Alcatel·Lucent

€500,000,000 8.50% Senior Notes due 2016

Alcatel Lucent, a *société anonyme* incorporated under the laws of France (the ***Issuer***), is offering €500 million aggregate principal amount of its 8.50% senior notes due 2016 (the ***Senior Notes***). The Issuer will pay interest on the Senior Notes semi-annually in arrears on each 15 January and 15 July, commencing 15 July 2011. The Senior Notes will mature on 15 January 2016. Interest will accrue from the Issue Date.

The Senior Notes will not be redeemable at the Issuer's option prior to the maturity date of the Senior Notes on 15 January 2016. See "*Description of the Senior Notes—No Optional Redemption*". However, the Issuer may redeem all of the Senior Notes at a price equal to their principal amount plus accrued and unpaid interest, if any, upon the occurrence of certain changes in applicable tax law. If specific kinds of change of control occur, the Issuer may be required to offer to repurchase all of the Senior Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any.

The Senior Notes will be general unsecured obligations of the Issuer, effectively subordinated to all of the Issuer's existing and future senior secured debt and all obligations of the Issuer's subsidiaries, rank equally with all of the Issuer's existing and future unsecured senior debt and rank senior to all of the Issuer's existing and future subordinated debt. The Senior Notes will not be initially guaranteed.

Application has been made to list the Senior Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of that exchange (the ***Euro MTF Market***). This Offering Memorandum constitutes a prospectus for the purpose of Luxembourg law dated 10 July 2005.

Investing in the Senior Notes involves risks. See "*Risk Factors*" beginning on page 25.

Delivery of the Senior Notes in book-entry form will be made on 2 December 2010 through Euroclear S.A./N.V. (***Euroclear***) and Clearstream Banking, *société anonyme* (***Clearstream***). The Senior Notes will be issued in the form of one or more global notes in registered form. Interests in each global note will be exchangeable for the relevant definitive notes only, in certain limited circumstances. See "*Form, Clearance and Settlement*".

The Senior Notes have not been, and will not, be registered under the U.S. Securities Act of 1933, as amended (the *U.S. Securities Act*), or the securities laws of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Senior Notes are being sold outside the United States in reliance on Regulation S under the U.S. Securities Act. This Offering Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. See "*Notice to Investors*" and "*Transfer Restrictions*" for additional information about eligible offerees and transfer restrictions.

Price for the Senior Notes: 97.462%
plus accrued interest, if any, from the Issue Date

Joint Bookrunning Lead Managers

Goldman Sachs International **Citi**

The date of this Offering Memorandum is 26 November 2010.

CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

You should rely only on the information contained in this Offering Memorandum. We have not, and the initial purchasers have not, authorized anyone to provide you with different information. We are not, and the initial purchasers are not, making an offer of the Senior Notes in any jurisdiction where such offer is not permitted. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum.

This Offering Memorandum is being provided to persons outside the United States for informational use solely in connection with their consideration of the purchase of the Senior Notes in offshore transactions in compliance with Regulation S under the U.S. Securities Act. Its use for any other purpose is not authorized.

It is expected that delivery of the Senior Notes will be made against payment therefor on or about the date of the settlement of the offering, which will be the fifth business day following the date of pricing of the Senior Notes (such settlement being referred to as ***T+5***). You should note that trading of the Senior Notes on the date of pricing or the next succeeding two business days may be affected by the T+5 settlement. See "*Plan of Distribution*".

IN CONNECTION WITH THIS OFFERING, GOLDMAN SACHS INTERNATIONAL (OR PERSONS ACTING ON BEHALF OF GOLDMAN SACHS INTERNATIONAL) MAY, ON BEHALF OF THE INITIAL PURCHASERS, OVER-ALLOT SENIOR NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SENIOR NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. NOTWITHSTANDING THE FOREGOING, THERE IS NO ASSURANCE THAT GOLDMAN SACHS INTERNATIONAL (OR PERSONS ACTING ON BEHALF OF GOLDMAN SACHS INTERNATIONAL) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE SENIOR NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SENIOR NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY GOLDMAN SACHS INTERNATIONAL (OR PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "*PLAN OF DISTRIBUTION*".

NOTICE TO INVESTORS

This Offering Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Senior Notes are being offered to a limited number of investors and may not be offered or sold, directly or indirectly, and this Offering Memorandum may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Senior Notes or possess or distribute this Offering Memorandum, and you must obtain all applicable consents and approvals required by such jurisdiction for investors to purchase, offer or sell any of the Senior Notes under the laws and regulations in force in any jurisdiction to which investors are subject. Neither we nor the initial purchasers shall have any responsibility for any of the foregoing legal requirements.

Neither we nor the initial purchasers nor any of our or their respective representatives are making any representation to you regarding the legality of an investment in the Senior Notes, and you should not construe anything in this Offering Memorandum as legal, business, tax or other advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of an investment in the Senior Notes. In making an investment decision regarding the Senior Notes, you must rely on your own examination of the Issuer and the terms of the offering, including the merits and risks involved.

We confirm and accept responsibility (i) that the information contained in this Offering Memorandum is true and accurate in all material respects and is not misleading in any material respect and (ii) that there are no other facts, the omission of which would make this document as a whole or any statement in this Offering Memorandum misleading in any material respect.

The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including the section entitled "*Form, Clearance and Settlement*", is subject to any change in or reinterpretation of the rules, regulations and procedures of the applicable clearing systems as currently in effect. While we accept responsibility for accurately summarizing the information concerning Euroclear and Clearstream, we accept no further responsibility in respect of such information.

We will not, nor will any of our agents, have responsibility for the performance of the respective obligations of Euroclear and Clearstream or their respective participants under the rules and procedures governing their operations, nor will we or our agents have any responsibility or liability for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to these book-entry interests. Investors wishing to use these clearing systems are advised to confirm the continued applicability of their rules, regulations and procedures.

This Offering Memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of such documents relating to the issuance of the Senior Notes will be made available to prospective investors upon request to us.

The initial purchasers, the trustee and any other agents acting with respect to the Senior Notes accept no responsibility for and make no representation or warranty, express or implied, as to our future performance or the accuracy or completeness of the information set out in this Offering Memorandum and nothing contained in this Offering Memorandum is, or should be relied upon as, a promise or representation by the initial purchasers, the trustee or any other agents acting with respect to the Senior Notes as to the past or the future.

By purchasing the Senior Notes, you will be deemed to have acknowledged that you have reviewed this Offering Memorandum and have had an opportunity to request, and have received, all additional information that you need from us. No person is authorized in connection with any offering made by this Offering Memorandum to give any information or to make any representation not contained in this Offering Memorandum and, if given or made, any other information or representation must not be relied upon as having been authorized by us or the initial purchasers.

The information contained in this Offering Memorandum is as of the date hereof. Neither the delivery of this Offering Memorandum at any time after the date of publication nor any subsequent commitment to purchase the

Senior Notes shall, under any circumstances, create an implication that there has been no change in the information set out in this Offering Memorandum or in our business since the date of this Offering Memorandum.

We cannot guarantee that our application to the Luxembourg Stock Exchange for the Senior Notes to be admitted to trading on the Euro MTF Market thereof will be approved as of the settlement date for the Senior Notes or at any time thereafter, and settlement of the Senior Notes is not conditional on obtaining this admission to trading.

We reserve the right to withdraw this offering of the Senior Notes at anytime. We and the initial purchasers also reserve the right to reject any offer to purchase the Senior Notes in whole or in part for any reason or no reason and to allot to any prospective purchasers less than the full amount of the Senior Notes sought by it. The initial purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the Senior Notes.

The Senior Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Senior Notes are being sold outside the United States in reliance on Regulation S under the U.S. Securities Act and may not be offered or sold within the United States.

Neither the U.S. Securities and Exchange Commission, nor any state securities commission nor any non-U.S. securities authority has approved or disapproved any of these securities or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

The Senior Notes are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under the U.S. Securities Act and the applicable state securities laws, pursuant to registration or exemption therefrom. By possessing this Offering Memorandum or purchasing any Senior Note, you will be deemed to have represented and agreed to all of the provisions contained in this section and the "*Transfer Restrictions*" and the "*Plan of Distribution*" sections of this Offering Memorandum. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

The Senior Notes will be available in book-entry form only. We expect that the Senior Notes will be sold in the form of one or more global notes in registered form without interest coupons attached (the ***Global Notes*****). The Global Notes will be deposited with, or on behalf of, a common depositary for the accounts of Euroclear and Clearstream and registered in the name of a nominee for the common depositary. Beneficial interests in the Global Notes will be shown on, and transfers of interests in the Global Notes will be effected only through records maintained by Euroclear and Clearstream and their direct and indirect participants. After the initial issuance of the Global Notes, Senior Notes in certificated form will be issued in exchange for the Global Notes only as set forth in the indenture governing the Senior Notes. See "*****Form, Clearance and Settlement*****".**

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Offering Memorandum has been prepared on the basis that this offering of Senior Notes will be made pursuant to an exemption under Directive 2003/71/EC (the ***Prospectus Directive***) as implemented in member states of the European Economic Area (***EEA***), from the requirement to produce and publish an offering document which is compliant with the Prospectus Directive, as so implemented, for offers of the Senior Notes. Accordingly, any person making or intending to make any offer within the EEA or any of its member states (each a ***Relevant Member State***) of the Senior Notes which are the subject of the placement referred to in this Offering Memorandum must only do so in circumstances in which no obligation arises for the Issuer or any of the initial purchasers to produce and publish an offering document which is compliant with the Prospectus Directive, including Article 3 thereof, as so implemented for such offer. Neither we nor the initial purchasers have authorized, nor do we or they authorize, the making of any offer of the Senior Notes through any financial intermediary, other than offers made by the initial purchasers, which constitute a final placement of the Senior Notes.

Senior Notes may not be offered and will not be offered to the public in any Relevant Member State, except that Senior Notes may be offered to:

(i) legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in any Relevant Member State other than France subject to obtaining the prior consent of the Issuer; or

(iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Senior Notes shall result in a requirement for the publication by the Issuer of an offering document pursuant to Article 3 of the Prospectus Directive.

For the purpose of this restriction, the expression "offer to the public" shall be construed in accordance with the legal principles and provisions of each relevant jurisdiction and in relation to each member state of the European Economic Area that has implemented the Prospectus Directive. "Offer to the public" means the communication in any form and by any means of sufficient information on the terms of the offer and the Senior Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Senior Notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state, except that the private placement of the Senior Notes with professional market parties is permitted.

NOTICE TO CERTAIN EUROPEAN INVESTORS

United Kingdom

This Offering Memorandum is being distributed only to and is directed only at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the ***Order***), (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Senior Notes may otherwise lawfully be communicated or cause to be communicated (all such persons being referred to as ***relevant persons***). Accordingly, by accepting delivery of this Offering Memorandum, the recipient warrants and acknowledges that it is such a relevant person. The Senior Notes are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Senior Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

The Senior Notes may not be offered or sold to persons in the United Kingdom except to persons who are authorized and regulated by the Financial Services Authority or to persons who have professional experience in matters of investment within the meaning of Article 19 of the Order. This Offering Memorandum and any other communication in connection with the offering and issuance of the Senior Notes is intended for and directed at and may only be issued or passed on to a person authorized and regulated by the Financial Services Authority or to a person of a kind described in either Article 19 or Article 49(2) of the Order or a person to whom this Offering Memorandum or any other such communication may otherwise lawfully be issued or passed on (all such persons together being referred to as ***relevant persons***). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

France

This Offering Memorandum has not been prepared in the context of an offer to the public in France within the meaning of Article L.411-1 of the French *Code monétaire et financier* and Title I of Book II of the *Réglement Général of the Autorité des marchés financiers* (the ***AMF***) and therefore has not been approved by, registered or filed with the AMF. Consequently, the Senior Notes are not being offered or sold, directly or indirectly, to the public in France and this Offering Memorandum or any other offering material relating to the Senior Notes has not been and will not be released, issued or distributed or caused to be released, issued or distributed to the public in France or used in connection with any offer for subscription or sale of the Senior Notes to the public in France. The Senior Notes may only be offered or sold in the Republic of France to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*) and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals, acting for their own account, all as defined in and in accordance with Articles L.411-1 and L.411-2 and Articles D.411-1 to D.411-3 of the French *Code monétaire et financier*. Prospective investors are informed that: (i) this Offering Memorandum or any other offering material relating to the Senior Notes has not been submitted for clearance to the AMF; (ii) in compliance with Articles D.411-1 and D.411-2 of the French *Code monétaire et financier*, any investors subscribing for or purchasing the Senior Notes should be acting for their own account; and (iii) the direct and indirect distribution, offer or sale to the public of the Senior Notes acquired by them may only be made in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 of the French *Code monétaire et financier*.

Switzerland

The Senior Notes may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Offer Memorandum nor any other offering or marketing material relating to the Issuer or the Senior Notes constitutes a prospectus, as that term is understood pursuant to article 652a or 1156 of the Swiss Federal Code of Obligations, and neither this Offer Memorandum nor any other offering material relating to the Issuer or the Senior Notes may be publicly distributed or otherwise made publicly available in Switzerland. No application has been made, and no application will be made, for a listing of the Exchange Notes on the SIX Swiss Exchange, and consequently, the information presented in this Offer Memorandum does not necessarily comply with the information standards set out in the relevant listing rules of the SIX Swiss Exchange. The Senior Notes have not been registered, and are not going to be registered, with the Swiss Federal Banking Commission as foreign investment funds, and the investor protection afforded to acquirers of investment fund certificates does not extend to acquirers of the Senior Notes.

INCORPORATION BY REFERENCE

This Offering Memorandum should be read and construed in conjunction with the following documents which have been previously published or are published simultaneously with this Offering Memorandum, have been filed with the Luxembourg Stock Exchange and shall be incorporated in, and form part of, this Offering Memorandum:

1. The unaudited condensed interim consolidated financial statements of the Issuer for the nine months ended 30 September 2010 (the ***Unaudited Interim Condensed Financial Statements***).

2. The first half report 2010, as filed with the SEC on 6 August 2010 as Form 6-K under the file number 001-11130/10996355 including the unaudited condensed interim consolidated financial statements of the Issuer for the six months ended 30 June 2010 (the ***2010 6K***);

3. The *Rapport Financier Semestriel* of 30 June 2010 of the Issuer, filed with the French *Autorité des marchés financiers* (the ***AMF***) under number 29440 on 6 August 2010 including the unaudited condensed interim consolidated financial statements of the Issuer for the six months ended 30 June 2010;

4. The 2009 Annual Report, as filed with the SEC on 13 July 2010 as Form 20-F/A under the file number 001-11130/10949379 including the audited consolidated financial statements of the Issuer for the three years ended 31 December 2009 (the ***2009 Annual Report***);

5. The *Document de référence* 2009 (registration document) of the Issuer, filed with the French AMF under number D.10-0140 on 23 March 2010 including the audited statutory annual and consolidated financial statements of the Issuer for the three years ended 31 December 2009 except for the AMF logo and AMF textbox on page 1 and the third paragraph of the "Declaration of the person responsible for the reference document" ("*Attestation du responsable du Document de Reference contenant un rapport financier annuel*") on page 323 (***Document de Référence 2009*** or ***DR 2009***);

   together, the ***Documents Incorporated by Reference***.

Copies of documents incorporated by reference in this Offering Memorandum can be obtained free of charge from the principal office of the Issuer and from the specified offices of the Listing Agent for the time being in Luxembourg. Following approval of this Offering Memorandum by the Luxembourg Stock Exchange and the listing of the Senior Notes, this Offering Memorandum and the Documents Incorporated by Reference will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

For ease of reference, the Unaudited Interim Condensed Financial Statements are attached to this Offering Memorandum as Attachment A. Attachment A has not been updated since 30 September 2010 and speaks only as of such date. Any statement contained in Attachment A shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained in this Offering Memorandum modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed, except as modified or superseded, to constitute a part of this Offering Memorandum.

AVAILABLE INFORMATION

Each purchaser of Senior Notes from the initial purchasers will be furnished with a copy of this Offering Memorandum and, to the extent provided to the initial purchasers by us, any related amendment or supplement to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendment or supplement acknowledges that: (1) it has been afforded an opportunity to request from us and to review, and has received from us, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein; (2) it has not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of the information or its investment decisions; and (3) except as provided under (1) above, no person has been authorized to give any information or to make any representation concerning us or the Senior Notes offered by this Offering Memorandum other than those contained in this Offering Memorandum, and if given or made, any other information or representation should not be relied upon as having been authorized by us or the initial purchasers.

In addition, for so long as the Senior Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, we will also provide a copy of all of the foregoing information and reports to the Luxembourg Stock Exchange and make the Documents Incorporated by Reference available on our website at www.alcatel-lucent.com. Information contained on our website is not incorporated by reference into this Offering Memorandum and is not part of this Offering Memorandum.

Copies of the indenture may be freely obtained at the specified office of the Listing Agent in Luxembourg for as long as the Senior Notes are listed on the Luxembourg Stock Exchange.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements as of and for the years ended 31 December 2009, 2008 and 2007 (the ***Consolidated Financial Statements***) have been prepared in accordance with International Financial Reporting Standards (***IFRSs***) as adopted by the European Union, and our unaudited condensed interim consolidated financial statements as of and for the nine months ended 30 September 2010 (the ***Unaudited Interim Condensed Financial Statements***) have been prepared in accordance with IAS 34 "Interim Financial Reporting". IFRSs, as adopted by European Union, differ 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 IFRSs would be no different if we had applied International Financial Reporting Standards issued by the International Accounting Standards Board. References to "IFRSs" in this Offering Memorandum refer to IFRSs as adopted by the European Union. As a result of the purchase accounting treatment of the Lucent business combination required by IFRSs, our results for 2009, 2008 and 2007 included several negative non-cash impacts of purchase accounting entries.

Discussion of Certain Non-GAAP Financial Measures

We have presented in this Offering Memorandum certain supplemental measures of our performance and liquidity (such as Free Cash Flow, Operating Cash Flow, Adjusted Operating Income and EBITDA) which we believe are measures commonly reported and widely used by investors and other interested parties as a measure of a company's operating performance and debt servicing ability. These measures are not, however, required by, or presented in accordance with IFRS. Free Cash Flow, Operating Cash Flow, Adjusted Operating Income and EBITDA have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations, as reported under IFRS. Some of these limitations are:

- Operating Cash Flow does not reflect our actual cash expenditures or future requirements for capital expenditures or contractual commitments;
- Operating Cash Flow does not reflect the significant interest, or the cash requirements necessary to service interest or principal payments, on our debt, income tax cash impacts and cash-outlays on restructuring plans and pension or other post-retirement benefits funding requirements;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and the Operating Cash Flow measure does not reflect any cash requirements for such replacements;
- Free Cash Flow and Operating Cash Flow are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- Adjusted Operating Income does not take into account the main non-cash impacts from Purchase Price Allocation (***PPA***) entries in relation to the Lucent business combination;
- Other companies in our industry may calculate these measures differently than we do, limiting their usefulness as a comparative measure; and
- EBITDA does not take into account certain one time or non cash items including equity-settled share based expenses and other items. It may not therefore be comparable to similar measures presented by other companies.

In addition, Operating Cash Flow, Free Cash Flow, Adjusted Operating Income and EBITDA are presented as additional information because we believe these measures are useful for certain investors to determine our operating performance. These measures, however, are not recognized terms under IFRS and should not be considered as alternatives to Income (loss) before income tax and discontinued operations as an indicator of our operating performance or any other measure of performance derived in accordance with IFRS.

Use of Terms

Unless the context requires otherwise, the terms "Alcatel Lucent," the "Company", the "Group", "we", "our", the "Issuer" or "us" refer to Alcatel Lucent and its consolidated subsidiaries.

All references herein to “United States” or “U.S.” are to the United States of America, references to “dollars” or “$” are to the currency of the United States, references to “France” are to the French Republic, and references to “euro” and “€” are to the currency of the European Union member states (including France) participating in the European Monetary Union.

The brand names (indicated in capital letters) mentioned in this Offering Memorandum are trademarks of Alcatel Lucent, its affiliates and/or associated companies or are used with permission under a license agreement.

MARKET AND INDUSTRY DATA

This Offering Memorandum contains information about our markets and our competitive position therein, including market sizes and market share information. We are not aware of any exhaustive industry or market reports that cover or address all of our markets. Therefore, we assemble information on our markets through our enterprises, which in turn compile information on our local markets annually. They derive that information from formal and informal contacts with industry professionals (such as professional associations), publications data (such as gross domestic product or client industry publications), annual reports of our competitors and market research by independent consultants. We estimate our position in our markets based on the market data referred to above.

We believe that the market share information contained in this Offering Memorandum provides fair and adequate estimates of the size of our markets and fairly reflects our competitive position within these markets. However, our internal company surveys and management estimates have not been verified by an independent expert, and we cannot guarantee that a third party using different methods to assemble, analyze or compute market data would obtain or generate the same results. In addition, our competitors may define their markets differently than we do.

SUMMARY

The following summary highlights selected information contained elsewhere or incorporated by reference in this Offering Memorandum. Accordingly, this summary may not contain all of the information that may be important to you. We urge you to carefully read and review this Offering Memorandum, the Documents Incorporated by Reference, Consolidated Financial Statements and the Unaudited Interim Condensed Financial Statements contained or incorporated herein.

OUR BUSINESS

Overview

We are a leading global developer and manufacturer of telecommunications equipment, providing products, solutions and transformation services. Our clients include service providers, enterprises, governments and strategic industries (such as transportation or energy) who deliver voice, data and video communication services to end users. We believe that our clients are dealing with longer-term, industry-specific trends that are fundamentally re-shaping their businesses, including:

- increased penetration of smartphones driving explosive growth in mobile data traffic (particularly in mobile video traffic) and challenging operators to both maintain quality of service and profitably accommodate surging traffic volumes;
- network transition by operators to an all-IP (***Internet Protocol***) architecture and from voice-centric to broadband data networks;
- increased number of communications users, driven in large part by significant increases in mobile subscribers in rural areas and emerging markets; and
- global convergence of fixed and mobile technology and related global convergence of telecommunications and information technology (***IT***).

To maintain our strong position in a changing environment, we launched in December 2008 a three year transformation of our products, services and internal infrastructure. Our new strategy is designed to improve the Internet experience of end users while providing our customers better return on their investment. As a fundamental step in this strategy, we have launched two key initiatives called the "High Leverage Network™" and "Applications Enablement".

We have designed the High Leverage Network™, an all-IP network architecture allowing service providers to increase their data traffic capacity and dynamically adjust to the needs of different traffic types (such as Internet video) thereby reducing costs and increasing revenues. We believe that our portfolio positions us to deliver this transformation with leading positions in IP networking, access (mobile and fixed) and optics. With 41% of our sales in the Networks segment from products related to the High Leverage Network™ during the three months ended 30 September 2010, we believe the High Leverage Network™ is gaining increased traction with our customers.

