lucent reiterates that its policy is to conduct its business with transparency, and in compliance with all laws and regulations, both locally

and internationally. Alcatel-Lucent will cooperate with all governmental authorities in connection with the investigation of any violation of those laws and regulations.

Governmental investigations and legal proceedings are subject to uncertainties and the outcomes thereof are difficult to predict. Consequently, Alcatel-Lucent is unable to estimate the ultimate aggregate amount of monetary liability or financial impact with respect to these matters. Alcatel-Lucent believes that these current investigations and cases will not have a material financial impact on Alcatel-Lucent after final decision of the authorities or final disposition. However, because of the uncertainties of government investigations and legal proceedings, one or more of these matters could ultimately result in material monetary payments by Alcatel-Lucent.

## **NOTE 35 EVENTS AFTER THE BALANCE SHEET DATE**

There were no events that have a material impact on financial status that occurred between the balance sheet date and February 3, 2009, the date when the Board of Directors authorized the consolidated financial

statements for issue. However, the consolidated financial statements will be final once approved at the Annual Shareholder's Meeting.

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## NOTE 36 MAIN CONSOLIDATED COMPANIES

Company	Country	% control	% interest	Consolidation method
<b>Alcatel-Lucent<sup>(2)</sup> and<sup>(3)</sup></b>	<b>France</b>			<b>Parent company</b>
<i>Operating companies<sup>(1)</sup></i>				
Alcatel-Lucent Australia Limited	Australia			Full consolidation
Alcatel-Lucent Austria A.G.	Austria			Full consolidation
Alcatel-Lucent Bell NV	Belgium			Full consolidation
Alcatel-Lucent Canada Inc.	Canada			Full consolidation
Alcatel-Lucent Deutschland A.G.	Germany			Full consolidation
Alcatel-Lucent Enterprise	France			Full consolidation
Alcatel-Lucent España S.A.	Spain			Full consolidation
Alcatel-Lucent France	France			Full consolidation
Alcatel-Lucent Portugal SA	Portugal			Full consolidation
Alcatel-Lucent Polska Sp Zoo	Poland			Full consolidation
Alcatel-Lucent Schweiz AG	Switzerland			Full consolidation
Alcatel-Lucent Italia S.p.A.	Italy			Full consolidation
Alcatel-Lucent Mexico SA de CV	Mexico			Full consolidation
Alcatel-Lucent Submarine Networks	France			Full consolidation
Alcatel-Lucent Telecom Limited	U.K.			Full consolidation
Lucent Technologies International Sales Ltd	Ireland			Full consolidation
Alcatel-Lucent Nederland BV	The Netherlands			Full consolidation
Alcatel-Lucent Brasil S/A	Brazil			Full consolidation
Alcatel Shanghai Bell Co, Ltd	China	50	50	Full consolidation <sup>(4)</sup>
Alcatel Teletas Telekomunikasyon AS	Turkey			Full consolidation
Alcatel-Lucent USA Inc.	U.S.			Full consolidation
LGS Innovations LLC	U.S.			Full consolidation
Alcatel Vacuum Technology France	France			Full consolidation
Alda Marine	France	51	51	Proportionate <sup>(5)</sup>
Genesys Telecommunications Laboratories, Inc.	U.S.			Full consolidation
Radio Frequency Systems GmbH	Germany			Full consolidation
Radio Frequency Systems Inc.	U.S.			Full consolidation
<i>Holdings and other segment<sup>(3)</sup></i>				
<b>Aerospace, Defense and IT&amp;S</b>				
Thales (ex Thomson-CSF) <sup>(2)</sup>	France	21.05	20.80	Asset held for sale
<b>Financial Holdings</b>				
Alcatel-Lucent NV	The Netherlands			Full consolidation
Alcatel-Lucent Participations	France			Full consolidation
Compagnie Financière Alcatel-Lucent	France			Full consolidation
Coralec	France			Full consolidation
Florelec	France			Full consolidation
Alcatel-Lucent Holdings Inc.	U.S.			Full consolidation
<b>Financial Services</b>				
Electro Banque	France			Full consolidation
Electro Ré	Luxemburg			Full consolidation

(1) Percentages of control and interest equal 100% unless otherwise specified.