In the field of Applications Enablement, we have developed a framework and set of products for our service provider customers to allow for the independent development of ubiquitous applications to run over their networks, leveraging the service provider's unique knowledge and capabilities. We have launched our Application Exposure Suite which allows service providers to securely open their networks to provide key customer-specific information (such as subscriber location, service preferences and connection guarantees) to application developers and content providers in order to speed the development of new innovative services. In 2010, we made two acquisitions, Programmable Web and Open Plug, which we believe enrich our Application Exposure Suite.

We have one of the largest innovation platforms in the communications industry and are able to leverage the technical and scientific expertise of Bell Labs, our specialized research and development arm. Our technological advantage enables us to be a leader in fixed, mobile and converged broadband networking, IP technologies, application and services.

We have one of the most experienced global customer services teams in the industry and with operations in more than 130 countries, we are a local partner with a global reach. Alcatel Lucent (formerly Alcatel) has been incorporated in France since 1898. On November 30, 2006, Alcatel and Lucent Technologies Inc. (Lucent) completed a business combination pursuant to which Lucent (now Alcatel Lucent USA Inc.) became a wholly owned subsidiary of Alcatel. Alcatel Lucent's registered office and principal place of business is in Paris. We are listed, with shares included on the CAC 40, trading on Euronext Paris and on the New York Stock Exchange (***NYSE***).

Our revenues were €11,134 million for the nine months ended 30 September 2010. As of 30 September 2010, we had cash (financial debt) net (as defined in Note 19 of the Consolidated Financial Statements) amounting to €(190) million.

Our Segments (Products Groups)

Networks

The Networks segment encompasses four business divisions: IP, Optics (hosting terrestrial as well as submarine activities), Wireless networks and Wireline networks.

- IP: Our IP activities generated approximately 9% of our revenue for the nine months ended 30 September 2010. Our portfolio of third generation IP routers and switches is designed to support IP-based applications and services while helping service providers monetize their network investment and reduce customer churn. With our strongest quarter-on-quarter growth based on revenue for the three months ended 30 September 2010, we continue to gain market share in the IP Edge routing market where we maintain a leading position.
- Optics: Our Optics division, which generated approximately 16% of our revenue for the nine months ended 30 September 2010, designs and markets equipment for the long distance transportation of data over fibre optic connections via land (terrestrial) and undersea (submarine), as well as for shorter distances in metropolitan and regional areas. Our refreshed, next-generation terrestrial optics portfolio includes new packet optical and microwave packet radio technology, as well as a new WDM (Wavelength Division Multiplexing) platform. We have become a leader in mobile backhaul in the past year with both optical and microwave radio technologies supporting the dramatic growth in wireless data usage.
- Wireless: Our Wireless activities generated approximately 26% of our revenue for the nine months ended 30 September 2010. Strong growth took place across the wireless portfolio with double-digit gains from the year-ago quarter in our WCDMA, GSM and CDMA businesses. Our wireless activities focus on a full range of product offerings, from access to core switching, for 2G (GSM/GPRS/EDGE, CDMA), 3G (UMTS/HSPA/EV-DO) and 4G networks (LTE, Long Term Evolution). With leading positions in other Wireless subsegments, our broader portfolio strategy is based on improving network capacity, providing operators with total cost of ownership savings and eco-sustainability and allowing for smooth technology evolution to LTE. We remain a global leader in the LTE market with more than 50 LTE trials and 7 commercial contracts, including with Verizon and AT&T. We believe these positions leave us well placed to take advantage of a market that we believe will materialize faster than originally predicted in certain geographies, largely fuelled by the proliferation of 3G-enabled devices, the increasing number of multimedia applications and the resulting surge of mobile broadband data traffic.
- Wireline: With our Wireline products and services, which generated approximately 9% of our revenue for the nine months ended 30 September 2010, we are the worldwide leader in the fixed broadband access market, supporting the largest mass deployments of video, voice and data services. We also offer products that extend from legacy switching systems to IP multimedia subsystem (***IMS***) solutions for fixed, mobile, and converged operators.

In the nine months ended 30 September 2010, our Networks segment revenues were €6,669 million (excluding revenues from transactions with other operating segments), accounting for approximately 60% of our revenue for that period, (as compared to €6,820 million in the nine months ended 30 September 2009).

Applications

The Applications segment develops and maintains software products for our applications business and is made up of the Networks Applications and Enterprise businesses.

- The Network Applications business provides software that allows service providers to offer new end-user communications and digital entertainment services across any connected device including mobile phones, PCs, TVs, and the Web.
- The Enterprise business provides voice telephony and data networking technology which is increasingly focused on software-based platforms. The Enterprise business includes Genesys, the market leader in contact centres worldwide and a leading provider of the software used by enterprises and service providers intended to manage all aspects of their interaction with their customers through the Web, by phone or other mobile device.

In the nine months ended 30 September 2010, our Applications segment revenues were €1,357 million (excluding revenues from transactions with other operating segments), accounting for approximately 12% of our revenues for this period, (as compared to €1,340 million in the nine months ended 30 September 2009).

Services

Our Services segment is composed of four business divisions: Managed & Outsourcing Solutions, Network Build and Implementation (***NBI***), Multivendor Maintenance, and Network and System Integration (***NSI***).

- Managed & Outsourcing Solutions: consists of a wide range of outsourced network operations, including the migration of the service provider's customers from legacy platforms to new IP platforms. These services reduce our clients' operating expenses, enhance network reliability and manage the quality of the end-user experience.
- Network Build and Implementation: is focused on civil works usually attached to the sale of our equipment.
- Multivendor Maintenance: creates operational efficiencies for customers by restructuring and streamlining traditional maintenance functions and delivering improved service levels at a lower total cost.
- Network and System Integration: our business and technology industry experts consult with and support our customers throughout their transformation from legacy to IP platforms. The IP network transformation services within NSI include network planning, design, consulting, roll-out, project management and optimization services.

We believe growth in our Services segment will be driven in the near term, in part, by certain significant contracts recently signed with clients in strategic industries. In the nine months ended 30 September 2010, our Services segment revenues were €2,595 million (excluding revenues from transactions with other operating segments), accounting for approximately 23% of our revenue for this period, (as compared to €2,528 million in the nine months ended 30 September 2009).

Our Strengths

We believe that our strong position in voice, data and video communication products and solutions results from the following key strengths:

Leading market positions and strong relationships with a large and diversified customer base

We maintain a customer base with a global reach in over 130 countries worldwide through our customer sales organizations, which are accountable for serving customers and growing the business profitability. We do business with all of the top 50 service providers in the world and maintain leading positions in a variety of our primary markets. We have the largest share of the market by revenue (for the 12 month period ended 30 June 2010) in:

- IP Edge routing in the EMEA region (along with the second largest share globally at 20% of market share);

- CDMA (Code Division Multiple Access) with 38% of market share;
- DSL (Digital Subscriber Line) and VDSL (very high-speed variant of DSL) supply with 36% and 47% of market share, respectively;
- Submarine Line Terminal Equipment (SLTE) with 58% of market share; and
- Multivendor Maintenance with 19% of market share.

We also maintain the second largest share of the market by revenue (for the 12 months ended 30 June 2010) in:

- Terrestrial Optics with 18% of market share (switching at 30%, aggregation at 18% and WDM at 15%); and
- GPON (Gigabit Passive Optical Networking) with 26% of market share for the GPON Optical Network Terminals.

We believe our focus on research and development provides us with a technological advantage and the ability to offer the broadest portfolio of products in the market. For example, our next generation products, which experienced strong double digit growth in revenue both for the three-month and nine-month periods ended 30 September 2010, have helped drive growth in the Networks segment. Our product and solutions offering and our customer sales organizations provide the resources necessary to develop and maintain our strong relationships with our customers.

We generate revenue throughout the world with 37% generated in North America, 32% generated in Europe, 18% generated in Asia Pacific and 13% generated in Rest of the World for the nine months ended 30 September 2010.

Concentrated focus on technological development and R & D

With a portfolio of over 27,600 active patents across a vast array of technologies, we continue to place a priority on research and development because we believe that innovation creates technologies and products that can differentiate us from our competitors and can potentially generate new sources of revenue. Research and development is undertaken by Bell Labs, our research and development arm, which has a recognised heritage and track record of technological innovation and is one of the largest innovation platforms in the communications industry. Our product groups build on this research to enhance products and solutions across our portfolio.

Bell Labs has eight locations around the globe: Belgium, China, France, Germany, India, Ireland, South Korea and the United States. Our research and development investment was €1,966 million for the nine months ended 30 September 2010.

Good track record of operational progress with a solid liquidity position

Starting in 2009, we began revolutionizing a number of core operational mechanisms, systems and procedures which we believe will result in greater efficiency and efficacy for our manufacturing, processes and field operations. This is already partially reflected in our results. Following a decrease in EBITDA starting in 2008 through 2009, we have experienced improved EBITDA from €754 million for the 12 months ended 30 September 2009 to €914 million for the 12 months ended 30 September 2010. We believe that these stronger operational fundamentals will enable us to take advantage of what we see as favourable market conditions, be faster to market and improve our customer relationships while reducing our operating expenses. We believe that these stronger operational fundamentals will enable us to take advantage of what we see as favourable market conditions, be faster to market and improve our customer relationships while reducing our operating expenses.

We believe we have a solid liquidity position with, as of 30 September 2010, cash and cash equivalents totalling €3,227 million and €1,197 million in marketable securities (which enables us to maintain cash (financial debt) net of €(190) million) as well as an undrawn committed Revolving Credit Facility of €1,400 million. Maintaining a solid liquidity position has enabled us to remain focused on research and development and customer demands while undertaking operational changes necessary to address the evolving competitive environment.

Experienced management

Our senior management team has a high degree of expertise in our markets and possesses significant industry, finance, operations, technical and market knowledge. Senior management, including the CEO Ben Verwaayen (formerly President & CEO of BT) and CFO Paul Tufano (formerly CFO and CEO of Maxtor and Solectron), and our Board of Directors provide the opportunity to continue to transform the Group into the leading provider of broadband networking, IP technologies, applications and services. With a focus on operational transformation, our management team is essential in reducing expenses across the Group and seeing the Group through this transformational period for suppliers of telecommunications equipment and related services.

Our Strategy

Consolidate and expand market positions while deepening relationships with our customers

Recognizing the evolution of the market place, Application Enablement and High Leverage Networks™, announced in late 2008, seek to improve the Internet or "web" experience of service providers, enterprises and end-users while improving our customers' return on their investments. A fundamental part to this strategy is the High Leverage Network™ architecture which is intended to address the key challenge faced by our customers, the delivery of innovative, revenue-generating, value-added services to their customers at the lowest possible cost.

We believe that our Application Enablement vision, in combination with the High Leverage Network™ and our network transformation services that support customers as they evolve to a High Leverage Network™, will yield a sustainable business model that is beneficial for network operators as well as application and content creators. This model is intended to fuel innovation and the capital investment required to expand the overall web experience to more people and businesses.

Our products, software and services capabilities are all integral parts of our Application Enablement vision and our High Leverage Network™ concept. These strategies present opportunities for us to partner with our customers as they transform their networks and execute their business strategies to address new market challenges and opportunities.

Continue to invest in R&D and pursue a technological advantage

To better advance the group's innovation strategy, Bell Labs, our research and development arm, has defined five major themes that will serve as a focus for our research efforts and enable us to better serve our customers: Efficient Networks; 100% Coverage; Network Virtualization; Everything as a Service; and Everything is Video.

In 2009, we implemented a number of initiatives to further strengthen the innovation culture within our company, as well as advance open innovation programs that engage third parties in generating and exploiting new market opportunities. To promote open innovation, Bell Labs has adopted a new strategy that changes the scope of research from traditional co-research initiatives to one that encompasses a broader business perspective and involves, from the outset, a wider range of stakeholders, including our partners.

We believe our focus on research and development and technology in line with these themes and strategy (particularly with respect to Applications Enablement and the High Leverage Network™ and technologies such as network computing, LTE, optical networking, IP routing and fixed access) will continue to yield revenue generating opportunities that will serve to differentiate us from our competition.

Continue to improve margins

We intend to maintain our focus on operational improvements and we believe that we can achieve further improvement in both revenue growth and operating expenses reduction. We have made significant progress de-layering our organization and eliminating sales duplication between product groups and regions by centralizing the logistical systems connected with these processes. Along with consolidation and expansion of our market positions, we believe there are additional opportunities to reduce costs and expenses through further reduction initiatives in fixed operations, procurement and product design, sales, marketing and general and administrative costs and we believe we are on track with implementation of our plans for a reduction in certain of our fixed costs.

Recent Developments

Results for the nine months ended 30 September 2010

On 4 November 2010, we announced our results for the nine months ended 30 September 2010. This announcement included the Unaudited Interim Condensed Financial Statements as well as a discussion of our performance for the period, including:

- **Third quarter revenue increased 10.5% year-over-year and increased 6.8% sequentially to €4,074 million.** At constant currency exchange rates and perimeter, revenue increased 2.9% year-over-year and increased 6.8% sequentially. Networks saw a year-over-year single-digit increase in revenue, driven by an acceleration of growth in IP and wireless, partly offset by a decline in wireline networks. Terrestrial optics revenues were almost stable this quarter. Applications revenues were stable both for Networks applications and Enterprise applications. Services revenues grew at a low single digit rate with good performance this quarter for Managed & Outsourcing solutions. From a geographic standpoint, traction remained strong in North America with a double digit rate of growth and sales trends improved in all other regions of the world, especially with Asia Pacific and Eastern Europe growing at mid single digit rates. Specifically, growth in India and Russia was significant, and resumed in China this quarter.

- **Adjusted[1] operating income[2] of €61 million or 1.5% of revenue.** Adjusted gross margin came in at 33.8% of revenue for the quarter, compared to 33.4% in the year ago quarter and 36.1% in the second quarter 2010. The year-over-year increase in gross margin was driven by the product/geographic mix. The sequential decrease in the gross margin was driven by a change in geographical and product mix, the latter being mainly related to less software upgrades recorded in the third quarter than in the second quarter. Operating expenses decreased 0.7% year-over-year at constant currency and increased 5.9% on a reported basis due to the rise of the U.S. dollar. On a sequential basis, operating expenses at constant currency decreased by 2.0% and decreased by 2.4% as reported, reflecting a decrease in SG&A due to our initiatives on costs.

- **Reported net income (group share) of €25 million or €0.01 per share.** This includes a one-time gain related to post-retirement benefit plan amendment of €30 million pre-tax and to €18 million after tax. Purchase Price Adjustments amounted to €72 million pre-tax and to €43 million after tax.

- **Net (debt)/cash of €(190) million, versus €107 million as of June 30, 2010**. The sequential decrease in net cash of €297 million primarily reflects restructuring cash outlays of €(73) million, contribution to pensions and OPEB of €(56) million and capital expenditures of €(184) million which offset positive operating cash flow of €193 million. The positive operating cash flow results from the level of adjusted operating profit offset by an increase in operating working capital requirements of €82 million.

- **Funded status of Pensions and OPEB of €(1,409) million at end of September, compared to €(1,802) million as of June 30, 2010**. Excluding currency impact, the sequential narrowing in the deficit mainly results from an increase of the fair value of the plan assets for 1,229 million offset by the increase of our obligations for 1,106 million due to the decrease in the discount rates used for pensions and post-retirement healthcare plans. The net effect of currency changes on the fair value of the plan assets and on our obligations is positive €109 million. On December 1, 2010, we intend to transfer approximately 6,300 participants from the U.S. occupational pension plans to the U.S. management pension plan. We expect to transfer about US$810 million in assets and between US$520 million and US$490 million in obligations, depending of the discount rate methodology ultimately chosen for the January 1, 2010 funding valuation, and thereby improve the funded status of the U.S. management pension plan by about US$290 million to US$320 million at the time of the transfer. See Note 23 of the Unaudited Interim Condensed Financial Statements for more details.

The full announcement is available on our website at www.alcatel-lucent.com. Please note, however, that this information is provided for information only and the announcement issued 4 November 2010 is not incorporated by reference in this Offering Memorandum.

---

1 "Adjusted" refers to the fact that it excludes the main impacts from Lucent's purchase price allocation.

2 Operating income (loss) is the Income (loss) from operating activities before restructuring costs, impairment of assets, gain (loss) on disposals of consolidated entities, litigations and post-retirement benefit plan amendments.

Sale of vacuum business

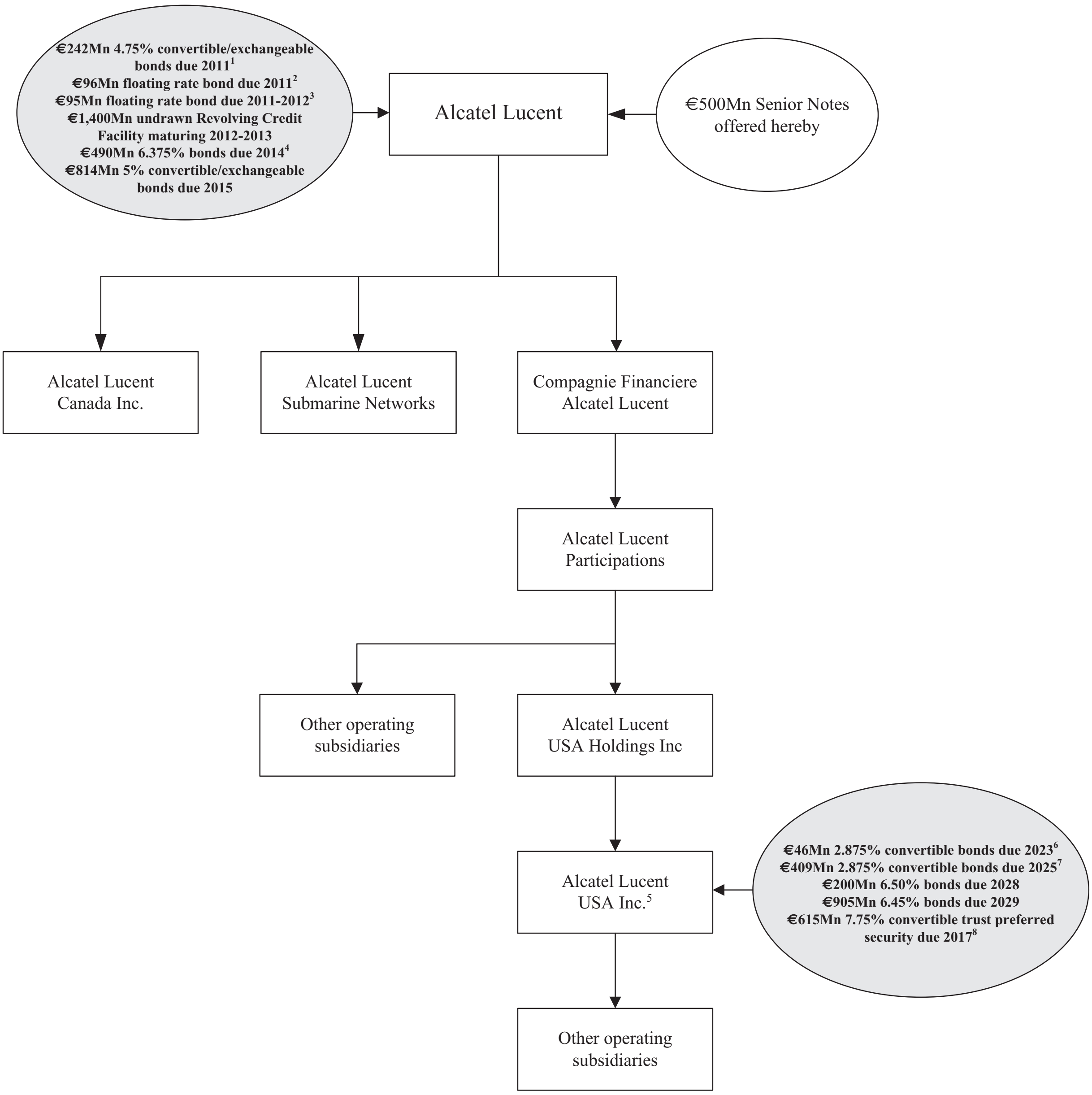
On 3 November 2010, we announced that we intend to sell our vacuum pump solutions and instruments business to Pfeiffer Vacuum Technology AG. The sale is subject to finalization of the information and consultation process of a number of our legal entities workers' councils. The sale is expected to close by 31 December 2010. The purchase price will total approximately €200 million on a debt/cash-free basis and will be paid in cash.

October bond issuance

In October 2010, we issued €100 million in floating rate bonds due 2011 and 2012 (extendable to 2016). For further information, see "*Description of Other Indebtedness—Alcatel Lucent—Floating rate notes*".

Summary Corporate and Financing Structure

The following is a simplified summary of our corporate and financing structure as of 30 September 2010 as derived from our unaudited condensed interim consolidated financial statements as of and for the nine month period ended 30 September 2010, representing the book value in euros of our various facilities and securities. The figures shown are as adjusted to give effect to the use of proceeds from the offering of the Senior Notes and the issuance of the €100 million floating rate bonds in October 2010. This table excludes certain other financing arrangements or debt applicable to the Groups including bank loans, overdrafts, other financial debt, finance lease obligations and other debt and accrued interest. For further information on our capitalization and other indebtedness, see "*Capitalization*" and "*Description of Other Indebtedness*".



1 Benefit from subordinated guarantee from Alcatel Lucent USA Inc. Total outstanding is subject to application, on or before the maturity date of these bonds (1 January 2011), of all of the net proceeds from the sale of the Senior Notes and the floating rate bonds due 2011 and 2012 (extendable to 2016) issued in October 2010.
2 May be extended to 2016.
3 Issued in October 2010; €75Mn is due 2011 and €25Mn is due 2012, all of which may be extended to 2016.
4 Benefit from subordinated guarantee from Alcatel Lucent USA Inc.
5 All securities issued by Alcatel Lucent USA Inc. are issued in US$. The figures provided here relate to the book value as recognized by Alcatel Lucent.
6 Contains a put option exercisable 15 June 2015 and 15 June 2020; benefit from subordinated guarantee from Alcatel Lucent.
7 Contains a put option exercisable 15 June 2013 and 15 June 2019; benefit from subordinated guarantee from Alcatel Lucent.
8 The issuer is Lucent Technologies Capital Trust I and the obligation from Alcatel Lucent USA Inc. to the trust is subordinated debt.

THE OFFERING

The summary below describes the principal terms of the indenture governing the Senior Notes. Certain terms and conditions described below are subject to important limitations and exceptions. The "Description of the Senior Notes" section of this Offering Memorandum contains a more detailed description of the terms and conditions of the Senior Notes, including the definitions of certain terms used in this summary.

Issuer	Alcatel Lucent, a *société anonyme* incorporated under the laws of France.
Issue Price	97.462%.
Notes Offered	€500 million aggregate principal amount of senior notes due 2016.
Maturity Date	15 January 2016.
Interest	8.50% per annum. The Senior Notes will accrue interest from the date of their issuance.
Interest Payment Dates	Interest will be payable semi-annually in arrears on each 15 January and 15 July of each year, beginning on 15 July 2011.
Form and Denomination	The Issuer will issue the Senior Notes in global form in minimum denominations of €50,000 and integral multiples of €1,000 above €50,000.
Ranking of the Senior Notes	The Senior Notes will be general unsecured obligations of the Issuer and will: • rank senior in right of payment with all existing and any future indebtedness of the Issuer that is subordinated to the Senior Notes; • rank *pari passu* in right of payment with all existing and any future unsecured indebtedness of the Issuer that is not subordinated to the Senior Notes; • be effectively subordinated to any secured indebtedness of the Issuer to the extent of the value of the assets securing such indebtedness; and • be effectively junior to all liabilities of the Issuer's subsidiaries to the extent of the assets of such subsidiaries. As of 30 September 2010, after giving effect to the issuance of the Senior Notes in this offering and the application of proceeds therefrom the Issuer's subsidiaries would have had €2,367 million of gross financial debt to third parties.
Use of Proceeds	The net proceeds from the sale of the Senior Notes will be approximately €480 million (after deducting transaction fees and professional and other expenses). All of such net proceeds will be applied in order to partially refinance the 4.75% convertible/exchangeable bonds due on 1 January 2011 on or before the maturity date of such bonds. See "*Use of Proceeds*".
No Optional Redemption	The Senior Notes will not be redeemable at the Issuer's option prior to the maturity date of the Senior Notes on 15 January 2016. See "*Description of the Senior Notes—No Optional Redemption*".

Tax Redemption	The Senior Notes may be redeemed at the option of the Issuer, in whole but not in part, at any time following certain changes in tax laws at a price equal to 100% of their principal amount plus accrued and unpaid interest and certain other amounts. See "*Description of the Senior Notes—Optional Redemption for Taxation Reasons*".
Change of Control	Upon specific kinds of changes of control, each holder of the Senior Notes will have the right to require the Issuer to repurchase all or part of its Senior Notes at a purchase price of 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. See "*Description of the Senior Notes—Change of Control*".
Certain Covenants	The indenture governing the Senior Notes will, among other things, restrict the ability of the Issuer and/or certain of its subsidiaries to: • incur debt or issue preferred stock; • pay dividends repurchase share capital or prepay subordinated debt; • make investments; • create liens; • merge, consolidate or sell all or substantially all of their assets; • sell assets, including shares of any restricted subsidiary; and • guarantee other debt of the issuer and its subsidiaries without also guaranteeing the Senior Notes. Each of the covenants above is subject to significant exceptions and qualifications. See "*Description of the Senior Notes*".
Transfer Restrictions	The Senior Notes have not been, and will not be, registered under the U.S. Securities Act or any other applicable securities laws and are subject to restrictions on transferability and resale. See "*Transfer Restrictions*".
Listing	Application has been made to list the Senior Notes on the Official List of the Luxembourg Stock Exchange and to admit them to trading on the Euro MTF Market of that exchange.
No Prior Market	Although application has been made to list the Senior Notes on the Luxembourg Stock Exchange, the Senior Notes will be new securities for which there is currently no market. Although the initial purchasers have informed us that they currently intend to make a market in the Senior Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Senior Notes will develop or be maintained.
Governing Law	The Senior Notes and the indenture will be governed by New York law.
Trustee	Citibank, N.A.

Registrar	Citigroup Global Markets Deutschland AG.
Listing Agent	BNP Paribas Securities Services, Luxembourg Branch.
Principal Paying Agent, Transfer Agent	Citibank, N.A., London Branch.

RISK FACTORS

You should consider carefully all of the information set out in this Offering Memorandum and in particular the information under "*Risk Factors*" prior to investing in the Senior Notes.

SUMMARY SELECTED CONSOLIDATED FINANCIAL DATA

The tables below set forth summary selected consolidated financial data as of and for the three years ended 31 December 2009, 2008 and 2007 and the nine-month periods ended 30 September 2010 and 2009, as well as for the twelve-month period ended 30 September 2010 (the ***LTM period***). This financial data is derived from our audited Consolidated Financial Statements prepared in accordance with IFRS and from our Unaudited Interim Condensed Financial Statements prepared in accordance with IAS 34. Our Unaudited Interim Condensed Financial Statements and the financial information relating to the LTM period were prepared on a basis consistent with our audited Consolidated Financial Statements as of and for the year ended 31 December 2009. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Unaudited Interim Condensed Financial Statements included elsewhere or incorporated by reference herein. For a detailed analysis of the financial data of 2008 and 2009, please refer to our 2009 Annual Report as incorporated by reference.

Consolidated Income Statement Information

	Nine months ended 30 September		Last 12 months ended 30 September(1)	Year ended 31 December		
(in millions of euros)	**2010**	**2009**	**2010**	**2009**	**2008**	**2007**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Audited)**	**(Audited)**	**(Audited)**
Revenues	11,134	11,190	15,101	15,157	16,984	17,792
Cost of sales	(7,322)	(7,532)	(9,836)	(10,046)	(11,190)	(12,083)
Gross profit	**3,812**	**3,658**	**5,265**	**5,111**	**5,794**	**5,709**
Administrative and selling expenses	(2,165)	(2,236)	(2,842)	(2,913)	(3,093)	(3,462)
Research and development costs	(1,966)	(1,954)	(2,535)	(2,523)	(2,757)	(2,954)
Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities, litigations and post-retirement benefit plan amendments	**(319)**	**(532)**	**(112)**	**(325)**	**(56)**	**(707)**
Restructuring costs	(315)	(337)	(583)	(605)	(562)	(856)
Impairment of assets	0	0	0	0	(4,725)	(2,944)
Post-retirement benefit plan amendment	30	37	241	248	47	258
Litigations(2)	(6)	0	(115)	(109)	—	—
Gain/(loss) on disposal of consolidated entities(3)	(3)	0	96	99	(7)	—
Income (loss) from operating activities	**(613)**	**(832)**	**(473)**	**(692)**	**(5,303)**	**(4,249)**
Finance costs	(224)	(184)	(294)	(254)	(212)	(173)
Other financial income (loss)	222	191	280	249	366	541
Share in net income (losses) of equity affiliates	12	(4)	17	1	96	110
Reduction of goodwill related to deferred tax assets initially unrecognized	—	—	—	—	—	(256)
Income tax (expense) benefit	(28)	101	(69)	60	(153)	(60)
Income (loss) from continuing operations	**(631)**	**(728)**	**(539)**	**(636)**	**(5,206)**	**(4,087)**
Income (loss) from discontinued operations	*(13)*	*129*	*(10)*	*132*	*33*	*610*
NET INCOME (LOSS)	**(644)**	**(599)**	**(549)**	**(504)**	**(5,173)**	**(3,477)**
Attributable to:						
Equity owners of the parent	**(674)**	**(570)**	**(628)**	**(524)**	**(5,215)**	**(3,518)**
Non-controlling interests	30	(29)	79	20	42	41

Notes:

(1) Last 12 months consists of a calculation based on the financial information for the nine months ended 30 September 2010 together with the financial information for the three months ended 31 December 2009.

(2) Related to material litigations (see Note 1p to the Consolidated Financial Statements included in the 2009 Annual Report): the FCPA litigation disclosed in Note 22a of the Unaudited Interim Condensed Financial Statements for a negative amount of €5 million for the nine months ended 30 September 2010 (€93 million

in 2009 representing the net present value of US$137.4 million) and the Fox River litigation (Lucent's separation agreements) for a positive amount of €4 million or US$5 million for the nine months ended 30 September 2010 (compared to a charge of €16 million or US$22 million in 2009).

(3) 2009 and 2010 figures are related to the disposal of the Fractional Horsepower Motors activity.

Consolidated Financial Position Information

(in millions of euros)	30 September 2010 (Unaudited)	30 September 2009 (Unaudited)	31 December 2009 (Audited)	31 December 2008 (Audited)	31 December 2007 (Audited)
ASSETS					
Non-current assets					
Goodwill	4,311	4,129	4,168	4,215	7,328
Intangible assets, net	2,096	2,249	2,214	2,567	4,230
Goodwill and intangible assets, net	**6,407**	**6,378**	**6,382**	**6,782**	**11,558**
Property, plant and equipment, net	1,207	1,236	1,260	1,351	1,428
Other non-current assets	4,431	4,278	4,002	4,609	7,149
Total non-current assets	**12,045**	**11,892**	**11,644**	**12,742**	**20,135**
Current assets:					
Inventories and work in progress, net(1)	2,567	2,171	1,902	2,390	2,465
Trade receivables and other receivables, net(1)	3,323	3,481	3,519	4,693	4,601
Marketable securities, net	1,197	1,901	1,993	906	894
Cash and cash equivalents	3,227	3,378	3,577	3,687	4,377
Assets held for sale	219	53	51	1,348	35
Other current assets	1,375	1,585	1,210	1,607	1,287
Total current assets	**11,908**	**12,569**	**12,252**	**14,631**	**13,659**
TOTAL ASSETS	**23,953**	**24,461**	**23,896**	**27,373**	**33,794**
EQUITY & LIABILITIES					
Total equity	3,008	4,140	4,309	5,224	11,702
Non-current liabilities	10,928	10,941	10,489	10,400	11,275
Current liabilities(1)	10,017	9,380	9,098	11,749	10,817
TOTAL EQUITY & LIABILITIES	**23,953**	**24,461**	**23,896**	**27,373**	**33,794**

Notes:

(1) The presentation of the working capital items related to construction contracts was amended from 1 January 2010 onwards. Consequently, amounts due from/due to customers on construction contracts as of 31 December 2007, 31 December 2008, 30 September 2009 and 31 December 2009 have been reclassified to other captions of the balance sheet (Inventories and work in progress, net, Trade receivables and other receivables, net, and Current liabilities) to be comparable with the new presentation in 2010.

Consolidated Cash Flows Information

(in millions of euros)	For the nine months ended 30 September 2010 (Unaudited)	For the nine months ended 30 September 2009 (Unaudited)	Last 12 months ended 30 September(1) 2010 (Unaudited)	For the year ended 31 December 2009 (Audited)	For the year ended 31 December 2008 (Audited)	For the year ended 31 December 2007 (Audited)
Net cash provided (used) by operating activities	(675)	(372)	(308)	(5)	207	(24)
Net cash provided (used) by investing activities	393	178	273	58	(726)	539
Net cash provided (used) by financing activities	(248)	(144)	(351)	(247)	(257)	(1,106)
FX impact and discontinued	180	29	235	84	86	219
Net change of cash & cash equivalent	**(350)**	**(309)**	**(151)**	**(110)**	**(690)**	**(372)**
Cash & cash equivalent opening	3,577	3,687	3,378	3,687	4,377	4,749
Cash & cash equivalent closing	3,227	3,378	3,227	3,577	3,687	4,377

Notes:

(1) Last 12 months consists of a calculation based on the financial information for the nine months ended 30 September 2010 together with the financial information for the three months ended 31 December 2009.

Other Financial Information

(in millions of euros)	For the nine months ended 30 September or at 30 September, 2010	2009	Last 12 months ended 30 September[1] 2010	For the year ended 31 December or at 31 December, 2009	2008	2007
	(Unaudited)		(Unaudited)	(Unaudited[2])	(Unaudited[2])	(Unaudited[2])
Adjusted operating income[3]	(106)	(327)	165	(56)	466	110
Depreciation and amortization of tangible and intangible assets . . .	744	728	985	969	1,241	1,456
Operating working capital net[4] . . .	890	1,165	890	949	1,618	1,591
Operating cash flow[5]	149	408	784	1,043	1,321	1,027
Free cash flow[6]	(1,137)	(869)	(964)	(696)	(694)	(866)
Finance cost	(224)	(184)	(294)	(254)	(212)	(173)
Financial debt—Gross[7]	4,686	4,763	4,686	4,755	5,095	5,048
Net debt (cash)[7]	190	(592)	190	(886)	389	(271)
EBITDA[8]	454	242	914	702	1,273	851

Notes:

(1) Last 12 months consists of a calculation based on the financial information for the nine months ended 30 September 2010 together with the financial information for the three months ended 31 December 2009.

(2) The following line items are audited figures: depreciation and amortization of tangibles and intangibles assets; operating working capital net; finance cost; financial debt-gross; and net debt (cash).

(3) Adjusted operating income is defined as income (loss) from operating activities before restructuring costs, impairment of assets, gain (loss) on disposal of consolidated entities, litigations and post-retirement benefit plan amendments, and excluding the impacts of the PPA entries in connection with the Lucent business combination.

(4) Operating working capital net as defined in the note 16 of the Unaudited Interim Condensed Financial Statements.

(5) Operating cash flow defined as: cash flow after changes in working capital and before interest/tax paid, restructuring cash outlay and pension & OPEB cash outlay.

(6) Free cash flow as the Net cash provided (used) by operating activities less capital expenditures.

(7) Financial debt—Gross and Net debt (cash) as defined in the note 19 of the Unaudited Interim Condensed Financial Statements.

(8) EBITDA (which is defined in "*the Description of the Senior Notes—Certain Definitions" as "Consolidated EBITDA*") is calculated as follows:

(in millions of euros)	For the nine months ended 30 September 2010	2009	Last 12 months ended 30 September 2010	Year ended 31 December 2009	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited[1])	(Unaudited[1])	(Unaudited[1])
Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities, litigations and post-retirement benefit plan amendments	(319)	(532)	(112)	(325)	(56)	(707)
Depreciation and amortization of tangible and intangible assets	744	728	985	969	1,241	1,456
Compensation expense for share-based payments (of which equity settled)	29	46	41	58	88	102
EBITDA	**454**	**242**	**914**	**702**	**1,273**	**851**

Notes:

(1) The following line items are audited figures: Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities, litigations and post-retirement benefit plan amendments; depreciation and amortization of tangible and intangible assets; and compensation expense for share-based payments (of which equity settled).

RISK FACTORS

You should consider carefully all of the information set out in this Offering Memorandum and in particular the information under "*Risk Factors*" prior to investing in the Senior Notes. The risks described below are not the only risks facing our Group. Also, additional risks not presently known to us or which we consider immaterial based on information currently available to us may also materially adversely affect our Group. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results could be materially adversely affected.

This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. See "*Cautionary Note About Forward-looking Statements*".

Risks related to our business

We adopted a new strategic focus in 2009 and we continue to shift our resources to support that focus. If our 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 adopted a new strategic plan as of January 1, 2009, when we initiated a strategic transformation and realignment of our operations in support of that plan. The transformation 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 global macroeconomic environment in 2009, and we expect only moderate improvement in the global economy in 2010. We expect the global telecommunications equipment and related services market to increase between 0% and 5% at constant currency in 2010, but actual market conditions could be very different from what we expect and are planning for due to the high levels of volatility and subsequent lack of visibility created by the global economic environment. 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 0% to 5% increase 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 level of inventory;

- 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 5 April 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 Credit Facility; and debt and equity market conditions generally. Given current conditions, access to the debt and equity markets may not be relied upon any 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, or 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 flow 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. Some of these customers require their suppliers to provide extended payment terms, direct loans or other forms of financial support as a condition to obtaining commercial contracts. We have provided and in the future we expect that we will 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 sought protection under the bankruptcy or reorganization laws of the applicable jurisdiction, or have experienced financial difficulties. As a result of the global recession, in 2009 we saw some increase in the number of our customers who experienced such difficulties, especially in many emerging markets where our customers were affected not only by the recession, but also by deteriorating local currencies and a lack of credit. While the global economy is improving moderately, conditions for our customers in emerging markets remains tight.

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 financial markets worldwide, interest rates, medical price increases, and changes in legal requirements. These plans are costly, and our efforts to fund or control these costs may be ineffective.

Many former and current employees and retirees of the Group in the United States participate in one or more of our major defined benefit plans that provide post-retirement pension, healthcare, and group life benefits.

Volatility in discount rates and asset values will affect the funded status of our pension plans.

As required for funding purposes, we use one of the corporate bond-based yield curves issued by the U.S. Internal Revenue Service (the ***IRS***) in order to determine the discount rate, which directly impacts our funding obligation. The yield curve that we choose may significantly affect the size of our benefit obligation. The IRS also provides a number of methods to use to measure plan assets, which may materially affect the value of the assets used in the funding valuation. We are not required to select a discount rate or asset measurement method to measure our 2010 funding obligation until 15 October 2011; but once we choose these methodologies, with a few exceptions, we will be required to use them (for future funding valuations) until we request a change that is approved by the IRS. Our preliminary assessment of our pension plans suggests that no funding contribution will be required through 2011. While the array of available funding methodologies may have a material impact on the funded status of our plans, we cannot give any assurances that the asset valuation and discount rate methodologies selected for the 2010 funding valuation will not result in required contributions after 2011.

Pension and postretirement health plan participants may live longer than has been assumed.

For pension funding purposes, we use the mortality table issued by the IRS which includes fifteen years of projected improvements in life span for active and former employees not yet receiving pension payments, and seven years for retiree receiving payments. This table determines the period of time over which we assume that benefit payments will be made. The longer the period, the larger the benefit obligation and the amount of assets required to cover that obligation. For our retiree healthcare plans, we use the specific mortality experienced by plan participants consistent with our practice for all our benefit obligations determined under accounting standards. As with pension benefits, longer lives of our participants would likely increase our retiree healthcare benefit obligation. We cannot be certain that the longevity of our participants in our retiree healthcare plans or pension plans will not exceed that indicated by the mortality table we currently use, or that future updates to these tables will not reflect materially longer life expectancies.

We may not be able to fund the healthcare costs of our formerly represented retirees with excess pension assets in accordance with Section 420 of the U.S. Internal Revenue Code.

We expect to fund our current healthcare costs for retirees who were represented by the Communications Workers of America and the International Brotherhood of Electrical Workers with transfers of excess pension assets from our Occupational—inactive pension plan in which these retirees are participants. Excess assets are defined by Section 420 as being those assets in excess of either 120% or 125% of the plan's funding obligation, depending on the type of transfer selected. Excess assets are a function of the funded status of the specific plan involved. The provisions of Section 420 expire on 31 December 2013; however, Section 420 has been extended by Congress three times in the past. We can make no assurances that the Section 420 provisions of the IRC will be extended beyond 31 December 2013. Further, we can make no assurances that sufficient excess assets will be available for future transfers to cover all future healthcare costs beyond 2013 for these specific retirees.

Healthcare cost increases and an increase use in services may significantly increase our retiree healthcare costs.

Our current healthcare plans cap the subsidy we provide to those persons who retired after February 1990 and all future retirees, representing almost half of the retiree healthcare obligation, on a per capita basis. We may take steps in the future to reduce the overall cost of our current retiree healthcare plans, and the share of the cost borne by us, consistent with legal requirements and any collective bargaining obligations. However, cost increases may exceed our ability to reduce these costs. In addition, the reduction or elimination of U.S. retiree healthcare benefits by us has led to lawsuits against us. Any initiatives we undertake to control these 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 30 September 2010. 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.

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.

We depend on a limited number of internal and external manufacturing organizations, distribution centers, suppliers and service providers. Their failure to deliver or to perform according to our requirements may adversely affect our ability to deliver our products, services and solutions on-time, and in sufficient volumes while meeting our quality, safety or security standards.

Our Global Supply Chain is a complex network of internal and external organizations responsible for the supply, manufacture, logistics and implementation of advanced telecommunications solutions and services anywhere in the world. Failure by any of our suppliers, including contract manufacturers, to supply materials, components, subassemblies, finished goods and software could significantly impact our ability to satisfy our customer commitments. We are significantly dependent on our logistics network to efficiently and effectively move materials and products across global boundaries. Accordingly, we are vulnerable to abrupt changes in customs, tax and currency regulations that may have significant negative impact on our supply chain. Strikes, boycotts and the lack of appropriately skilled resources within our organization or at our contract manufacturers would put at risk our ability to satisfy our customer commitments.

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 we cannot assure you 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 regulations or technical standards 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 43% of our revenues for the nine month period ended 30 September 2010, and most of our revenues come from telecommunication 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 43% of our revenues for the nine-month period ended 30 September 2010. 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 fixed 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 telecommunication services provider industry makes us extremely vulnerable to a downturn in spending in that industry, like the one that took place in 2009. We believe some service providers are planning additional cuts in their 2010 capital expenditure budgets despite the expected improvement in the global economic environment, 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 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 earned 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 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 Note 22 to the Unaudited Interim Condensed Financial Statements. 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 Co., Ltd, has this type of requirement. We own 50% plus one share of Alcatel Lucent Shanghai Bell Co., Ltd, 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.

Risks related to the Senior Notes

Covenants in the indenture governing the Senior Notes may restrict our ability to pursue our business strategies.

The indenture governing the Senior Notes will limit our ability among other things, to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem our stock;
- make investments;
- sell assets, including capital stock of restricted subsidiaries;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- incur liens.

Our ability to comply with these covenants and restrictions may be affected by events beyond our control. If we breach any of these covenants or restrictions, we could be in default under the Senior Notes which could in turn constitute a default under other of our indebtedness including without limitation, the Revolving Credit Facility. If any debt under the Revolving Credit Facility, the Senior Notes or any other material financing arrangement that we enter into were to be accelerated our assets may be insufficient to repay in full the Senior Notes and our other indebtedness.

Our substantial level of indebtedness could materially and adversely affect our ability to fulfil our obligations under our debt agreements, our ability to react to changes and our ability to incur additional debt to fund future needs.

As of 30 September 2010, we had total financial debt of €4,686 million. For details on our total financial debt as of 30 September 2010, please refer to our Unaudited Interim Condensed Financial Statements.

Our debt levels may have important consequences which could include:

- making it more difficult for us to satisfy our obligations, including our obligations under the Senior Notes;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for working capital, capital expenditures, acquisitions, research and development and other purposes;
- increasing our vulnerability to adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; and
- limiting our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, research and development and other purposes.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur more debt, which could further exacerbate the risks associated with our leverage.

We and our subsidiaries may be able to incur additional indebtedness in the future. Neither the terms of the indenture governing the Senior Notes nor our Revolving Credit Facility prohibits us or our subsidiaries from incurring more indebtedness. If new debt is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify. See "*Description of Other Indebtedness*".

Our structure as a holding company could adversely affect our ability to meet our obligations under our Senior Notes.