(2) Publicly traded.

(3) The activities of Alcatel-Lucent, as the parent company, are included under the business segment "Other".

(4) Entity controlled by the Group holding 50% plus one shares.

(5) Entity jointly controlled with Louis Dreyfus & associés holding the 49% remaining shares.

**NOTE 37 QUARTERLY INFORMATION (UNAUDITED)****Consolidated income statements****2008***(in millions of euros)*

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
Revenues	3,864	4,101	4,065	4,954	16,984
Cost of sales	(2,467)	(2,669)	(2,746)	(3,308)	(11,190)
<b>Gross profit</b>	<b>1,397</b>	<b>1,432</b>	<b>1,319</b>	<b>1,646</b>	<b>5,794</b>
Administrative and selling expenses	(795)	(751)	(740)	(807)	(3,093)
<i>Research and development expenses before capitalization of development expenses</i>	<i>(741)</i>	<i>(726)</i>	<i>(685)</i>	<i>(706)</i>	<i>(2,858)</i>
<i>Impact of capitalization of development expenses</i>	<i>33</i>	<i>24</i>	<i>21</i>	<i>23</i>	<i>101</i>
Research and development costs	(708)	(702)	(664)	(683)	(2,757)
<b>Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments</b>	<b>(106)</b>	<b>(21)</b>	<b>(85)</b>	<b>156</b>	<b>(56)</b>
Restructuring costs	(122)	(265)	(94)	(81)	(562)
Impairment of assets	-	(810)	(5)	(3,910)	(4,725)
Gain/(loss) on disposal of consolidated entities	(1)	-	-	(6)	(7)
Post-retirement benefit plan amendments	-	(18)	63	2	47
<b>Income (loss) from operating activities</b>	<b>(229)</b>	<b>(1,114)</b>	<b>(121)</b>	<b>(3,839)</b>	<b>(5,303)</b>
<i>Interest relative to gross financial debt</i>	<i>(96)</i>	<i>(95)</i>	<i>(97)</i>	<i>(103)</i>	<i>(391)</i>
<i>Interest relative to cash, cash equivalents</i>	<i>48</i>	<i>45</i>	<i>45</i>	<i>41</i>	<i>179</i>
Finance costs	(48)	(50)	(52)	(62)	(212)
Other financial income (loss)	93	100	119	54	366
Share in net income (losses) of equity affiliates	28	28	28	12	96
<b>Income(loss) before income tax, related reduction of goodwill and discontinued operations</b>	<b>(156)</b>	<b>(1,036)</b>	<b>(26)</b>	<b>(3,835)</b>	<b>(5,053)</b>
Reduction of goodwill related to deferred tax assets initially unrecognized	-	-	-	-	-
Income tax	(19)	(50)	(10)	(74)	(153)
Income (loss) from continuing operations	(175)	(1,086)	(36)	(3,909)	(5,206)
Income (loss) from discontinued operations	-	-	(2)	35	33
<b>NET INCOME (LOSS)</b>	<b>(175)</b>	<b>(1,086)</b>	<b>(38)</b>	<b>(3,874)</b>	<b>(5,173)</b>
attributable to:					
• equity holders of the parent	<b>(181)</b>	<b>(1,102)</b>	<b>(40)</b>	<b>(3,892)</b>	<b>(5,215)</b>
• minority interests	6	16	2	18	42
<b>net income (loss) attributable to the equity holders of the parent per share (in euros)</b>					
• basic earnings per share	(0.08)	(0.49)	(0.02)	(1.72)	(2.31)
• diluted earnings per share	(0.08)	(0.49)	(0.02)	(1.72)	(2.31)
<b>net income (loss) before discontinued operations attributable to the equity holders of the parent per share (in euros)</b>					
• basic earnings per share	(0.08)	(0.49)	(0.02)	(1.73)	(2.32)
• diluted earnings per share	(0.08)	(0.49)	(0.02)	(1.73)	(2.32)
<b>net income (loss) of discontinued operations per share (in euros)</b>					
• basic earnings per share	0.00	0.00	0.00	0.01	0.01
• diluted earnings per share	0.00	0.00	0.00	0.01	0.01