Alcatel Lucent is a holding company without direct business operations and with limited sources of income and assets, other than the shares of its subsidiaries. The Senior Notes are the obligations of Alcatel Lucent exclusively. Our subsidiaries will not initially guarantee the payment of principal or of interest on the Senior Notes, and except for certain circumstances where certain of subsidiaries may be required to guarantee the Senior Notes, the Senior Notes will be structurally subordinated to the obligations of our subsidiaries as a result of our being structured as a holding company. See "*Description of the Senior Notes—Certain Covenants—Limitation on Senior Indebtedness and Issuances of Guarantees of Indebtedness*". In the event of insolvency, liquidation or other reorganization of any of our subsidiaries that are not guarantors, our creditors (including the holders of the Senior Notes) will not have any right to proceed against the assets of such subsidiary or to cause the liquidation or bankruptcy of such subsidiary under applicable bankruptcy laws. Creditors of such subsidiaries would be entitled to payment in full from their respective assets before we would be entitled to receive any distribution from such assets. Except to the extent that Alcatel Lucent may itself be a creditor with recognized claims against such subsidiary, claims of creditors of that subsidiary will have priority with respect to the assets and earnings of that subsidiary over the claims of Alcatel Lucent's creditors, including claims under the Senior Notes. As of 30 September 2010, our subsidiaries had €2,367 million of gross financial debt to third parties. Our subsidiaries are also subject to liabilities to other creditors as a result of obligations incurred in the ordinary course of business, which liabilities are also effectively senior to the Senior Notes.

Dividends we received from our subsidiaries amounted to €16 million in the year ended 31 December 2009. In addition, we financed the activities of our subsidiaries through capital contributions of €46 million in the year ended 31 December 2009. However, our subsidiaries are distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Senior Notes or to make any funds available therefore, whether by dividends, interest, loans, advances or other payments. Although we have the power to control decisions to pay dividends in the subsidiaries in which we are the majority owner, the payment of dividends and the making of loans, advances and other payments to us by our subsidiaries may be subject to statutory or contractual restrictions, are contingent upon the earnings of our subsidiaries and are subject to various business and other considerations. Such limitations include financial assistance rules, corporate benefit laws and other legal restrictions that, if violated, might require the recipient to refund unlawful payments. In particular, under company law (including the French Civil Code (*Code civil*) and the French Commercial Code (*Code de commerce*) and similar laws in other jurisdictions) our subsidiaries are generally prohibited from paying dividends except out of profits legally available for distribution.

Your right to receive payments on the Senior Notes could be adversely affected if any of our subsidiaries declares bankruptcy, liquidate, or reorganise.

If a limitation or reorganisation of any of our subsidiaries occurs, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Issuer.

We may not have the ability to raise the funds necessary to finance the change of control offer required under the terms of the Senior Notes and we may enter into certain transactions that would not constitute a Change of Control under the terms of the Senior Notes but would increase the amount of our outstanding indebtedness or otherwise affect the holders of the Senior Notes.

If specific events occur that fall within the definition of a Change of Control under the terms of the Senior Notes, we are required to make an offer to purchase all outstanding Senior Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest and additional amounts, if any, on the Senior Notes. However, it is possible that we will not have sufficient funds at the time of the Change of Control to make the required repurchase of Senior Notes. In addition, we could enter into various transactions, including acquisitions, refinancing, recapitalizations or other highly leveraged transactions that do not constitute a Change of Control but could nevertheless increase the amount of our outstanding indebtedness or otherwise affect our capital structure, credit ratings or the holders of the Senior Notes. In such case, we would not be required to make an offer to the holders of the Senior Notes to purchase their Senior Notes.

There may be no public or active trading market for the Senior Notes.

The Senior Notes are new securities for which there is currently no existing market. Although we have made an application to list the Senior Notes on the Official List of the Luxembourg Stock Exchange and admit them to trading on the Euro MTF Market of the Luxembourg Stock Exchange, we cannot assure you that the Senior Notes will become or will remain listed and admitted to trading. Although the initial purchasers have informed us that they currently intend to make a market in the Senior Notes, they are not obligated to do so. If they do make a market for the Senior Notes, they may discontinue their market-making activities at any time without notice. Accordingly, we cannot assure you that an active trading market in the Senior Notes will develop or be maintained. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Senior Notes. Market fluctuations, as well as economic conditions, have adversely affected the market price of many securities. We cannot assure you that these conditions will not adversely affect the market price of the Senior Notes.

We also cannot assure you that you will be able to sell your Senior Notes at a particular time or that the prices that you receive when you sell will be favorable. We also cannot assure you as to the level of liquidity of the trading market for the Senior Notes. Future trading prices of the Senior Notes will depend on many factors, including:

- our operating performance, prospects and financial condition or the operating performance, prospects and financial condition of the companies in our industry generally;
- the interest of securities dealers in making a market for the Senior Notes;
- prevailing interest rates; and
- the market for similar securities.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused volatility in prices.

Certain considerations relating to book-entry interests.

Unless and until Senior Notes in definitive registered form, or definitive registered notes, are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of Senior Notes.

The common depositary for Euroclear and Clearstream (or its nominee) will be the sole holder of the global notes in registered form representing the euro-denominated notes. After payment to the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear or Clearstream, as applicable, and if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the indenture governing the Senior Notes. See "*Form, Clearance and Settlement*".

Unlike the holders of the Senior Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Senior Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and/or Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions on a timely basis.

Similarly, upon the occurrence of an event of default under the indenture governing the Senior Notes, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and/or Clearstream. We cannot assure you that the procedures to be implemented through Euroclear and/or Clearstream will be adequate to ensure the timely exercise of rights under the Senior Notes. See "*Form, Clearance and Settlement*".

Purchase of the Senior Notes may have tax implications dependent on the jurisdiction of the purchaser.

Potential purchasers and sellers of the Senior Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Senior Notes are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for financial instruments such as the Senior Notes. The tax impact on an individual holder of the Senior Notes may differ from the situation described for holders of the Senior Notes generally. Potential investors are advised not to rely upon the tax summary contained in this Offering Memorandum but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Senior Notes. Only these advisors are in a position to duly consider the specific situation of the potential investor. This investment consideration has to be read in connection with the taxation section of this Offering Memorandum.

The EU Savings Directive may have tax implications for purchases within Member States.

The EU has adopted a Directive (EC Council Directive 2003/48/EC) regarding the taxation of savings income (the ***Savings Directive***). The Savings Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within their jurisdiction to an individual resident in another Member State or to certain limited types of entities established in that other Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the Commission's advice on the need for changes to the Savings Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, the Issuer would not be obliged to pay additional amounts with respect to any Senior Note as a result of the imposition of such withholding tax.

French insolvency laws may not be as favorable to you as the insolvency laws of the United States or other countries.

We conduct a part of our business activity in France and, to the extent that the centre of our main interests is deemed to be in France, we would be subject to French insolvency proceedings affecting creditors, including Court assisted amicable proceedings (*mandat ad hoc* or *conciliation* proceedings) and Court-controlled insolvency proceedings (safeguard (*sauvegarde*), reorganisation or liquidation proceedings (*redressement ou liquidation judiciaire*)). In general, French insolvency legislation tends to favor the continuation of a business and protection of employment over the payment of creditors and could limit your ability to enforce your rights under the Senior Notes. The following is a general discussion of insolvency proceedings governed by French law for informational purposes only and does not address all the French legal considerations that may be relevant to holders of the Senior Notes.

Grace periods

In addition to insolvency laws discussed below, you could, like any other creditors, be subject to Article 1244-1 of the French Civil Code (*Code civil*).

Pursuant to the provisions of this article, French courts may, in any civil proceeding involving the debtor company, defer or otherwise reschedule over a maximum period of two years the payment dates of payment obligations and decide that any amounts, the payment date of which is thus deferred or rescheduled, will bear interest at a rate that is lower than the contractual rate (but not lower than the legal rate) or that payments made shall first be allocated to repayment of principal. A Court order made under Article 1244-1 of the French Civil Code will suspend any pending enforcement measures, and any contractual interest or penalty for late payment will not accrue or be due during the period ordered by Court.

Court-assisted amicable proceedings and Court-controlled insolvency proceedings

Under French law, a company is considered to be insolvent (*cessation de paiements*) when it is unable to pay its debts when they fall due with its available assets (taking into account available credit lines and existing rescheduling agreements).

French law distinguishes between:

- *mandat ad hoc* and *conciliation* proceedings which are informal and confidential proceedings, where the debtor company voluntarily seeks the help of a Commercial Court-appointed officer to negotiate an agreement with all or part of its creditors with a view to restructuring its indebtedness or, more generally, put an end to its difficulties; and
- Court-controlled proceedings, where payments by the debtor company and legal actions by the creditors are suspended upon the opening of the proceedings. Within this second category, French law further distinguishes between:
  - proceedings available to debtor companies that are facing difficulties they cannot overcome but that are not insolvent: safeguard proceedings; and
  - proper insolvency proceedings: judicial reorganisation or liquidation proceedings.

Court-assisted amicable proceedings—Mandat ad hoc and conciliation

French law does not provide for any specific rule in respect of *mandat ad hoc*. In practice, *mandat ad hoc* proceedings are used by debtor companies that are facing difficulties of an economic or financial nature but that are not in insolvent according to the French test of illiquidity. *Mandat ad hoc* is fully confidential and not limited in time. The agreement reached by the parties (if any) with the help of the Court-appointed officer (*mandataire ad hoc*) is reported by the latter to the Court but is not sanctioned by the Court.

Conciliation proceedings are available to debtor companies that face actual or foreseeable difficulties of a legal, economic or financial nature and that are not insolvent or have not been insolvent for more than 45 days. The debtor company's management petitions the Presiding judge of the Commercial Court for the appointment of a conciliator in charge of assisting the debtor company in negotiating with all or part of its creditors and/or trade partners an agreement providing for the restructuring of its indebtedness. *Conciliation* proceedings are confidential and may last up to five months. During the proceedings, creditors may continue to sue individually for payment of their claims but the debtor company retains the right to petition for debt rescheduling pursuant to

Article 1244-1 of the French Civil Code (as discussed above). Upon its execution, the agreement reached by the parties becomes binding upon them. In addition, without such formalities being an obligation on the parties, the agreement can be either:

- upon all parties' request, acknowledged (*constaté*) by the Presiding judge of the Commercial Court, thereby giving it the enforceability of a judgement whilst keeping it confidential; or
- upon the debtor company's request, approved (*homologué*) by the Commercial Court if (i) the debtor company is not insolvent at the time or if the rescheduling agreement has the effect of putting an end to the debtor company's insolvency, (ii) if the rescheduling agreement effectively ensures that the company will survive as a going concern, and (iii) the agreement is not violating the interest of the non signatory creditors; the judgment does not make public the terms of the agreement but discloses the guarantees and priorities (*privilèges*) granted to the creditors.

While the agreement (whether acknowledged, approved or not) is being implemented, any individual proceedings by creditors with respect to the claims included in the agreement are suspended. If the agreement is approved by the Commercial Court, funds made available to the debtor company pursuant to the agreement (otherwise than through subscribing to a share capital increase) will benefit from a lien taking priority over most other claims in the event of subsequent safeguard, reorganisation or liquidation proceedings.

Court-administered proceedings—safeguard, reorganisation and liquidation proceedings

Court-administered proceedings may be initiated:

- in the event of safeguard proceedings, upon petition by the debtor company only; and
- in the event of reorganisation or liquidation proceedings, upon petition by the debtor company, any creditor or the public prosecutor, or on the Court's own motion.

The debtor company may file for safeguard proceedings at any time it is facing difficulties that it cannot overcome, as long as it is not insolvent. It is required to petition for the opening of reorganisation proceedings (if recovery is possible) or liquidation proceedings (if recovery is manifestly not possible) within 45 days of becoming insolvent. If it fails to do so, its directors and officers are subject to civil liability.

The period from the date of the Court decision commencing the proceedings (whether safeguard or reorganisation proceedings) to the date on which the Court takes a decision on the outcome of the proceedings is called the observation period and may last up to 18 months. During the observation period, a Court-appointed judicial administrator (*administrateur judiciaire*), whose name can be suggested by the debtor company, investigates the business of the company. In safeguard proceedings, the judicial administrator's mission is limited to either supervising the debtor company's management or assisting in the day-to-day management. In addition, the judicial administrator will assist the management in preparing a safeguard plan for the company. In reorganisation proceedings, the judicial administrator's mission is usually to assist the management and to make proposals for the reorganisation of the company.

At the end of the observation period, if it considers that the company can survive as a going concern, the Court will adopt a safeguard or reorganisation plan which will entail a restructuring and/or rescheduling of debts and may entail the divestiture of some of the debtor company's assets and businesses (a sale of the entire business is not possible in a safeguard plan). At any time during safeguard proceedings, the Court may convert such proceedings into reorganisation proceedings (i) upon its own motion, if the debtor company becomes insolvent, or (ii) at the debtor company's request, if the approval of a safeguard plan is manifestly impossible and if the company would become insolvent should safeguard proceedings be closed. At any time during safeguard or reorganisation proceedings, the Court may convert such proceedings into liquidation proceedings if recovery of the debtor company is manifestly impossible.

Creditors' committees and approval of the safeguard or reorganisation plan

During the observation period, in the case of large companies (with more than 150 employees or turnover greater than €20 million), two creditors' committees (one for credit institutions having a claim against the debtor company and the other for suppliers having a claim that represents more than 3% of the total amount of the claims of all the debtor company's suppliers) are set up. To be eligible to vote, suppliers must have their claims set forth in the list provided by the debtor company to the administrator as certified by the debtor company's statutory auditor.

If there are any outstanding debt securities in the form of *obligations* (such as bonds or notes), a general meeting gathering all holders of such debt securities will be established whether or not there are different issuances and no matter what the applicable law of those *obligations* is (the ***bondholders' general assembly***). The Senior Notes constitute *obligations* for purposes of safeguard or reorganisation proceedings.

These two committees and the bondholders' general assembly will be consulted on the safeguard or reorganisation plan drafted by the debtor company's management during the observation period.

In the first instance, the plan must be approved by each of the two creditors' committees. Such approval requires the affirmative vote of creditors holding at least two-thirds of the amounts of the claims held by the members of such committee who voted.

Following the approval of the plan by the two creditors' committees, the plan will be submitted for approval to the bondholders' general meeting. The approval of the plan at such meeting requires the affirmative vote of bondholders representing at least two-thirds of the claims held by bondholders who voted in the bondholders' general meeting.

Following approval by the creditors' committees and the bondholders' general meeting, the plan has to be approved (*arrêté*) by the Court. In considering such approval, the court has to verify that the interests of all creditors are sufficiently protected. Once approved by the relevant Court, the safeguard or reorganisation plan accepted by the committees and the bondholders' general meeting will be binding on all the members of the committees and all bondholders (including those who voted against the adoption of the plan). A safeguard or reorganisation plan may include debt rescheduling, debt write-offs as well as debt-to-equity swaps.

In the event any of the committees or the bondholders' general meeting has refused to give its consent to the plan, the plan will not be approved by the Court and the procedure relating to the consultation of the creditors on an individual basis will be re-implemented. In those circumstances, the Court has the right to impose unilateral debt deferrals for a maximum period of 10 years, but the Court may not impose debt write-offs. The same rule applies in respect to creditors who are not members of the committees and who have not consented to the plan as adopted by the two committees and the bondholders' general meeting.

Status of creditors during safeguard, reorganisation or liquidation proceedings

Notwithstanding any contractual provision to the contrary, existing agreements to which the company is a party may not be cancelled, rescinded, terminated or accelerated solely as a result of the opening of safeguard proceedings. As a consequence, events of default based on the commencement of safeguard proceedings are not enforceable.

The judicial administrator has the power to terminate an ongoing contract after receiving a formal notice from the contracting party requesting him to indicate whether he intends to continue the contract. The contract terminates upon notification of the judicial administrator's decision to the contracting party or, failing any response, within 30 days after receipt of the formal notice. The judicial administrator also has the option of requesting that the supervisory judge of the insolvency proceedings terminates the agreement if the termination is necessary for the continuation of the company's business and does not excessively prejudice the other party's rights.

The judicial administrator continues ongoing contracts only where he believes that the company is in a position to perform its obligations thereunder. Any agreement not terminated by the judicial administrator, and not terminated prior to the opening of the insolvency proceedings, continues in accordance with its terms.

In addition, during the observation period:

- accrual of interest is suspended (except in respect of loans providing for a term of at least one year, or contracts providing for a payment which is differed by at least one year);
- the debtor company is prohibited from paying debts contracted prior to the date of the Court decision commencing the insolvency proceedings, subject to specified exceptions which essentially cover the set-off of related (*connexes*) debts and payments authorised by the supervisory judge of the insolvency proceedings to recover assets for which recovery is justified by the continued operation of the business; and

- creditors may not pursue any individual legal action against the debtor company (or a guarantor of the debtor company provided such guarantor is an individual) with respect to any claim arising prior to the Court decision commencing the insolvency proceedings if the objective of such legal action is:
  - to obtain an order for payment of a sum of money by the debtor company to the creditor (however, the creditor may require that a Court determine the amount due);
  - to terminate a contract for non-payment of amounts owed by the debtor company to the creditor; or
  - to enforce the creditor's rights against any assets of the debtor company.

As a general rule, creditors domiciled in France whose debts arose prior to the commencement of proceedings must file a claim with the Court-appointed creditors' representative (*mandataire judiciaire*) within two months of the publication of the Court decision in the *Bulletin Officiel des annonces civiles et commerciales*; this period is extended to four months for creditors domiciled outside France. Creditors who have not submitted their claims during the relevant period are, except with respect to very limited exceptions, barred from receiving distributions made in connection with the proceedings. Employees are not subject to limitations and are preferential creditors under French law.

If the Court adopts a safeguard plan or reorganisation plan, claims of creditors included in the plan will be paid according to the terms of the plan. The Court can also set a time period during which the assets that it deems to be essential to the continued business of the debtor company may not be sold without its consent.

In reorganisation proceedings, if the Court adopts a plan for the sale of the debtor company's business (*plan de cession*), the proceeds of the sale will be allocated for the repayment of the creditors according to the ranking of the claims. If the Court decides to order the liquidation proceedings of the debtor company, the Court will appoint a liquidator in charge of selling the assets of the company and settling the relevant debts in accordance with their ranking.

French insolvency law assigns priority to the payment of certain preferential creditors, including employees, officials appointed by the insolvency Court, creditors who, as part of the sanctioned *conciliation* agreement, have provided new money or goods or services, post-petition creditors, certain secured creditors essentially in the event of liquidation proceedings and the French State (taxes and social charges).

Filing of claim made by a trustee

In a recent court decision (Court of Appeal of Dijon, 21 September 2010), a filing of claim made by a trustee-appointed under an indenture governed by the laws of New York and being expressly in charge of the filing of any claim arising under the said indenture before a Court-has been admitted in the context of safeguard proceedings. In the absence of legal provisions in France recognising the rights of trustees, the said decision constitutes a landmark case. Nevertheless, the impact of the decision remains uncertain as, to our knowledge, this decision has been brought before the *Cour de cassation* (French Supreme Court) which could overrule the Court of Appeal's decision.

The "suspect period" in reorganisation and liquidation proceedings

The Court determines the date on which the debtor company is deemed to have become insolvent. It can be any date within 18 months preceding the date of the opening of the proceedings. This marks the beginning of the "suspect period" (*période suspecte*). Certain transactions entered into or payments made by the debtor company during the suspect period are automatically void or voidable by the Court.

Automatically void transactions include transactions or payments entered into during the suspect period that may constitute voluntary preferences for the benefit of some creditors to the detriment of other creditors. These include transfers of assets for no, or nominal, consideration, contracts under which the reciprocal obligations of the debtor company significantly exceed those of the other party, payments of debts not due at the time of payment, payments made in a manner which is not commonly used in the ordinary course of business and security granted for debts previously incurred and provisional measures, unless the right of attachment or seizure predates the date of insolvency.

Transactions that may be set aside by the Court include payments made on accrued debts, transfers of assets for consideration and notices of attachments made to third parties (*avis à tiers détenteur*), seizures (*saisie-attribution*) and oppositions made during the suspect period, if the Court determines that the creditor knew of the insolvency of the debtor company.

New "accelerated financial safeguard" proceeding (*procédure de sauvegarde financière accélérée*)

On 22 October 2010, the law on banking and financial regulation (*Loi de régulation bancaire et financière*) introduced a new "accelerated financial safeguard" proceeding in France. This new accelerated financial safeguard proceeding will be applicable only to the *conciliation* proceedings opened from 1 March 2011.

The main features of the accelerated financial safeguard proceedings are the following:

- such proceedings may be opened at the request of the debtor company alone;
- the debtor company requesting the opening of such proceedings must: already be subject to an on-going conciliation proceedings, be a large company (with more than 150 employees or turnover greater than €20 million) and bring evidence of having drafted a plan aiming at ensuring the durability of its business and likely to be supported by a large part of its financial creditors (i.e. credit institutions, bond holders) in order to make plausible its adoption within 1 month;
- such proceedings only affects creditors which are part of the creditors' committees (other creditors such as suppliers are not affected by the opening of such proceedings);
- the time period at the end of which the creditors' committees must vote on the draft plan is reduced (minimum of 8 days instead of 15 days for "standard" safeguard proceedings); and
- the Commercial Court must approve the plan within one month from the commencement of the safeguard proceedings (the Court may decide to take another month to approve the plan).

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this Offering Memorandum and the documents incorporated by reference contain forward looking statements that are not historical facts but statements of future expectations and other forward-looking statements. Forward-looking statements can be identified by the use of forward looking terminology such as “believe”, “expect”, “may”, “is expected to”, “will”, “will continue”, “should”, “would be”, “seeks”, “intends”, “plans”, “estimates” or “anticipates” or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. These statements are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those anticipated by such statements. We caution readers not to place undue influence on these statements, which speak only as of the date of this Offering Memorandum. Factors that could cause such differences in actual results include:

- the seasonality of certain of our businesses;
- the competitiveness of certain of our markets;
- changes in interest rates and currency exchange rates in currencies other than the euro, principally in U.S. dollars and U.S. dollar-influenced currencies;
- potential environmental and health & safety claims, costs, liabilities and other obligations, including in connection with developing legal requirements and former businesses;
- general competitive and market factors on a global, regional and /or national basis;
- changes in tax regimes;
- potential regulatory action from competition authorities;
- potential liabilities arising out of non-compliance with commitments to our suppliers and clients;
- credit and counterparty risks;
- risks associated with our joint ventures;
- failure to adequately protect our intellectual property;
- litigation that we are involved in;
- liabilities arising out of representations and warranties given to purchasers of the business we divested and hidden liabilities in businesses we acquired;
- failures in our internal controls;
- any impairment or tampering with our information systems;
- our substantial level of indebtedness; and
- our liabilities with respect to retirement and related benefits.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Memorandum might not occur. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements included in this Offering Memorandum, including those described in the “*Risk Factors*” section of this Offering Memorandum.

USE OF PROCEEDS

The net proceeds from the sale of the Senior Notes will be approximately €480 million (after deducting transaction fees and professional and other expenses). All of such net proceeds will be applied in order to partially refinance the 4.75% convertible/exchangeable bonds due on 1 January 2011 on or before the maturity date of such bonds.

CAPITALIZATION

The following table sets forth our capitalization as of 30 September 2010 as derived from our unaudited condensed interim consolidated financial statements as of and for the nine month period ended 30 September 2010, representing the book value in euros of our various facilities and securities. The figures shown are as adjusted to give effect to the use of proceeds from the offering of the Senior Notes and the issuance of the floating rate bonds due 2011 and 2012 (extendable to 2016) in October 2010. You should read the table below in conjunction with the information contained elsewhere in this Offering Memorandum, particularly under the headings "*Summary—Summary Corporate and Financing Structure*", "*Use of Proceeds*", "*Recent Developments*", and "*Description of Other Indebtedness*".

	As of 30 September 2010	
(in millions of euros)	**Actual**	**As Adjusted**
Cash & cash equivalents & marketable securities	**4,424**	**4,424**
Derivative interest rate instruments and loan to joint venturer included in Net cash (debt)	72	72
Revolving credit facility maturing 2012-2013	—	—
Senior Notes Offered hereby	—	480
Alcatel Lucent 4.75% convertible/exchangeable bonds due 2011	817	242[(1)]
Alcatel Lucent 6.375% bonds due 2014	490	490
Alcatel Lucent 5% convertible/exchangeable bonds due 2015	814	814
Alcatel Lucent USA 7.75% convertible trust preferred securities due 2017	615	615
Alcatel Lucent USA 2.875% convertible bonds due 2023	46	46
Alcatel Lucent USA 2.875% convertible bonds due 2025	409	409
Alcatel Lucent USA 6.5% bonds due 2028	200	200
Alcatel Lucent USA 6.45% bonds due 2029	905	905
Floating rate bonds due 2011 (extendable 2016)	96	96
Floating rate bonds due 2011 and 2012 (extendable 2016)	—	95
Bank loans, overdrafts and other financial debt	85	85
Finance lease obligations	46	46
Other debt and accrued interest	163	163
TOTAL FINANCIAL DEBT (A)	**4,686**	**4,686**
Equity attributable to equity owners of Alcatel Lucent	2,377	2,377
Non controlling interests	631	631
TOTAL EQUITY (B)	**3,008**	**3,008**
TOTAL CAPITALIZATION (A) + (B)	**7,694**	**7,694**

Note:

(1) Taking into account the application, on or before the maturity date of these bonds (1 January 2011), of all of the net proceeds from the sale of the Senior Notes and the floating rate bonds due 2011 and 2012 (extendable to 2016) issued in October 2010 to partially refinance these bonds.

DESCRIPTION OF OTHER INDEBTEDNESS

Alcatel Lucent

Revolving Credit Facility

On 5 April 2007, Alcatel Lucent entered into a €1,400 million multi-currency syndicated revolving credit facility maturing on 5 April 2012 with a limited number of lending banks (the ***Revolving Credit Facility***). In accordance with the terms of the Revolving Credit Facility, €837 million of availability under the Revolving Credit Facility has been extended until 5 April 2013, with the remaining amount maturing on 5 April 2012. As of 30 September 2010, the Revolving Credit Facility remains undrawn.

The interest rate applied to the borrowed sums is the aggregate of Euribor or Libor (according to the currency of the borrowing), the applicable margin and mandatory costs (if any) associated to regulatory requirements in relation to any advance. The applicable margin is set for all the life of the Revolving Credit Facility and depends on the credit ratings assigned by Moody's and S&P at the time of each drawing. A utilisation fee is also due when the line is drawn and, when the line is undrawn, a commitment fee is due on a quarterly basis.

Our ability to draw on this facility is conditioned upon our compliance with a financial covenant linked to the capacity of Alcatel Lucent to generate sufficient cash to repay its net debt. Since the Revolving Credit Facility was established and including as at 30 September 2010, we have complied with this financial covenant. The Revolving Credit Facility has not been guaranteed by Alcatel Lucent USA Inc. or any other entity within the Group.

Convertible/exchangeable bonds

Alcatel Lucent has issued the following convertible and/or exchangeable bonds:

- On 10 September 2009, Alcatel Lucent issued 309,597,523 bonds having a nominal value of €3.23 each, convertible/exchangeable into new or existing ordinary shares (OCEANE) for a total value of €1,000 million. These bonds mature on 1 January 2015 and bear interest at a rate of 5.00% per annum. As at 30 September 2010, the principal amount outstanding was €1,000 million, the equity component was €186 million and the book value of the debt component was €814 million (see Note 17 of the Unaudited Interim Condensed Financial Statements).

  The bondholders may request that the bonds be converted and/or exchanged into new or existing ordinary shares at any time after 20 October 2009 and until the seventh business day preceding the maturity date or the relevant early redemption date. Moreover, these bonds have a buy-back option that we can exercise in the period from 1 January 2014 until the maturity date of the bonds, if the quoted price of the shares exceeds 130% of the par value of the bonds.

  The bonds have not been guaranteed by Alcatel Lucent USA Inc. or any other entity within the Group.

- On 12 June 2003, Alcatel Lucent issued 63,192,019 convertible/exchangeable bonds having a nominal value of €16.18 each, convertible/exchangeable into new or existing ordinary shares (OCEANE) for a total value of €1,022 million. These bonds mature on January 1, 2011 and bear an annual interest rate of 4.75%. As at 30 September 2010, the principal amount outstanding was €818 million, the equity component was €6 million and the book value of the debt component was €817 million (see Note 17 of the Unaudited Interim Condensed Financial Statements).

  These bonds have a buy-back option that we can exercise until 31 December 2010. These securities benefit from an unsecured and subordinated guarantee from Alcatel Lucent USA Inc. which is *pari passu* with its other general unsecured obligations, other than those that expressly provide that they are senior to the guarantee obligations.

Fixed rate notes

Alcatel Lucent has issued the following fixed rate bond:

- On 7 April 2004, Alcatel Lucent issued €462 million aggregate principal amount of 6.375% notes due 2014 (the ***2014 Bonds***). As at 30 September 2010, the principal amount outstanding was €462 million and the book value was €490 million. These securities benefit from an unsecured and subordinated guarantee from Alcatel Lucent USA Inc. which is *pari passu* with its other general unsecured obligations, other than those that expressly provide that they are senior to the guarantee obligations.

Floating rate notes

Alcatel Lucent has issued the following floating rate bonds:

- In July 2010, Alcatel Lucent issued €100 million aggregate principal amount of notes due 2011. The notes bear interest at a floating rate and mature on February 2011 for a nominal amount of €25 million, May 2011 for a nominal amount of €50 million and August 2011 for a nominal amount €25 million. Alcatel Lucent may exercise an option to extend the maturity dates until February 2016 for a nominal amount of €25 million, May 2016 for a nominal amount of €50 million and August 2016 for a nominal amount of €25 million, respectively. As at 30 September 2010, the principal amount outstanding was €100 million and the book value was €96 million. The bonds have not been guaranteed by Alcatel Lucent USA. Inc or any other entity within the Group.
- In October 2010, Alcatel Lucent issued €100 million aggregate principal amount of notes due 2011-2012. The notes bear interest at a floating rate and mature in August 2011 for a nominal amount of €25 million, November 2011 for a nominal amount of €50 million and February 2012 for a nominal amount €25 million. Alcatel Lucent may exercise an option to extend the maturity dates until August 2016 for a nominal amount of €25 million, November 2016 for a nominal amount of €50 million and February 2016 for a nominal amount of €25 million, respectively. At issuance, the principal amount outstanding was €100 million and the book value was €95 million. The bonds have not been guaranteed by Alcatel Lucent USA Inc. or any other entity within the Group.

Alcatel Lucent USA Inc.

Convertible bonds

Alcatel Lucent USA Inc. has issued the following convertible bonds:

- On 4 June 2003, Alcatel Lucent USA Inc. issued US$750 million aggregate principal amount of 2.75% Series A convertible bonds due 2023. On 29 December 2006, Alcatel Lucent issued a full and unconditional guarantee of these bonds and amended the terms of the bonds in a consent solicitation which included changing the interest rate to 2.875%. The guarantee 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 guarantee obligations. These bonds contain a put option exercisable 15 June 2015 and 15 June 2020. These bonds are callable at any time. The conversion price is US$16.75 per American Depositary Share (***ADS***) as of 30 September 2010.

  As at 30 September 2010, the principal amount outstanding was US$95 million, the equity component was €25 million and the book value of the debt component was €46 million (see Note 17 of the Unaudited Interim Condensed Financial Statements).
- On 4 June 2003, Alcatel Lucent USA Inc. issued US$775 million aggregate principal amount of 2.75% Series B convertible bonds due 2025. On 9 June 2003 the overallotment option was exercised by the underwriters to US$105.5 million, bringing the total outstanding amount to US$881 million. On 29 December 2006, Alcatel Lucent issued a full and unconditional guarantee of these debentures and amended the terms of the bonds in a consent solicitation which included changing the interest rate to 2.875%. The guarantee 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 guarantee obligations. These bonds contain a put option exercisable 15 June 2013 and 15 June 2019. These bonds are callable any time after 19 June 2013. The conversion price is US$15.35 per ADS as of 30 September 2010.

  As at 30 September 2010, the principal amount outstanding was US$881 million, the equity component was €260 million and the book value of the debt component was €409 million (see Note 17 of the Unaudited Interim Condensed Financial Statements).

Fixed rate notes

Alcatel Lucent USA Inc. has issued the following fixed rate bonds:

- On 7 January 1998, Lucent Technologies (now Alcatel Lucent USA Inc.) issued US$300 million aggregate principal amount of 6.50% notes due 15 January 2028. As at 30 September 2010, the principal amount outstanding was US$300 million and the book value was €200 million. The notes constitute unsecured and unsubordinated indebtedness of Alcatel Lucent USA Inc. and rank *pari passu* with Alcatel Lucent USA Inc.'s other unsecured and unsubordinated indebtedness. These securities are not guaranteed by Alcatel Lucent or by any other entity within the Group.

- On 11 March 1999, Lucent Technologies (now Alcatel Lucent USA Inc.) issued US$1,360 million 6.45% notes due 15 March 2029. As at 30 September 2010, the principal amount outstanding was US$1,360 million and the book value was €905 million. The notes are general, unsecured, unsubordinated obligations of Alcatel Lucent USA Inc. and rank *pari passu* with all other unsecured and unsubordinated indebtedness of Alcatel Lucent USA Inc. The notes are not guaranteed by Alcatel Lucent or by any other entity within the Group.

Convertible trust 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 US$1.75 billion. The Trust used the proceeds to purchase Lucent Technologies Inc.'s (now Alcatel Lucent USA Inc.) 7.75% convertible subordinated debentures due 2017, which represented 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 Alcatel Lucent USA Inc.) owns all of the common securities of the Trust and as a result consolidates the Trust. The conversion price is US$24.80 per ADS as of 30 September 2010.

Lucent may redeem the debentures, in whole or in part, for cash at premiums ranging from 103.88% beginning 20 March 2007, to 100.00% on 20 March 2012 and thereafter. To the extent Lucent redeems debentures, the Trust is required to redeem a corresponding amount of trust preferred securities. Alcatel Lucent USA Inc. has irrevocably and unconditionally guaranteed, on a subordinated basis, the payments due on the trust preferred securities to the extent Alcatel Lucent USA Inc. makes payments on the debentures to the Trust. Alcatel Lucent USA Inc. 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 American Depositary Shares, subject to an additional adjustment under certain circumstances. These securities are not guaranteed by Alcatel Lucent.

As at 30 September 2010, the principal amount outstanding was US$931 million and the book value was €615 million.

Other debt

As of 30 September 2010, we maintained bank loans, overdrafts and other financial debt with a book value of €85 million; finance lease obligations with a book value of €46 million; and other debt and accrued interest with a book value of €163 million.

DESCRIPTION OF THE SENIOR NOTES

Alcatel-Lucent (the ***Issuer***) will issue euro-denominated notes (the ***Senior Notes***) under an indenture dated the Issue Date (the ***Indenture***) among itself, as issuer and Citibank, N.A., as trustee (the ***Trustee***), in a private transaction that is not subject to the registration requirements of the Securities Act of 1933, as amended (the ***Securities Act***). Unless the context requires otherwise, references in this "*Description of the Senior Notes*" to the Senior Notes include the Senior Notes and any Additional Senior Notes (as defined below) that are issued. See "*Transfer Restrictions*". The terms of the Senior Notes include those set forth in the Indenture. The Indenture will not incorporate or include any of the provisions of the U.S. Trust Indenture Act of 1939, as amended.

The following description describes the rights of the holders of the Senior Notes and is a summary of the material terms of the Indenture. It does not restate the Indenture in its entirety. You should read the Indenture because it contains additional information and because it, and not this description, defines your rights as a holder. Copies of the Indenture and the form of Note are available as set forth under "*—Additional Information*", or, if and so long as the Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market and to the extent that the rules of the Luxembourg Stock Exchange so require, from the office of the Listing Agent in Luxembourg.

Certain defined terms used in this description but not defined below under "*—Certain Definitions*" have the meanings assigned to them in the Indenture. You can find the definitions of certain terms used in this description under the subheading "*—Certain Definitions*". In this description, the term "Issuer" refers only to Alcatel-Lucent and not to any of its Subsidiaries.

The registered holder of a Senior Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

Brief Description of the Senior Notes

The Senior Notes

The Senior Notes:

- will be general unsecured obligations of the Issuer;
- will be effectively subordinated to any existing and future Indebtedness of the Issuer that is secured by property and assets that do not secure the Senior Notes, to the extent of the value of the property and assets securing such Indebtedness;
- will be *pari passu* in right of payment with all existing and future Indebtedness of the Issuer that is not subordinated in right of payment to the Senior Notes;
- will rank senior in right of payment to all of existing and future Indebtedness of the Issuer that is subordinated in right of payment to the Senior Notes; and
- will be effectively subordinated to all Indebtedness of the Issuer's subsidiaries.

Guarantees of the Senior Notes

On the Issue Date, the Senior Notes will not be Guaranteed by any of the Issuer's Restricted Subsidiaries. Under certain circumstances under the Indenture, Restricted Subsidiaries of the Issuer may be required to provide Note Guarantees. See "*—Certain Covenants—Limitation on Senior Indebtedness and Issuances of Guarantees of Indebtedness*".

In the event a Restricted Subsidiary is required to provide a Note Guarantee under the Indenture, the Note Guarantee of a Guarantor will be automatically released without any action required by the Trustee or holders of Senior Notes:

(1) in connection with any sale, assignment, transfer, conveyance or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger, consolidation, amalgamation or combination) to a Person that is not (either before or after giving effect to such transaction) the Issuer or any of its Restricted Subsidiaries, if the sale or other disposition does not violate the "Asset Sale" provisions of the Indenture;

(2) in connection with any sale or other disposition of Capital Stock of that Guarantor to a Person that is not (either before or after giving effect to such transaction) the Issuer or any of its Restricted Subsidiaries, if the sale or other disposition does not violate the "Asset Sale" provisions of the Indenture and the Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition;

(3) if the Issuer designates any of its Restricted Subsidiaries that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(4) upon repayment in full of the Senior Notes; or

(5) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance*" and "*—Satisfaction and Discharge*".

Many of the operations of the Issuer are conducted through its subsidiaries. The Issuer's subsidiaries have not initially guaranteed the Senior Notes. Claims of creditors of subsidiaries, including trade creditors, secured creditors and creditors holding debt and guarantees issued by those subsidiaries, and claims of preferred and minority stockholders (if any) of those subsidiaries generally will have priority with respect to the assets and earnings of those subsidiaries over the claims of creditors of the Issuer, including holders of the Senior Notes. The Senior Notes therefore will be effectively subordinated to creditors (including trade creditors) and preferred and minority stockholders (if any) of subsidiaries of the Issuer that are not required to become Guarantors under the terms of the Indenture. Although the Indenture will limit the incurrence of Indebtedness and Disqualified Stock or Preferred Stock of Restricted Subsidiaries, the limitation will be subject to a number of significant exceptions. Moreover, the Indenture will not impose any limitation on the incurrence by Restricted Subsidiaries of liabilities that are not considered Indebtedness or Disqualified Stock or Preferred Stock under the Indenture. See "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*".

Principal, Maturity and Interest

The Issuer will issue €500 million in aggregate principal amount of Senior Notes. The Issuer may issue additional Senior Notes (the ***Additional Senior Notes***) under the Indenture from time to time after this offering. The Senior Notes may be issued in one or more series under the Indenture. Any issuance of Additional Senior Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*". The Senior Notes and any Additional Senior Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Issuer will issue Senior Notes in denominations of €50,000 and integral multiples of €1,000 in excess thereof. The Senior Notes will mature on 15 January 2016. The redemption price at maturity will equal 100% of the principal amount of the Senior Notes redeemed.

Interest on the Senior Notes will accrue at the rate of 8.50% per annum. Interest will be payable semi-annually in arrears on 15 January and 15 July, commencing on 15 July 2011. Interest on overdue principal and interest, including Additional Amounts (as defined herein), if any, will accrue at a rate that is 1% higher than the then applicable interest rate on the Senior Notes. The Issuer will make each interest payment to the holders of record on the immediately preceding 1 January and 1 July.

Interest on the Senior Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Paying Agent and Registrar for the Senior Notes

The Issuer will maintain one or more paying agents (each, a ***Paying Agent***) for the Senior Notes in London (the ***Principal Paying Agent***) and, for so long as the Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange, a Paying Agent qualifying as a credit institution or financial institution under the European Union Directive 2006/48/EC and capable of ensuring that the financial service of the Senior Notes is made in Luxembourg. The Issuer will undertake to maintain a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income, or any law implementing, or complying with or introduced in order to conform to, such directive. The initial Paying Agent will be Citibank, N.A., London Branch.

The Issuer will also maintain a registrar (the ***Registrar***) with offices in Frankfurt for so long as the Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange. The Issuer will also maintain a transfer agent in London. The initial Registrar will be Citigroup Global Markets Deutschland AG in Frankfurt. The initial transfer agent will be Citibank, N.A., London Branch. The Registrar will maintain a register reflecting ownership of the Senior Notes outstanding from time to time and will make payments on and facilitate transfer of Senior Notes on the behalf of the Issuer. Each transfer agent shall perform the functions of a transfer agent.

The Issuer may change the Paying Agent, Registrar or transfer agent without prior notice to the holders. For so long as the Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in a newspaper having a general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

Transfer and Exchange

Senior Notes will be sold outside the United States pursuant to Regulation S under the U.S. Securities Act and will initially be represented by one or more global Senior Notes in registered form without interest coupons attached (the ***Global Notes***).

During the 40-day distribution compliance period, book-entry interests in the Global Notes may be transferred only to non-U.S. Persons under Regulation S under the U.S. Securities Act or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any other jurisdiction.

Ownership of interests in the Global Notes (the ***Book-Entry Interests***) will be limited to persons that have accounts with Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Transfer Restrictions*".

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €50,000 principal amount and integral multiples of €1,000 in excess thereof, upon receipt by the applicable Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, from the participant which owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "*Transfer Restrictions*".

Subject to the restrictions on transfer referred to above, Senior Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €50,000 in principal amount and integral multiples of €1,000 in excess thereof, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging holder to, among other things, furnish appropriate endorsements and transfer documents, furnish information regarding the account of the transferee at Euroclear or Clearstream, furnish certain certificates and opinions, and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the holder, other than any Taxes payable in connection with such transfer or exchange.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Senior Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Senior Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Sale Offer.

Additional Amounts

All payments of principal, redemption price, purchase price, interest, premium and other revenues made by the Issuer under or with respect to the Senior Notes (whether or not in the form of Definitive Registered Notes) or by a Guarantor, if any, with respect to any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of any jurisdiction in which the Issuer or a Guarantor, if any, (including any surviving corporation), is then incorporated, engaged in business or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction from or through which payment is made by or on behalf of the Issuer or a Guarantor, if any, (including, without limitation, the jurisdiction of any paying agent) (each, a ***Tax Jurisdiction***), will at any time be required to be made from any payments made under or with respect to the Senior Notes or with respect to a Note Guarantee, if any, including, without limitation, payments of principal, redemption price, purchase price, interest, premium and other revenues, the Issuer, the relevant Guarantor, if any, or other payor, as applicable, will pay such additional amounts (the ***Additional Amounts***) as may be necessary in order that the net amounts received in respect of such payments by each holder (including Additional Amounts) after such withholding, deduction or imposition will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; provided, however, that no Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been imposed but for the holder or the beneficial owner of the Senior Notes being a citizen or resident or national of, incorporated in or carrying on a business, in the relevant Tax Jurisdiction in which such Taxes are imposed or having any other present or former connection with the relevant Tax Jurisdiction other than the mere acquisition, holding, enforcement or receipt of payment in respect of the Senior Notes or with respect to a Note Guarantee, if any;

(2) any Senior Note presented for payment (where Senior Notes are in the form of Definitive Registered Notes and presentation is required) more than 30 days after the relevant payment is first made available for payment to the holder (except to the extent that the holder would have been entitled to Additional Amounts had the Senior Note been presented on the last day of such 30 day period);

(3) any Taxes withheld, deducted or imposed on a payment to an individual and that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such Directive; or

(4) any Senior Note presented for payment by or on behalf of a holder of Senior Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

In addition to the foregoing, the Issuer and the Guarantors, if any, will also pay and indemnify the holder for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies or Taxes which are levied by any Tax Jurisdiction on the execution, delivery, registration or enforcement of any of the Senior Notes, the Indenture, a Note Guarantee, if any, or any other document or instrument referred to therein.

If the Issuer or a Guarantor, if any, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Senior Notes or any Note Guarantee, the Issuer or the relevant Guarantor, if any, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises after the 30th day prior to that payment date, in which case the Issuer or the relevant Guarantor, if any, shall notify the Trustee promptly thereafter) an Officers' Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officers' Certificate must also set forth any other information reasonably necessary to enable the Paying Agents to pay Additional Amounts to holders on the relevant payment date. The Trustee shall be entitled to rely solely on such Officers' Certificate as conclusive proof that such payments are necessary. The Issuer or the relevant Guarantor, if any, will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts.

The Issuer or the relevant Guarantor, if any, will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. Upon request, the Issuer or the relevant Guarantor, if any, will provide to the Trustee an official receipt or, if official receipts are not obtainable, other documentation reasonably satisfactory to the Trustee evidencing the payment of any Taxes so deducted or withheld. The Issuer or the relevant Guarantor, if any, will attach to each certified copy or other document a certificate stating the amount of such Taxes paid per €1,000 principal amount of the Senior Notes then outstanding. Upon request, copies of those receipts or other documentation, as the case may be, will be made available by the Trustee to the holders of the Senior Notes.