**2007**

(in millions of euros)

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
Revenues	3,882	4,326	4,350	5,234	17,792
Cost of sales	(2,755)	(2,929)	(2,863)	(3,536)	(12,083)
<b>Gross profit</b>	<b>1,127</b>	<b>1,397</b>	<b>1,487</b>	<b>1,698</b>	<b>5,709</b>
Administrative and selling expenses	(939)	(861)	(850)	(812)	(3,462)
<i>Research and development expenses before capitalization of development expenses</i>	<i>(807)</i>	<i>(794)</i>	<i>(744)</i>	<i>(761)</i>	<i>(3,107)</i>
<i>Impact of capitalization of development expenses</i>	<i>37</i>	<i>52</i>	<i>33</i>	<i>30</i>	<i>153</i>
Research and development costs	(770)	(742)	(711)	(731)	(2,954)
<b>Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments</b>	<b>(582)</b>	<b>(206)</b>	<b>(74)</b>	<b>155</b>	<b>(707)</b>
Restructuring costs	(320)	(190)	(307)	(39)	(856)
Impairment of assets	-	(426)	4	(2,522)	(2,944)
Gain/(loss) on disposal of consolidated entities	-	-	-	-	-
Post-retirement benefit plan amendment	-	265	(2)	(5)	258
<b>Income (loss) from operating activities</b>	<b>(902)</b>	<b>(557)</b>	<b>(379)</b>	<b>(2,411)</b>	<b>(4,249)</b>
<i>Interest relative to gross financial debt</i>	<i>(109)</i>	<i>(100)</i>	<i>(99)</i>	<i>(95)</i>	<i>(403)</i>
<i>Interest relative to cash, cash equivalents</i>	<i>69</i>	<i>59</i>	<i>52</i>	<i>50</i>	<i>230</i>
Finance costs	(40)	(41)	(47)	(45)	(173)
Other financial income (loss)	109	122	114	196	541
Share in net income (losses) of equity affiliates	5	60	14	31	110
<b>Income (loss) before income tax, related reduction of goodwill and discontinued operations</b>	<b>(828)</b>	<b>(416)</b>	<b>(298)</b>	<b>(2,229)</b>	<b>(3,771)</b>
Reduction of goodwill related to deferred tax assets initially unrecognized	(8)	(186)	2	(69)	(256)
Income taxes	149	29	(17)	(216)	(60)
Income (loss) from continuing operations	(687)	(573)	(313)	(2,514)	(4,087)
Income (loss) from discontinued operations	674	(22)	(5)	(37)	610
<b>NET INCOME (LOSS)</b>	<b>(13)</b>	<b>(595)</b>	<b>(318)</b>	<b>(2,551)</b>	<b>(3,477)</b>
attributable to:					
• equity holders of the parent	<b>(8)</b>	<b>(586)</b>	<b>(345)</b>	<b>(2,579)</b>	<b>(3,518)</b>
• minority interests	(5)	(9)	27	28	41
<b>net income (loss) attributable to the equity holders of the parent per share (in euros)</b>					
• basic earnings per share	(0.00)	(0.26)	(0.15)	(1.14)	(1.56)
• diluted earnings per share	(0.00)	(0.26)	(0.15)	(1.14)	(1.56)
<b>net income (loss) before discontinued operations attributable to the equity holders of the parent per share (in euros)</b>					
• basic earnings per share	(0.30)	(0.25)	(0.15)	(1.12)	(1.83)
• diluted earnings per share	(0.30)	(0.25)	(0.15)	(1.12)	(1.83)
<b>net income (loss) of discontinued operations per share (in euros)</b>					
• basic earnings per share	0.30	(0.01)	0.00	(0.02)	0.27
• diluted earnings per share	0.30	(0.01)	0.00	(0.02)	0.27











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