Whenever in the Indenture or in this "*Description of the Senior Notes*" there is mentioned, in any context, the payment of amounts based upon the principal amount of the Senior Notes or of principal, interest, premium or of any other amount payable under, or with respect to, any of the Senior Notes or Note Guarantee, if any, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

No Optional Redemption

The Senior Notes will not be redeemable at the Issuer's option prior to the maturity date of the Senior Notes on 15 January 2016.

Redemption for Changes in Taxes

The Issuer may redeem the Senior Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the holders of the Senior Notes (which notice will be irrevocable and given in accordance with the procedures described in "*—Selection and Notice*"), at a redemption price equal to the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a ***Tax Redemption Date***) and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Senior Notes on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Senior Notes, the Issuer is or would be required to pay Additional Amounts, and the Issuer cannot avoid any such payment obligation taking reasonable measures available, and the requirement arises as a result of:

(1) any change in, or amendment to, the laws or treaties (or any regulations, or rulings promulgated thereunder) of the relevant Tax Jurisdiction (as defined above) affecting taxation which change or amendment has not been publicly announced as formally proposed before and which becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture); or

(2) any change in, or amendment to, the existing official position or the introduction of an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice), which change, amendment, application or interpretation has not been publicly announced as formally proposed before and becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture).

The Issuer will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Issuer would be obligated to make such payment or withholding if a payment in respect of the Senior Notes were then due, and at the time such notice is given, the obligation to pay Additional Amounts must remain in effect. Prior to the publication or, where relevant, mailing of any notice of redemption of the Senior Notes pursuant to the foregoing, the Issuer will deliver the Trustee an opinion of independent tax counsel of recognized international standing, to the effect that there has been such change or amendment which would entitle the Issuer to redeem the Senior Notes hereunder. In addition, before the Issuer publishes or mails notice of redemption of the Senior Notes as described above, it will deliver to the Trustee an Officers' Certificate to the effect that it cannot avoid its obligation to pay Additional Amounts by the Issuer taking reasonable measures available to it.

The Trustee will accept such Officers' Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders.

If on the next date on which any amount would be payable in respect of the Senior Notes, the Issuer is prevented by law of a Tax Jurisdiction from making such payment notwithstanding the undertaking to pay an Additional Amount, the Issuer shall redeem the Senior Notes, in whole but not in part, upon giving not less than 7 calendar days' prior notice to the holders of the Senior Notes (which notice will be irrevocable and given in accordance with the procedures described in "*—Selection and Notice*"), at a redemption price equal to the principal amount thereof, together with accrued and unpaid interest, if any, provided that the due date for redemption of which notice hereunder shall be given shall be no earlier than the latest practicable date on which the Issuer could make payment of the full amount then due and payable in respect of the Senior Notes or, if such date is already past, as soon as practicable thereafter.

For the avoidance of doubt, the implementation of European Council Directive 2003/48/EC on any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such directive will not be a change or amendment for such purposes.

Mandatory Redemption; Open Market Purchases

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Senior Notes. The Issuer and its Restricted Subsidiaries may at any time and from time to time purchase Senior Notes in the open market or otherwise, subject to the requirements of any applicable securities laws and regulations.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each holder of Senior Notes will have the right to require the Issuer to repurchase all or any part (equal to €50,000 or an integral multiple of €1,000 in excess thereof) of that holder's Senior Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Senior Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the Senior Notes repurchased to the date of purchase (the ***Change of Control Payment***), subject to the rights of holders of Senior Notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will give notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Senior Notes on the date (the ***Change of Control Payment Date***) specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed or delivered, pursuant to the procedures required by the Indenture and described in such notice.

The Issuer will comply with the requirements of such securities laws and regulations as may be applicable in connection with the repurchase of the Senior Notes as a result of a Change of Control. To the extent that the provisions of any applicable securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer will comply with such applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture the Indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Senior Notes or portions of Senior Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Principal Paying Agent an amount equal to the Change of Control Payment in respect of all Senior Notes or portions of Senior Notes properly tendered; and

(3) deliver or cause to be delivered to the Trustee the Senior Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Senior Notes or portions of Senior Notes being purchased by the Issuer.

The Paying Agent will promptly mail or transfer by bank credit to each holder of Senior Notes properly tendered the Change of Control Payment for such Senior Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new Senior Note equal in principal amount to any unpurchased portion of the Senior Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the Senior Notes to require that the Issuer repurchase or redeem the Senior Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Senior Notes properly tendered and not withdrawn under the Change of Control Offer.

Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Issuer's ability to repurchase the Senior Notes pursuant to the Change of Control Offer may be limited by a number of factors. The ability of the Issuer to pay cash to the holders of the Senior Notes following the occurrence of a Change of Control may be limited by the Issuer's and its Restricted Subsidiaries' then existing financial resources, and sufficient funds may not be available when necessary to make any required repurchases. We expect that we would require third party financing to make an offer to repurchase the Senior Notes upon a Change of Control. We cannot assure you that we would be able to obtain such financing. Any failure by the Issuer to offer to purchase Senior Notes would constitute a Default under the Indenture, which could, in turn, constitute a default under other Indebtedness of the Issuer and its Restricted Subsidiaries, including without limitation, the Revolving Credit Facility. See "*Risk Factors—Risks Related to the Senior Notes and Our Structure—Covenants in the indenture governing the Senior Notes may restrict our ability to pursue our business strategies*".

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Issuer and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Senior Notes to require the Issuer to repurchase its Senior Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Issuer and its Subsidiaries taken as a whole to another Person or group may be uncertain.

If and for so long as the Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish notices relating to any Change of Control Offer in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

Asset Sales

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless:

(1) the Issuer (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by the Issuer or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

    (a) any liabilities, as shown on the Issuer's most recent consolidated balance sheet, of the Issuer or any of its Restricted Subsidiaries (other than contingent liabilities and liabilities that are by their terms subordinated to the Senior Notes) that are assumed by the transferee of any such assets pursuant to a customary novation or indemnity agreement that releases the Issuer or such Restricted Subsidiary from or indemnifies against further liability;

    (b) any securities, notes or other obligations received by the Issuer or any such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;

    (c) Indebtedness of any Restricted Subsidiary of the Issuer that is no longer a Restricted Subsidiary of the Issuer as a result of such Asset Sale, to the extent that the Issuer and its Restricted Subsidiaries following such Asset Sale are released from any guarantee of such Indebtedness or Preferred Stock in connection with such Asset Sale;

(d) consideration consisting of Indebtedness of the Issuer or any of its Restricted Subsidiaries which is either repaid in full or cancelled in connection with such Asset Sale; and

(e) any Capital Stock or assets of the kind referred to in clauses (2) or (4) of the next paragraph of this covenant.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale, the Issuer (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds:

(1) to repay, repurchase, prepay or redeem (a) Indebtedness of the Issuer or a Restricted Subsidiary incurred pursuant to clause (1) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" that is not subordinated in right of payment with the Senior Notes, (b) Indebtedness of a Restricted Subsidiary of the Issuer that is not a Guarantor or (c) Indebtedness of a Restricted Subsidiary that is secured by property or assets that do not secure the Senior Notes, *provided*, in each case that, if the Indebtedness repaid is revolving credit Indebtedness, the Issuer or such Restricted Subsidiary will correspondingly reduce commitments with respect thereto;

(2) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of the Issuer;

(3) to make a capital expenditure (including research and development expenses capitalized) or to incur any research and development expense not eligible for capitalization under IFRS; or

(4) to acquire other assets (other than Capital Stock) that are not classified as current assets under IFRS and that are used or useful in a Permitted Business.

Pending the final application of any Net Proceeds, the Issuer (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute ***Excess Proceeds***. When the aggregate amount of Excess Proceeds exceeds €50.0 million, within 30 days thereof, the Issuer will make an offer (an ***Asset Sale Offer***) to all holders of Senior Notes and may make an offer to all holders of other Indebtedness that is *pari passu* with the Senior Notes containing provisions similar to those set forth in the Indenture with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum principal amount of Senior Notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of Senior Notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Issuer and its Restricted Subsidiaries may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Senior Notes and other *pari passu* Indebtedness tendered into (or required to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, or if the aggregate principal amount of Senior Notes tendered pursuant to a Notes Offer exceeds the amount of Net Proceeds so applied, the Trustee will select the Senior Notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis, based on the amounts tendered or required to be prepaid or redeemed. For the purposes of calculating the principal amount of any such Indebtedness not denominated in euro, such Indebtedness shall be calculated by converting any such principal amounts into their Euro Equivalent determined in good faith by the Issuer as of the Business Day immediately prior to the date on which the Asset Sale Offer is announced. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Issuer will comply with such securities laws and regulations as may be applicable in connection with each repurchase of Senior Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the Asset Sale provisions of the Indenture, the Issuer will comply with such applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the Indenture by virtue of such compliance.

Selection and Notice

No Senior Notes in principal amount of €50,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of Senior Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Senior Notes or a satisfaction and discharge of the Indenture. Senior Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Senior Notes or portions of Senior Notes called for redemption.

For Senior Notes which are represented by Global Notes held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing. So long as any Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, any such notice to the holders of the relevant Senior Notes shall also be published in a newspaper having a general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) and, in connection with any redemption, the Issuer will notify the Luxembourg Stock Exchange of any change in the principal amount of Senior Notes outstanding.

Certain Covenants

Suspension of Covenants Upon Achieving Investment Grade Status

If during any period the Senior Notes have achieved Investment Grade Status and no Event of Default or Default shall have occurred and be continuing (such period, an ***Investment Grade Status Period***), the provisions of the Indenture summarized under the following captions will be suspended and will not be applicable to the Issuer and the Restricted Subsidiaries during such period:

(1) "*—Repurchase at the Option of Holders—Asset Sales*";

(2) "*—Restricted Payments*";

(3) "*—Incurrence of Indebtedness and Issuance of Preferred Stock*";

(4) "*—Merger, Consolidation or Sale of Assets*" (but only clause (4) of such covenant); and

(5) "*—Limitation on Senior Indebtedness and Issuances of Guarantees of Indebtedness*".

In addition, during an Investment Grade Status Period, clause (17) of the definition of Permitted Liens shall be replaced with "Liens securing Indebtedness other than Public Indebtedness".

In addition, during an Investment Grade Status Period, the Board of Directors of the Issuer may not designate any Restricted Subsidiary of the Issuer as an Unrestricted Subsidiary.

Reinstatement of Provisions

Covenants and other provisions of these covenants that are suspended during an Investment Grade Status Period will be immediately reinstated and will continue to exist during any period in which the Senior Notes do not have Investment Grade Status. Upon reinstatement, calculations under the reinstated covenants described under the captions "*—Incurrence of Indebtedness and Issuance of Preferred Stock*" and "*—Restricted Payments*" will be made as if such covenants had been in effect during the entire period from the Issue Date (including the Investment Grade Status Period), it being understood however that no action taken during an Investment Grade Status Period or prior to an Investment Grade Status Period in compliance with the covenants then applicable will constitute a Default or an Event of Default under the Senior Notes in the event that suspended covenants and provisions are subsequently reinstated or suspended, as the case may be. For the avoidance of doubt, an Investment Grade Status Period will not commence until the Issuer has provided written notice to the Trustee.

Restricted Payments

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of the Issuer's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Issuer's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Issuer and other than dividends or distributions payable to the Issuer or a Restricted Subsidiary);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Issuer) any Equity Interests of the Issuer;

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Issuer that is contractually subordinated to the Senior Notes (excluding any intercompany Indebtedness between or among the Issuer and any of its Restricted Subsidiaries), other than the purchase, repurchase, redemption, defeasance or other acquisition or retirement of any Indebtedness of the Issuer that is contractually subordinated to the Senior Notes purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within 12 months of the date of purchase, repurchase, redemption, defeasance or other acquisition or retirement; or

(4) make any Restricted Investment,

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as ***Restricted Payments***), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) the Issuer would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least €1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*"; and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Restricted Subsidiaries since the Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (5), (6), (7), (8), (9) and (10) of the next succeeding paragraph), is less than the sum, without duplication, of:

    (i) 50% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the Issue Date to the end of the Issuer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

    (ii) 100% of the aggregate net cash proceeds and the Fair Market Value of all Marketable Securities received by the Issuer since the Issue Date as a contribution to its common equity capital or from the issue or sale of Equity Interests of the Issuer (other than Disqualified Stock); *plus*

    (iii) the amount by which Indebtedness of the Issuer is reduced in the Issuer's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Issuer) subsequent to the Issue Date of any Indebtedness of the Issuer or any Restricted Subsidiary convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Issuer (less the amount of any cash, or Fair Market Value of other property distributed by the Issuer or any Restricted Subsidiary upon such conversion or exchange); *plus*

    (iv) 100% of the Fair Market Value as of the date of issuance of any Equity Interests (other than Disqualified Stock) issued by the Issuer since the Issue Date as consideration for the purchase by the Issuer or any of its Restricted Subsidiaries of a majority of the Voting Stock of another Person (including by means of a merger, consolidation or other business combination permitted under the Indenture) if, after giving effect to any such purchase of Voting Stock, such Person is or becomes a Restricted Subsidiary; *plus*

    (v) to the extent that any Restricted Investment that was made after the Issue Date is sold for cash and/or Cash Equivalents or otherwise liquidated, redeemed, repurchased or repaid (including by way of dividend or distribution) for cash and/or Cash Equivalents, the lesser of (A) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (B) the initial amount of such Restricted Investment; *plus*

    (vi) to the extent that any Unrestricted Subsidiary of the Issuer designated as such after the date of the Indenture is redesignated as a Restricted Subsidiary after the date of the Indenture, the lesser of

(A) the Fair Market Value of the Issuer's Investment in such Subsidiary as of the date of such redesignation or (B) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the date of the Indenture.

The preceding provisions will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within seven months after the date on which a dividend is publicly announced by the Board of Directors, if at the date of announcement the dividend or redemption payment would have complied with the provisions of the Indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Issuer) of, Equity Interests of the Issuer (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Issuer; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will not be excluded from clause (c)(ii) of the preceding paragraph;

(3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Issuer that is contractually subordinated to the Senior Notes by exchange for, or with the net cash proceeds from an incurrence of, Permitted Refinancing Indebtedness;

(4) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Issuer or any of its Restricted Subsidiaries held by any current or former member of management, officer, director, employee or consultant of the Issuer or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed €5.0 million in any twelve-month period; *provided*, *further*, that such amount in any twelve-month period may be increased by an amount not to exceed the cash proceeds from the sale of Equity Interests of the Issuer to members of management, officers, directors, employees or consultants of the Issuer or any of its Restricted Subsidiaries to the extent the cash proceeds from the sale of Equity Interests have not otherwise been applied to the making of Restricted Payments pursuant to clause (c) of the preceding paragraph or clause (2) of this paragraph;

(5) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options or the withholding tax thereon;

(6) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Issuer or any preferred stock of any Restricted Subsidiary issued on or after the Issue Date in accordance with the Fixed Charge Coverage Ratio test described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*";

(7) payments of cash, dividends, distributions, advances or other Restricted Payments by the Issuer or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(8) the payment of (i) any dividend or other distribution (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of the Issuer to the holders of its Equity Interests on a pro rata basis and (ii) the payment of any dividend or other distribution by ASB to holders of its Equity Interests who are not Affiliates of the Issuer or a Restricted Subsidiary of the Issuer, *provided that* the aggregate amount of all such dividends or other distributions to such holders shall not exceed the amount that such holders would be entitled to receive, on a pro rata basis, taking into account all dividends or other distributions by ASB previously received by the Issuer or a Restricted Subsidiary of the Issuer in their capacity as holders of Equity Interests in ASB;

(9) so long as no Default or Event of Default has occurred and is continuing, the repurchase of any Indebtedness that is contractually subordinated to the Senior Notes (other than any Indebtedness so subordinated and held by Affiliates of the Issuer) in the event of a Change of Control pursuant to a provision in any agreement governing such Indebtedness that is similar to the provisions described under the caption "*Repurchase at the Option of Holders—Change of Control*", *provided* that (i) prior to consummating any such repurchase, the Issuer has made the Change of Control Offer required by the Indenture and has repurchased all Senior Notes validly tendered for payment in connection with

such Change of Control Offer, (ii) such repurchase shall occur within 90 days after the completion of such Change of Control Offer and (iii) the purchase price in connection with such repurchase will not exceed 101% of the outstanding principal amount of such Indebtedness (plus accrued and unpaid interest and additional interest, if any);

(10) the repurchase of any Public Indebtedness of Alcatel-Lucent USA, Inc., or its Restricted Subsidiaries, including any such Public Indebtedness that has been guaranteed by the Issuer on a subordinated basis; or

(11) so long as no Default or Event of Default has occurred and is continuing, other Restricted Payments in an aggregate amount not to exceed €100.0 million since the Issue Date.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment.

Incurrence of Indebtedness and Issuance of Preferred Stock

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, ***incur***) any Indebtedness (including Acquired Debt), and the Issuer will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided*, *however*, that the Issuer may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock and the Relevant Subsidiaries of the Issuer may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for the Issuer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 2.0 to 1.0, in each case, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, ***Permitted Debt***):

(1) the incurrence by the Issuer or any of its Restricted Subsidiaries of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Issuer and its Restricted Subsidiaries thereunder) not to exceed €1.4 billion plus the aggregate principal amount of any Designated Existing Subsidiary Indebtedness;

(2) the incurrence by the Issuer and its Restricted Subsidiaries of the Existing Indebtedness;

(3) the incurrence by the Issuer of Indebtedness represented by the Senior Notes to be issued on the Issue Date;

(4) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings, purchase money obligations or Attributable Debt, in each case, incurred for the purpose of financing or refinancing all or any part of the purchase price or cost of design, construction, lease, installation or improvement of property (real or personal), plant or equipment used or useful in the business of the Issuer or any of its Restricted Subsidiaries in an aggregate principal amount not to exceed at any time outstanding the greater of €350.0 million and 1.5% of Total Assets;

(5) the incurrence by the Issuer or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the Indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (5), (12) or (19) of this paragraph;

(6) the incurrence by the Issuer or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Issuer and any of such Restricted Subsidiaries; *provided*, *however*, that

(a) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Issuer or a Restricted Subsidiary of the Issuer; and

(b) any sale or other transfer of any such Indebtedness to a Person that is not either the Issuer or a Restricted Subsidiary of the Issuer,

will be deemed to constitute an incurrence of such Indebtedness by the Issuer or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any Restricted Subsidiary of the Issuer to the Issuer or to any of its Restricted Subsidiaries of shares of preferred stock; *provided*, *however*, that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Issuer or any of its Restricted Subsidiaries; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either the Issuer or any of its Restricted Subsidiaries,

will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by the Issuer or any of its Restricted Subsidiaries of Hedging Obligations in the ordinary course of business and not for speculative purposes (as determined in good faith by the Issuer);

(9) the Guarantee by the Issuer or any of its Restricted Subsidiaries of Indebtedness of the Issuer or any of its Restricted Subsidiaries to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant;

(10) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness (including letters of credit) in respect of workers' compensation claims, pension obligations, environmental remediation or other environmental obligations, self-insurance or similar obligations, bankers' acceptances, customs, VAT and other tax guarantees, bid, performance, surety and appeal bonds or guarantees (including in connection with contractual obligations to customers), in each case arising in the ordinary course of business;

(11) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within ten business days;

(12) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary of the Issuer or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Issuer or any of its Restricted Subsidiaries (other than Indebtedness incurred to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary of the Issuer or was otherwise acquired by the Issuer or any of its Restricted Subsidiaries); *provided, however*, with respect to this clause (12), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred by the Issuer would have been able to incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving pro forma effect to the incurrence of such Indebtedness pursuant to this clause (12);

(13) Indebtedness arising from agreements of the Issuer or any of its Restricted Subsidiaries providing for customary indemnification, obligations in respect of earnouts or other adjustments of purchase price or, in each case, similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Equity Interests of a Subsidiary, *provided* that the maximum liability of the Issuer and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Issuer and its Restricted Subsidiaries in connection with such disposition;

(14) the incurrence by the Issuer or any of its Restricted Subsidiaries of obligations with respect to bonds, guarantees, letters of credit, stand-by letters of credit or similar undertakings securing obligations entered into in the ordinary course of business to the extent such letters of credit are not drawn upon or, if drawn upon, such drawing is reimbursed within five Business Days following receipt of a demand for reimbursement (or at any other time agreed in the relevant documentation);

(15) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness to the extent the net proceeds thereof are promptly deposited to defease the Senior Notes as described below under the caption "*—Legal Defeasance and Covenant Defeasance*";

(16) Indebtedness incurred by the Issuer or any of its Restricted Subsidiaries (including obligations under or in respect of related guarantees, indemnities and other contingent or actual payment obligations) arising in respect of Receivables Financings;

(17) Indebtedness permitted to be incurred by Electro Banque under applicable banking regulations and for so long as Electro Banque is regulated by a recognized governmental entity or agency, *provided* that such Indebtedness is ancillary, reasonably related or complementary to Electro-Banque's financing business, as conducted by Electro Banque in the ordinary course of its business on the Issue Date, consistent with past practice;

(18) Governmental Indebtedness incurred by the Issuer or any of its Restricted Subsidiaries in an aggregate principal amount at any time outstanding not to exceed €500 million;

(19) Non-Recourse ASB Debt, *provided* that at the time of the incurrence of such Indebtedness the Issuer would have been able to incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (19); or

(20) the incurrence by the Issuer or any of its Restricted Subsidiaries of additional Indebtedness or the issuance by the Issuer or any of its Restricted Subsidiaries of Disqualified Stock in an aggregate principal amount or liquidation preference (or accreted value, as applicable) at any time outstanding not to exceed €750 million.

The Issuer will not incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer unless such Indebtedness is also contractually subordinated in right of payment to the Senior Notes on substantially identical terms; *provided*, *however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer solely by virtue of being unsecured or by virtue of being secured on a junior priority basis.

For purposes of determining compliance with this "*Incurrence of Indebtedness and Issuance of Preferred Stock*" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (20) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Issuer will be permitted to classify such item of Indebtedness on the date of its incurrence and to reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under, or which can be incurred under, any Credit Facility (including for the avoidance of doubt any Designated Existing Subsidiary Indebtedness) (other than permitted by clauses (4), (12), (16), (17), (18) and (20) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*") shall be incurred under clause (1) of the definition of Permitted Debt first and may not be reclassified. Governmental Indebtedness shall be incurred under clause (18) of the definition of Permitted Debt first and may not be reclassified. To the extent that the Issuer incurs Indebtedness under clause (20) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" (the ***Potential Permitted Refinancing Indebtedness***) and, within 12 months after the date of such incurrence, uses all or a portion of the proceeds of such Potential Permitted Refinancing Indebtedness, directly or indirectly, to renew, refund, refinance, replace, defease or discharge Indebtedness incurred under the first paragraph or clauses (2), (3), (5), (12) or (19) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" (the ***Refinanced Debt***) on or prior to its maturity, the portion of such Potential Permitted Refining Indebtedness so used shall be later reclassified to clause (5) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" upon the renewal, refunding, refinancing, replacement, defeasance or discharge of the Refinanced Debt, provided that such Refinanced Debt meets the definition of Permitted Refinancing Indebtedness. The accrual of interest or preferred stock dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount of any such accrual, accretion or payment is included in Fixed

Charges of the Issuer as accrued. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Issuer or any of its Restricted Subsidiaries may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

  (a) the Fair Market Value of such assets at the date of determination; and

  (b) the amount of the Indebtedness of the other Person.

For purposes of determining compliance with any euro-denominated restriction on the incurrence of Indebtedness, the Euro Equivalent of the principal amount of Indebtedness denominated in another currency will be calculated in good faith by a Senior Financial Officer of the Issuer based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of Indebtedness incurred under a revolving credit facility; *provided* that (1) if such Indebtedness is incurred to refinance other Indebtedness denominated in a currency other than euro, and such refinancing would cause the applicable euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such euro-denominated restriction will be deemed not to have been exceeded so long as the principal amount of such Permitted Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; (2) the Euro Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date will be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (3) if and for so long as any such Indebtedness is subject to an agreement intended to protect against fluctuations in currency exchange rates with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in euro, will be the amount of the principal payment required to be made under such currency agreement and, otherwise, the Euro Equivalent of such amount plus the Euro Equivalent of any premium which is at such time due and payable but is not covered by such currency agreement.

Limitation on Senior Indebtedness and Issuances of Guarantees of Indebtedness

The Issuer will not cause or permit any of its Relevant Subsidiaries, directly or indirectly, to incur Indebtedness or guarantee, assume or in any manner become liable with respect to any other Indebtedness of the Issuer or any of its Restricted Subsidiaries (other than Permitted Senior Indebtedness) unless such Relevant Subsidiary simultaneously executes and delivers a supplemental indenture providing for the Guarantee of the payment of the Senior Notes by such Relevant Subsidiary, which Guarantee will be senior to or *pari passu* with such Relevant Subsidiary's Indebtedness or guarantee of such other Indebtedness.

The Issuer will not cause or permit any of its Restricted Subsidiaries that is not a Relevant Subsidiary, directly or indirectly, to guarantee, assume or in any manner become liable with respect to any Indebtedness of the Issuer or any Restricted Subsidiary (other than the Permitted Senior Indebtedness) unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for the Guarantee of the payment of the Senior Notes by such Restricted Subsidiary, which Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's guarantee of such other Indebtedness.

Each such Guarantee will be limited as necessary to recognize certain defences generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Issuer shall not be obligated to cause such Restricted Subsidiary to Guarantee the Senior Notes to the extent that such Guarantee by such Restricted Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law which, in any case, cannot be prevented or otherwise avoided through measures reasonably available to the Issuer or the Restricted Subsidiary or any liability for the officers, directors or shareholders of such Restricted Subsidiary.

Liens

The Issuer will not and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien (other than Permitted Liens) of any kind securing Indebtedness upon any of their property or assets, now owned or hereafter acquired, unless all payments due under the Indenture and the Senior Notes are secured on an equal and ratable basis with (or prior to) the Indebtedness so secured until such time as such Indebtedness is no longer secured by a Lien.

Merger, Consolidation or Sale of Assets

The Issuer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation), or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries that are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) the Issuer is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance or other disposition has been made is an entity organized or existing under the laws of a Permitted Jurisdiction;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Issuer under the Senior Notes and the Indenture to which the Issuer is a party pursuant to agreements reasonably satisfactory to the Trustee;

(3) immediately after such transaction, no Default or Event of Default exists;

(4) the Issuer or the Person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, assignment, transfer, conveyance or other disposition has been made, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) would be permitted to incur at least €1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*" or (ii) the Fixed Charge Coverage Ratio would not be less than it was prior to such transaction; and

(5) the Issuer delivers to the Trustee an Officers' Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer and such supplemental indenture comply with this covenant.

In addition, the Issuer will not, directly or indirectly, lease all or substantially all of the properties and assets of it and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to any other Person other than a Restricted Subsidiary.

Clause (3) and (4) of this covenant will not apply to any sale or other disposition of all or substantially all of the assets or merger or consolidation of a Restricted Subsidiary of the Issuer into the Issuer and clause (4) of this covenant will not apply to any merger or consolidation of the Issuer with or into an Affiliate solely for the purpose of reincorporating the Issuer in another jurisdiction for tax reasons.

Designation of Restricted and Unrestricted Subsidiaries

A Senior Financial Officer of the Issuer may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Issuer and its Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption "*—Restricted Payments*" or under one or more clauses of the definition of Permitted Investments, as determined by the Issuer. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. A Senior Financial Officer of the Issuer may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of the Issuer as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a Certificate of a Senior Financial Officer certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "*—Restricted Payments*". If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*", the Issuer will be in default of such covenant. A Senior Financial Officer of the Issuer may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*", calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

Payments for Consent

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Senior Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Senior Notes unless such consideration is offered to be paid and is paid to all holders of the Senior Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Maintenance of Listing

The Issuer will use its best efforts to maintain the listing on the Official List of the Luxembourg Stock Exchange for so long as such Senior Notes are outstanding; *provided* that if at any time the Issuer determines that it can no longer reasonably comply with the requirements for listing the Senior Notes on the Official List of the Luxembourg Stock Exchange or if maintenance of such listing becomes unduly onerous, it will obtain prior to the delisting of the Senior Notes from the Official List of the Luxembourg Stock Exchange, and thereafter use its best efforts to maintain, a listing of such Senior Notes on another recognised stock exchange within the European Union.

Reports

So long as any Senior Notes are outstanding, the Issuer will furnish to the holders of Senior Notes or cause the Trustee to furnish to the holders of Senior Notes:

(1) within 120 days after the end of the Issuer's fiscal year, (a) audited consolidated statements of income and statements of cash flow of the Issuer for the most recent two fiscal years and balance sheets of the Issuer as of the two most recent fiscal year-ends prepared in accordance with IFRS, including appropriate footnotes to such financial statements as required under IFRS, the report of the independent auditors on such financial statements and a management report and (b) whether or not the Issuer is a publicly listed company, such pro forma income statement and balance sheet information as would be required to be publicly disclosed by a publicly listed company under French law or EU regulation;

(2) within 180 days after the end of the Issuer's fiscal year, the Issuer's annual report on Form 20-F for such fiscal year as filed with the U.S. Securities and Exchange Commission or, if the Issuer is no longer subject to U.S. reporting requirements under the Exchange Act or a publicly listed company, information with a level of detail that is substantially comparable and similar in scope to an annual report on Form-20F;

(3) within 75 days following the end of each of the first three fiscal quarters in each fiscal year of the Issuer, information including: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the most recent year-to-date period ending on the balance sheet date, and the comparable prior year period, together with condensed footnote disclosure; (b) whether or not the Issuer is a publicly listed company, such pro forma income statement and balance sheet information as would be required to be publicly disclosed by a publicly listed company under French law or EU regulation and (c) a management report to the extent required under French law or EU regulation; and

(4) promptly after the occurrence of any event not otherwise disclosed in clauses (2) or (3) above that would be required to be publicly disclosed by a publicly listed company under French law or EU

regulation or any other material event that the Issuer announces publicly, a report containing a description of such event and such other information as would be required of a publicly listed company under French law or EU regulation, in each case whether or not the Issuer is a publicly listed company.

If the Issuer has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

The Issuer's obligations under clause (3) above will be satisfied by the furnishing of (i) the Issuer's report on Form 6-K, in the form submitted to the U.S. Securities and Exchange Commission, containing quarterly or half yearly financial information, as the case may be, for the relevant periods or (ii) if the Issuer is no longer subject to U.S. reporting requirements under the Exchange Act, (A) the Issuer's press announcements containing first and third quarter financial information and (B) the Issuer's half-yearly reports for the relevant periods in the form filed with the French *Autorité des marchés financiers* (the ***AMF***) (in each case, with English translations). So long as the Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, copies of the information and reports referred to in clauses (1) through (4) of the first paragraph above will be available during normal business hours at the offices of the Listing Agent in Luxembourg.

The Issuer will use its commercially reasonable efforts to post on its website the reports referred to in clauses (1) through (4) of the first paragraph above.

Events of Default and Remedies

Each of the following is an ***Event of Default***:

(1) default for 30 days in the payment when due of interest or Additional Amounts, if any, with respect to the Senior Notes;

(2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the Senior Notes;

(3) failure by the Issuer to comply with the provisions described under the captions "*—Repurchase at the Option of Holders—Change of Control*", "*—Repurchase at the Option of Holders—Asset Sales*" and "*Certain covenants—Consolidation, Merger and Sale of Assets*";

(4) failure by the Issuer for 60 days after written notice to the Issuer by the Trustee or the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding voting as a single class to comply with any of the agreements in the Indenture (other than a default in performance, or breach, or a covenant or agreement which is specifically dealt with in clauses (1), (2) or (3)), or the Senior Notes;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Issuer or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:

    (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a ***Payment Default***); or

    (b) results in the acceleration of such Indebtedness prior to its Stated Maturity,

    and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates €100 million or more and has not been discharged in full or such acceleration rescinded or annulled within 20 days of such Payment Default or acceleration;

(6) failure by the Issuer or any of its Significant Subsidiaries to pay final non-appealable judgments entered by a court or courts of competent jurisdiction aggregating in excess of €100 million, which judgments are not paid, discharged or stayed for a period of 60 days; and

(7) certain events of bankruptcy or insolvency described in the Indenture with respect to the Issuer or any Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Issuer, any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding Senior Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Senior Notes may declare all the Senior Notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Senior Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from holders of the Senior Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of Senior Notes unless such holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no holder of a Senior Note may pursue any remedy with respect to the Indenture or the Senior Notes unless:

(1) such holder has previously given the Trustee notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding Senior Notes have requested the Trustee to pursue the remedy;

(3) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) holders of a majority in aggregate principal amount of the then outstanding Senior Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the then outstanding Senior Notes by notice to the Trustee may, on behalf of the holders of all of the Senior Notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest, Additional Amounts or premium, if any, on, or the principal of, the Senior Notes.

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, the Issuer is required to deliver to the Trustee a statement specifying such Default or Event of Default.

No Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer, as such, will have any liability for any obligations of the Issuer under the Senior Notes and the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Senior Notes by accepting a Senior Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Senior Notes.

Legal Defeasance and Covenant Defeasance

The Issuer may at any time, at its option elect to have all of its obligations discharged with respect to the outstanding Senior Notes (***Legal Defeasance***) except for:

(1) the rights of holders of outstanding Senior Notes to receive payments in respect of the principal of, or interest (including Additional Amounts) or premium, if any, on, such Senior Notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the Senior Notes concerning issuing temporary Senior Notes, registration of Senior Notes, mutilated, destroyed, lost or stolen Senior Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture (***Covenant Defeasance***) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Senior Notes. In the event Covenant Defeasance occurs, all Events of Default described under "*—Events of Default and Remedies*" (except those relating to payments on the Senior Notes or bankruptcy, receivership, rehabilitation or insolvency events) will no longer constitute an Event of Default with respect to the Senior Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the Senior Notes, cash in euro, non-callable Government Securities, or a combination of cash in euro and non-callable Government Securities, in amounts as will be sufficient, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest (including Additional Amounts and premium, if any) on the outstanding Senior Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Senior Notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee:

    (a) an opinion of United States counsel reasonably acceptable to the Trustee confirming that (i) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (ii) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Senior Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred; and

    (b) an opinion of counsel in the jurisdiction of incorporation of the Issuer and reasonably acceptable to the Trustee to the effect that the holders of the Senior Notes will not recognize income, gain or loss for tax purposes of such jurisdiction as a result of such deposit and defeasance and will be subject to tax in such jurisdiction on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee:

    (a) an opinion of United States counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding Senior Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; and

    (b) an opinion of counsel in the jurisdiction of incorporation of the Issuer and reasonably acceptable to the Trustee to the effect that the holders of the Senior Notes will not recognize income, gain or loss for tax purposes of such jurisdiction as a result of such deposit and defeasance and will be subject to tax in such jurisdiction on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit (and any similar concurrent deposit relating to other Indebtedness), and the granting of Liens to secure such borrowings);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture and the agreements governing any other Indebtedness being defeased, discharged or replaced) to which the Issuer is a party or by which the Issuer is bound;

(6) the Issuer must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of Senior Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and

(7) the Issuer must deliver to the Trustee an Officers' Certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the Indenture or the Senior Notes may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the Senior Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture or the Senior Notes may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Senior Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Notes).

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Senior Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Notes), an amendment, supplement or waiver may not (with respect to any Senior Notes held by a non-consenting holder):

(1) reduce the principal amount of Senior Notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Senior Note or alter the provisions with respect to the redemption of the Senior Notes (other than provisions relating to the covenants described above under the caption "*—Repurchase at the Option of Holders*");

(3) reduce the rate of or change the time for payment of interest, including default interest, on any Senior Note;

(4) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, the Senior Notes (except a rescission of acceleration of the Senior Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Senior Notes and a waiver of the Payment Default that resulted from such acceleration);

(5) make any Senior Note payable in money other than that stated in the Senior Notes;

(6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of Senior Notes to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Senior Notes;

(7) waive a redemption payment with respect to any Senior Note (other than a payment required by one of the covenants described above under the caption "*—Repurchase at the Option of Holders*"); or

(8) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of Senior Notes, the Issuer and the Trustee may amend or supplement the Indenture or the Senior Notes:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated Senior Notes in addition to or in place of certificated Senior Notes;

(3) to provide for the assumption of the Issuer's obligations to holders of Senior Notes in the case of a merger or consolidation or sale of all or substantially all of the Issuer's assets;

(4) to make any change that would provide any additional rights or benefits to the holders of Senior Notes or that does not adversely affect the legal rights under the Indenture of any such holder;

(5) to conform the text of the Indenture or the Senior Notes to any provision of this "*Description of the Senior Notes*" to the extent that such provision in this "*Description of the Senior Notes*" was intended to be a verbatim recitation of a provision of the Indenture or the Senior Notes;

(6) to provide for the issuance of Additional Senior Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(7) to provide for uncertificated Senior Notes in addition to or in place of certificated Senior Notes (*provided* that the uncertificated Senior Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Senior Notes are described in Section 163(f)(2)(B) of the Code); or

(8) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture.

The consent of the holders of Senior Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect as to all Senior Notes issued thereunder, when:

(1) either:

(a) all Senior Notes that have been authenticated, except lost, stolen or destroyed Senior Notes that have been replaced or paid and Senior Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or

(b) all Senior Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the holders, cash in euro, Cash Equivalents, or a combination of cash in euro and Cash Equivalents, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Senior Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) in respect of clause 1(b), no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and any similar deposit relating to other Indebtedness and, in each case, the granting of Liens to secure such borrowings) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer is a party or by which the Issuer is bound (other than with respect to the borrowing of funds to be applied concurrently to make the deposit required to effect such satisfaction and discharge and any similar concurrent deposit relating to other Indebtedness, and in each case the granting of Liens to secure such borrowings);

(3) the Issuer has paid or caused to be paid all sums payable by it under the Indenture; and

(4) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Senior Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officers' Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Judgment Currency

Any payment on account of an amount that is payable in euro (the ***Required Currency***), which is made to or for the account of any holder of the Senior Notes or the Trustee in any other lawful currency (the ***Judgment Currency***), whether as a result of any judgment or order or the enforcement thereof or the liquidation of the Issuer, shall constitute a discharge of the Issuer's obligation under the Indenture and the Senior Notes, only to the extent of the amount of the Required Currency with such holder or the Trustee, as the case may be, could purchase in the London or Paris foreign exchange markets with the amount of the Judgment Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first Business Day following receipt of the payment in the Judgment Currency. If the amount of the Required Currency that could be so purchased is less than the amount of the Required Currency originally due to such holder or the Trustee, as the case may be, the Issuer shall indemnify and hold harmless the holder or the Trustee, as the case may be, from and against all loss or damage arising out of, or as a result of, such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in the Indenture or the Senior Notes, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder or the Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due hereunder or under any judgment or order.

Concerning the Trustee

The holders of a majority in aggregate principal amount of the then outstanding Senior Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Senior Notes, unless such holder has offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

Listing

Application has been made to list the Senior Notes on the Official List of the Luxembourg Stock Exchange and to admit the Senior Notes to trading on the Euro MTF Market of that exchange. The Senior Notes are expected to be listed by the Issue Date or shortly thereafter. There can be no guarantee that the application to list the Senior Notes on the Official List of the Luxembourg Stock Exchange and to admit the Senior Notes to trading on the Euro MTF Market will be approved as of the date the Senior Notes are issued or at any time thereafter, and settlement of the Senior Notes is not conditioned on obtaining this listing. The Articles of Association of the Issuer will be registered prior to the listing with the Registrar of the District Court in Luxembourg, where such documents are available for inspection and where copies thereof can be obtained upon request.

Additional Information

Anyone who receives this Offering Memorandum may obtain a copy of the Indenture and the form of Global Note without charge by writing to the Issuer at 3, avenue Octave Gréard, 75007 Paris, France, Attention: Investor Relations.

So long as the Senior Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, copies, current and future, of all of the Issuer's annual audited consolidated financial statements and the Issuer's unaudited condensed interim consolidated financial statements may be obtained, free of charge, during normal business hours at the offices of the Listing Agent in Luxembourg.

Consent to Jurisdiction and Service of Process

The Indenture will provide that the Issuer will appoint CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011 as its agent for service of process in any suit, action or proceeding with respect to the Indenture and the Senior Notes and for actions brought under U.S. federal or state securities laws brought in any Federal or state court located in the City of New York and will submit to such jurisdiction.

Enforceability of Judgments

Because the assets of the Issuer are outside the United States, any judgment obtained in the United States against the Issuer, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any redemption price and any purchase price with respect to the Senior Notes, may not be collectable within the United States.

Prescription

Claims against the Issuer for the payment of principal or Additional Amounts, if any, on the Senior Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer for the payment of interest on the Senior Notes will be prescribed five years after the applicable due date for payment of interest.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

Acquired Debt means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

Affiliate of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control", as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms ***controlling***, ***controlled by*** and ***under common control with*** have correlative meanings.

ASB means Alcatel-Lucent Shanghai Bell Co. Ltd.

Asset Sale means:

(1) the sale, lease, conveyance or other disposition of any assets or rights by the Issuer or any of its Restricted Subsidiaries; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "*—Repurchase at the Option of Holders—Change of Control*" and/or the provisions described above under the caption "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" and not by the provisions of the Asset Sale covenant; and

(2) the issuance of Equity Interests by any Restricted Subsidiary of the Issuer or the sale by the Issuer or any of its Restricted Subsidiaries of Equity Interests in any of the Issuer's Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than €25.0 million;

(2) a transfer of assets between or among the Issuer and its Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary of the Issuer to the Issuer or to a Restricted Subsidiary of the Issuer;

(4) the sale, lease, assignment or other transfer of products, services or accounts receivable in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of Issuer and its Restricted Subsidiaries taken as whole);

(5) licenses and sublicenses by the Issuer or any of its Restricted Subsidiaries of software or intellectual property in the ordinary course of business;

(6) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(7) the granting of Liens not prohibited by the covenant described above under the caption "*—Liens*";

(8) the sale or other disposition of cash, Cash Equivalents or Permitted Investment Securities;

(9) a Restricted Payment that does not violate the covenant described above under the caption "*—Certain Covenants—Restricted Payments*" or a Permitted Investment;

(10) the disposition of receivables in connection with any Receivables Financing or in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings; and

(11) the foreclosure, condemnation or any similar action with respect to any property or other assets or a surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind.

Asset Sale Offer has the meaning assigned to that term in the Indenture governing the Senior Notes.

Attributable Debt in respect of a sale and leaseback transaction means, at the time of determination, the amount of Indebtedness represented thereby determined in accordance with the definition of Capital Lease Obligation.

Beneficial Owner has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms ***Beneficially Owns*** and ***Beneficially Owned*** have a corresponding meaning.

Board of Directors means:

(1) with respect to the Issuer or any French *société anonyme*, such corporation's board of directors, and with respect to any other corporation, the members of the supervisory board or advisory board of the corporation or such corporation's board of directors;

(2) with respect to a corporation, the board of directors (or analogous governing body) of the corporation or any committee thereof duly authorized to act on behalf of such board;

(3) with respect to a partnership, the board of directors of the general partner of the partnership;

(4) with respect to a limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(5) with respect to any other Person, the board or committee of such Person serving a similar function.

Business Day means a day other than a Saturday, Sunday or other day on which banking institutions in London, Paris or Luxembourg or a place of payment under the Indenture are authorized or required by law to close.

Capital Lease Obligation means, at the time any determination is to be made, the amount of the liability in respect of a lease that would at that time are or would be classified as a "Finance Lease" under GAAP (IAS 17) and capitalized on a balance sheet prepared in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

Capital Stock means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

Cash Equivalents means any items that are or would be properly classified as cash equivalents on a balance sheet prepared in accordance with GAAP.

Change of Control means the occurrence of any of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Restricted Subsidiaries taken as a whole to any Person (including any "person" (as that term is used in Section 13(d)(3) of the Exchange Act));

(2) the adoption of a plan relating to the liquidation or dissolution of the Issuer;

(3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any "person" as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Issuer, measured by voting power rather than number of shares; or

(4) during any consecutive three-year period, individuals who at the beginning of such period constituted the Board of Directors of the Issuer (together with any new directors whose election to such Board of Directors or whose nomination for election by the stockholders of the Issuer was approved by a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Issuer then in office.

Change of Control Offer has the meaning assigned to that term in the Indenture governing the Senior Notes.

Consolidated EBITDA means, with respect to any specified Person for any period, the reported consolidated income (loss) from operating activities of such specified Person and its Restricted Subsidiaries for such period, determined in accordance with GAAP, plus such specified Person's and its Restricted Subsidiaries' consolidated depreciation and amortization of tangible and intangible assets and impairment of assets (with respect to the Issuer, as disclosed in the Issuer's financial statements in the note "Net cash provided (used) by operating activities before changes in working capital, interest and taxes) and any non-cash compensation charge, including any such charge arising from any grant or issuance of stock, stock options or other equity based awards, to the extent that such depreciation, amortization, impairment or charge was deducted in computing such consolidated income (loss) from operating activities; *provided* that:

(1) any gain or loss, together, realized in connection with any business or asset disposition outside the ordinary course of business, as determined in good faith by the Issuer, will be excluded;

(2) any extraordinary, exceptional or non-recurring gain or loss (including, without limitation, restructuring costs, impairment of assets, post-retirement benefit plan amendments and litigation), as determined in good faith by the Issuer, will be excluded; and

(3) the effect of goodwill impairment will be excluded.

Consolidated Net Income means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary), determined in accordance with GAAP; *provided* that:

(1) all extraordinary gains (losses) and all gains (losses) realized in connection with any business or assets disposition outside the ordinary course of business or the disposition of securities or the early extinguishment of Indebtedness, together with any related provision for taxes on any such gain, will be excluded;

(2) the net income (loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary which is a Subsidiary of the Person;

(3) any net income (loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders; except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(4) solely for the purposes of determining the amount available for Restricted Investments under clause (c)(i) of the first paragraph under the caption "*—Certain Covenants—Restricted Payments*", the effect of goodwill impairment will be excluded; and

(5) the cumulative effect of a change in accounting principles will be excluded.

continuing means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

Convertible Debt means Indebtedness existing on the Issue Date that is convertible or exchangeable for Capital Stock.

Credit Facilities means, with respect to the Issuer or any Restricted Subsidiary, one or more debt facilities or arrangements (including the Revolving Credit Facility), or commercial paper facilities and overdraft facilities with banks or other institutional lenders, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), bond, surety or guarantee lines or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced (including by means of sales of debt securities to institutional investors), in whole or in part from time to time (whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the original Revolving Credit Facility or one or more other credit or other agreements, indentures, financing agreements or otherwise) and, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing. Without limiting the generality of the foregoing, the term "Credit Facilities" shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

Default means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

Designated Convertible Securities means the 2.875% Series A Convertible Bonds due 2023 and the 2.875% Series B Convertible Bonds due 2025.

Designated Existing Subsidiary Indebtedness means Indebtedness of Restricted Subsidiaries outstanding on the Issue Date under Credit Facilities (other than the Revolving Credit Facility) and any refinancings thereof up to an aggregate principal amount of €200 million that is designated as Designated Existing Subsidiary Indebtedness by a Senior Financial Officer.

Disqualified Stock means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Senior Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the Issuer to repurchase such Capital Stock upon the occurrence of a Change of Control or an Asset Sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the Issuer may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "*—Certain Covenants—Restricted Payments*". The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the Indenture will be the maximum amount that the Issuer and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

Electro Banque means a company organized and existing under the laws of France, whose registered office is located at 3, avenue Octave Gréard, 75007 Paris, registered with the Registry of Commerce and Companies of Paris under number 562 064 287.

Electro-Ré means a company organized and existing under the laws of Luxembourg, whose registered office is located at 19, rue de Bitbourg, L-1273 Luxembourg, Grand Duchy of Luxembourg (R.C.S. Luxembourg B 24.739).

EMU means the economic and monetary union as contemplated in the Treaty on European Union.

Equity Interests means Capital Stock and all warrants, options, depositary receipts or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

euro or **€** means the single currency of participating members of the EMU.

Euro Equivalent means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as determined in good faith by a Senior Financial Officer of the Issuer. Except as expressly provided otherwise, whenever it is necessary to determine whether the Issuer or any of its Restricted Subsidiaries has complied with any covenant or other provision in the Indenture or if there has occurred an Event of Default and an amount is expressed in a currency other than euro, such amount will be treated as the Euro Equivalent determined as of the date such amount is initially determined in such non-euro currency.

Exchange Act means the U.S. Exchange Act of 1934, as amended.

Existing Indebtedness means all Indebtedness of the Issuer and its Restricted Subsidiaries (other than Indebtedness under the Revolving Credit Facility and Designated Existing Subsidiary Indebtedness) outstanding on the Issue Date after giving effect to the use of proceeds of the offering of the Senior Notes on the Issue Date, until such amounts are repaid.

Fair Market Value means the value that would be paid by a willing buyer to an unaffiliated willing seller in an arm's length transaction not involving distress or necessity of either party, determined in good faith by a Senior Financial Officer Issuer (unless otherwise provided in the Indenture).

Fixed Charge Coverage Ratio means with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the ***Calculation Date***), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by the Issuer's Senior Financial Officer) to such incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions or dispositions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date (including any acquisitions or dispositions made during such reference period or subsequent to such reference period and on or prior to the Calculation Date by any Person that became a Restricted Subsidiary or was merged with and into the specified Person or any of its Restricted Subsidiaries on or prior to such Calculation Date), will be given *pro forma* effect (as determined in good faith by the Issuer's Senior Financial Officer and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the four-quarter reference period;

(2) interest on Capital Lease Obligations shall be deemed to accrue at an interest rate reasonably determined by a Senior Financial Officer to be the rate of interest implicit in such Capital Lease Obligation in accordance with GAAP;

(3) the Fixed Charges attributable to interest on (a) any Indebtedness computed on a pro forma basis that was not outstanding during the period for which the computation is being made but which bears, at the option of such Person, a fixed or floating rate of interest, shall be computed by applying, at the option of such Person, either the fixed or floating rate (or in the case of overdraft facilities any reasonable rate determined in good faith by the Issuer) and (b) borrowings under a revolving credit facility computed on a pro forma basis shall be computed based upon the average daily balance of such borrowings during the applicable period;

(4) the interest rate on any Indebtedness that bears a floating rate of interest shall be calculated as if the weighted average interest rate that would have been applicable to such Indebtedness over the latest

12-month period ending on the last calendar month immediately prior to the Calculation Date had been the applicable rate on such Indebtedness for the entire reference period (taking into account any Hedging Obligation designed to protect such Person or any of its Restricted Subsidiaries against fluctuations in interest rates (including any agreement that exchanges a fixed rate interest obligation for a floating rate interest obligation) applicable to such Indebtedness if such Hedging Obligation has a remaining term in excess of 12 months);

(5) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(6) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Subsidiaries which are Restricted Subsidiaries following the Calculation Date;

(7) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period; and

(8) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

Fixed Charges means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated net finance costs of such Person and its Restricted Subsidiaries for such period, calculated in accordance with GAAP; *plus*

(2) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*

(3) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Subsidiaries which are Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of the Issuer (other than Disqualified Stock) or to the Issuer or a Restricted Subsidiary of the Issuer, in each case, determined on a consolidated basis in accordance with GAAP; *minus*

(4) non-cash interest expenses relating to the amortization of the equity component of the Convertible Debt for such period, calculated in accordance with GAAP.

GAAP means International Financial Reporting Standards promulgated by the International Accounting Standards Board and as adopted by the European Union and in effect on the Issue Date.

Government Securities means securities that are directly and fully and unconditionally guaranteed or insured by a member state of the European Union, or any agency or instrumentality thereof, the securities of which are unconditionally guaranteed as a full faith and credit obligation of such government.

Governmental Indebtedness means Indebtedness owed to European Investment Bank, International Finance Corporation or other governmental or EU financial institutions.

Guarantee means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

Guarantor means any Restricted Subsidiary of the Issuer that executes a Note Guarantee in accordance with the provisions of the Indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

Hedging Obligations means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(2) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

IFRS means International Financial Reporting Standards promulgated from time to time by the International Accounting Standards Board (or any successor board or agency) and as adopted by the European Union.

Indebtedness means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3) in respect of banker's acceptances;

(4) representing Capital Lease Obligations;

(5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed;

(6) representing any Hedging Obligations; and

(7) representing Attributable Debt,

if and only to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term ***Indebtedness*** includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

The term ***Indebtedness*** shall not include:

(1) in connection with the purchase by the Issuer or any of its Restricted Subsidiaries of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter; or

(2) any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes.

Investment Grade Status means the time at which the Senior Notes have been assigned ratings of (x) BBB- or higher by S&P or (y) Baa3 or higher by Moody's.

Investments means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations, but excluding (x) advances or extensions of credit to customers or suppliers made in the ordinary course of business and (y) vendor financing consistent with past practices), advances or capital contributions (excluding commission, travel and similar advances to Officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as financial assets on a balance sheet prepared in accordance with GAAP (IAS 32). If the Issuer or any of its Restricted Subsidiaries sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of the Issuer such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Issuer, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Issuer's Investments in such Restricted Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Restricted Payments*". The acquisition by the Issuer or any of its Restricted Subsidiaries of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Restricted Payments*". Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value. For the avoidance of doubt, in connection with the formation of a joint venture with any Person, the payment by the Issuer or any Restricted Subsidiary of expenses relating to such joint venture prior to the formation of a joint venture entity shall not constitute an Investment unless and until such joint venture entity is duly formed and the Issuer or such Restricted Subsidiary has received Equity Interests in such joint venture entity in exchange such payment of expenses.

Issue Date means 2 December 2010.

Lien means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing or similar statement under the laws of any jurisdiction.

Marketable Securities means Cash Equivalents and Government Securities.

Moody's means Moody's Investors Service, Inc.

Net Proceeds means the aggregate cash proceeds and Cash Equivalents received by the Issuer or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and any reserve for adjustment or indemnification obligations in respect of the sale price of such asset or assets, if such reserve is required to be established in accordance with GAAP.

Non-Recourse ASB Debt means Indebtedness of ASB:

(1) as to which neither the Issuer nor any of its Restricted Subsidiaries (other than ASB and its Restricted Subsidiaries) (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise; and

(2) as to which the documentation contains customary provisions setting forth that lenders, noteholders or other creditors will not have any recourse to the stock or assets of the Issuer or any of its Restricted Subsidiaries (other than the stock or assets of ASB and its Restricted Subsidiaries).

Non-Recourse Debt means Indebtedness:

(1) as to which neither the Issuer nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise; and

(2) as to which the documentation contains customary provisions setting forth that lenders, noteholders or other creditors will not have any recourse to the stock or assets of the Issuer or any of its Restricted Subsidiaries (other than the Equity Interests of an Unrestricted Subsidiary).

Note Guarantee means the Guarantee by each Guarantor of the Issuer's obligations under the Indenture and the Senior Notes, executed pursuant to the provisions of the Indenture.

Obligations means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

Officer means, with respect to any Person, the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary, any Managing Director or any Vice-President of such Person.

Officers' Certificate means a certificate signed on behalf of any Person by two Officers, one of whom must be the Chief Executive Officer or the Chief Financial Officer of such Person or any other person duly authorized by the Issuer to sign such certificate.

Permitted Business means (i) any businesses, services or activities engaged in by the Issuer and its Restricted Subsidiaries on the Issue Date and (ii) any other business or activity which is ancillary, reasonably related or complementary thereto.

Permitted Investment Securities means (i) Government Securities, (ii) certificates of deposit, commercial paper and short term debt instruments that are readily convertible to cash and (iii) freely tradeable debt securities with a debt rating no lower than A granted by S&P or A2 granted by Moody's for so long as such ratings are maintained.

Permitted Investments means:

(1) any Investment in the Issuer or in a Restricted Subsidiary of the Issuer;

(2) any Investment in cash, Cash Equivalents and Permitted Investment Securities;

(3) any Investment by the Issuer or any of its Restricted Subsidiaries in a Person, if as a result of such Investment:

  (a) such Person becomes a Restricted Subsidiary of the Issuer; or

  (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary of the Issuer;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "*—Repurchase at the Option of Holders—Asset Sales*";

(5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Issuer;

(6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes with Persons who are not Affiliates;

(7) Investments in receivables owing to the Issuer or any its Restricted Subsidiaries created or acquired in the ordinary course of business;

(8) Investments represented by Hedging Obligations, which obligations are permitted by clause (8) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*";

(9) loans, or extensions of credit advances to employees made in the ordinary course of business of the Issuer or any of its Restricted Subsidiaries;

(10) repurchases of the Senior Notes;

(11) any Guarantee of Indebtedness permitted to be incurred by the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*";

(12) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;

(13) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any of its Restricted Subsidiaries of another Person, including by way of a merger, amalgamation or consolidation with or into the Issuer or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption "*—Merger, Consolidation or Sale of Assets*" after the Issue Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(14) Investments by the Issuer or any Restricted Subsidiary in connection with any Receivables Financing;

(15) Investments represented by insurance or reinsurance contracts written by Electro-Ré for so long as Elector-Ré is regulated by a recognized governmental entity or agency;

(16) Investments by Electro Banque permitted under applicable banking regulations and for so long as Electro Banque is regulated by a recognized governmental entity or agency, *provided* that such Investments are ancillary, reasonably related or complementary to Electro Banque's financing business, as conducted by Electro Banque in the ordinary course of its business on the Issue Date, consistent with past practice;

(17) Investments in respect of the contribution of assets or Capital Stock to any Person engaged in a Permitted Business, where more than 50% of the Voting Stock of such Person following such Investment is held by Persons who are not Affiliates of the Issuer; *provided* that each such Investment (i) has been approved by the Board of Directors of the Issuer and (ii) has a Fair Market Value on the date of making such Investment at least equal to the Fair Market Value of the assets or Capital Stock so contributed to such Person; and

(18) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (18) that are at any time outstanding not in excess of €350 million, *provided*, that if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary of the Issuer and such Person subsequently becomes a Restricted Subsidiary of the Issuer or is subsequently designated a Restricted Subsidiary pursuant to "*Certain Covenants—Restricted Payments*", such Investment, if applicable, shall thereafter be deemed to have been made pursuant to clause (3) of the definition of "Permitted Investments" and not this clause.

Permitted Jurisdiction means any member state of the European Economic Area, the People's Republic of China, India, Switzerland, the United States, any state of the United States or the District of Columbia or any jurisdiction of a holding company whose assets consist primarily of the Capital Stock of an entity organized and existing under the laws of the People's Republic of China or India.

Permitted Liens means:

(1) Liens in favor of the Issuer or the Restricted Subsidiaries;

(2) Liens on property of a Person existing at the time such Person becomes a Restricted Subsidiary of the Issuer or is merged with or into or consolidated with the Issuer or any of its Restricted Subsidiaries; *provided* that such Liens were in existence prior to the contemplation of such Person becoming a Restricted Subsidiary of the Issuer or such merger or consolidation and do not extend to any assets other than those of the Person that becomes a Restricted Subsidiary of the Issuer or is merged with or into or consolidated with the Issuer or any of its Restricted Subsidiaries;

(3) Liens on property (including Capital Stock) existing at the time of acquisition of the property by the Issuer or any Subsidiary of the Issuer; *provided* that such Liens were in existence prior to such acquisition and not incurred in contemplation of, such acquisition;

(4) Liens or deposits made in the ordinary course of business or that are incidental to the conduct of business to secure the performance of statutory obligations, contracts, insurance, tender, bid, surety or appeal bonds, workers compensation obligations, performance bonds or other obligations of a like nature incurred in the ordinary course of business (including Liens to secure letters of credit issued to assure payment of such obligations);

(5) Liens to secure Indebtedness (including Capital Lease Obligations and Attributable Debt) permitted by clause (4) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" covering only the assets acquired with or financed by such Indebtedness;

(6) Liens existing on the Issue Date;

(7) Liens for taxes, assessments or governmental charges or claims (civil or administrative) that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

(8) Liens imposed by law, such as carriers', warehousemen's, landlord's and mechanics' Liens, in each case, incurred in the ordinary course of business;

(9) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(10) Liens created for the benefit of (or to secure) the Senior Notes;

(11) Liens securing the Issuer's or any Restricted Subsidiary's obligations under Hedging Obligations;

(12) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the Indenture; *provided*, *however*, that:

  (a) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

  (b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;

(13) bankers' Liens, rights of setoff, Liens arising out of judgments or awards not constituting an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(14) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(15) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(16) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods or services entered into in the ordinary course of business;

(17) Liens securing Permitted Senior Indebtedness (other than clause (17) of the second paragraph of the covenant entitled "*Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*");

(18) Liens securing Non-Recourse ASB Debt permitted by clause (19) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" covering only the assets or property of ASB and its Restricted Subsidiaries;

(19) Liens securing Indebtedness of Electro Banque permitted by clause (17) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" covering only the assets or property of Electro Banque;

(20) Liens on Equity Interests of Unrestricted Subsidiaries that secure Non-recourse Indebtedness of such Unrestricted Subsidiaries; or

(21) Liens not otherwise identified in clauses (1) through (20) above incurred in the ordinary course of business of the Issuer or any Restricted Subsidiary securing Indebtedness not to exceed €100.0 million at any one time outstanding.

Permitted Refinancing Indebtedness means any Indebtedness of the Issuer or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used, directly or indirectly, to renew, refund, refinance, replace, defease or discharge other Indebtedness of the Issuer or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has a final maturity date not earlier than the final maturity date of the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged (or,

with respect to Permitted Refinancing Indebtedness used to renew, refund, refinance, defease or discharge Designated Convertible Securities, a final maturity date not earlier than the Refinancing Date), and has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;

(3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is contractually subordinated in right of payment to the Senior Notes, such Permitted Refinancing Indebtedness is contractually subordinated in right of payment to the Senior Notes, on terms at least as favorable to the holders of Senior Notes as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;

(4) such Indebtedness is incurred either (x) by the Issuer or a Guarantor (if the Issuer or a Restricted Subsidiary was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged) or (y) by a Restricted Subsidiary (if neither the Issuer nor any Guarantor was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged) and, in each case is guaranteed only by Persons who are otherwise permitted to guarantee such Indebtedness had such Indebtedness been permitted to be incurred under the Indenture; and

(5) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is Non-Recourse ASB Debt, such Permitted Refinancing Indebtedness is Non-Recourse ASB Debt.

Permitted Senior Indebtedness means:

(1) Indebtedness permitted by clauses (1), (6), (16), (17), (18) and (20) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*";

(2) Indebtedness, which at the date of it incurrence (whether in a single transaction or a series of related transactions), has an aggregate principal amount of €100 million or less; or

(3) Existing Indebtedness of Restricted Subsidiaries of the Issuer and any Permitted Refinancing Indebtedness used to renew, refund, refinance, replace, defease or discharge any such Indebtedness permitted by clause (5) of the second paragraph of the covenant entitled "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*".

Person means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

Public Indebtedness means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities (and any Guarantees or intercompany or proceeds loans in respect thereof) issued in (a) an offer to the public as defined under applicable French law or (b) a private placement to institutional investors that is underwritten for resale. The term "Public Indebtedness", for the avoidance of doubt, shall not be construed to include any Indebtedness issued to institutional investors in a direct placement of such Indebtedness that is not underwritten by an intermediary (it being understood that, without limiting the foregoing, a financing that is distributed to not more than five Persons (provided that multiple managed accounts and affiliates of any such Persons shall be treated as one Person for the purposes of this definition) shall be deemed not to be underwritten), or any Indebtedness under Credit Facilities, Capital Lease Obligation or recourse transfer of any financial asset or any other type of Indebtedness incurred in a manner not customarily viewed as "securities offering".

Receivables Financing means any financing (whether or not characterised as a sale or reflected as debt on the consolidated balance sheet of the Issuer) of receivables of the Issuer or any Restricted Subsidiary, and, for the avoidance of doubt, may include obligations under or in respect of guarantees and indemnities given in connection therewith.

Refinancing Date means the final maturity date of the Designated Convertible Securities being renewed, refunded, refinanced, defeased or discharged or, if earlier, the first put/call date of such Designated Convertible Securities.

Relevant Subsidiary means any Restricted Subsidiary of the Issuer which is not organized in France or the People's Republic of China.

Restricted Investment means an Investment other than a Permitted Investment.

Restricted Subsidiary of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

Revolving Credit Facility means that certain senior revolving credit facility agreement, dated 5 April 2007, by and among the Issuer and the other parties named therein, providing for up to €1.4 billion of revolving credit borrowings, including any related, instruments and agreements executed in connection therewith, and, in each case, as amended, restated, modified, renewed, refunded, replaced in any manner (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time.

S&P means Standard & Poor's Ratings Group.

Senior Financial Officer means any of the Controller, the Chief Investment Officer, the Chief Accounting Officer or the Chief Financial Officer of the Issuer.

Significant Subsidiary means, at the date of determination, any Restricted Subsidiary of the Issuer that together with its Subsidiaries which are Restricted Subsidiaries of the Issuer (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Issuer or (ii) as of the end of the most recent fiscal quarter, was the owner of more than 10% of the consolidated assets of the Issuer.

Stated Maturity means, with respect to any instalment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

Subsidiary means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

Tax means any tax, duty, levy, impost, assessment or other governmental charge (including penalties and interest related thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax). ***Taxes*** and ***Taxation*** shall be construed to have corresponding meanings.

Total Assets means the consolidated total assets of the Issuer and its Restricted Subsidiaries as shown on the most recent consolidated balance sheet (excluding the footnotes thereto) of the Issuer.

Unrestricted Subsidiary means any Subsidiary of the Issuer that is designated by a Senior Financial Officer of the Issuer as an Unrestricted Subsidiary, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) is not party to any agreement, contract, arrangement or understanding with the Issuer or any of its Restricted Subsidiaries unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer;

(3) is a Person with respect to which neither the Issuer nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Issuer or any of its Restricted Subsidiaries.

Voting Stock of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

Weighted Average Life to Maturity means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining instalment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity (or, with respect to Designated Convertible Securities, at the Refinancing Date), in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

FORM, CLEARANCE AND SETTLEMENT

General

Each issue of Senior Notes will be sold outside the United States in reliance on Regulation S under the U.S. Securities Act and will be represented by one or more global notes in registered form without interest coupons attached (the ***Global Notes***). The Global Notes will be deposited with, or on behalf of, the common depositary for the accounts of Euroclear and Clearstream and registered in the name of the nominee of the common depositary.

Ownership of interests in the Global Notes (the ***Book-Entry Interests***) will be limited to persons that have accounts with Euroclear and/or Clearstream, or persons that hold interests through such participants. Prior to the 40th day after the later of the commencement of this offering and the date the Senior Notes were originally issued (the ***Distribution Compliance Period***), interests in the Global Notes may only be held through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of certificated Senior Notes.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by Euroclear and Clearstream and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Senior Notes are in global form, holders of Book-Entry Interests will not have the Senior Notes registered in their names and will not be considered the owners or "holders" of Senior Notes under the indenture for any purpose.

So long as the Senior Notes are held in global form, Euroclear and/or Clearstream, as applicable (or their respective nominees), will be considered the sole holders of Global Notes for all purposes under the indenture. In addition, participants in Euroclear and/or Clearstream must rely on the procedures of Euroclear and/or Clearstream, as the case may be, and indirect participants must rely on the procedures of Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the indenture.

Neither Alcatel Lucent nor the Trustee under the indenture will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

The Senior Notes will be issued in denominations of €50,000 and in integral multiples of €1,000 in excess thereof.

Repurchases of the Global Notes

In the event any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream (or their respective nominees), as applicable, will repurchase an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the repurchase of such Global Note. The repurchase on price payable in connection with the repurchase of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream, as applicable, in connection with the repurchase of such Global Note (or any portion thereof). Alcatel Lucent understands that, under existing practices of Euroclear and Clearstream, if fewer than all of the Senior Notes are to be repurchased at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no Book-Entry Interest of €50,000 principal amount or less may be repurchased in part.

Payments on Global Notes

Alcatel Lucent will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest, and Additional Amounts, if any, to the common depositary for Euroclear or Clearstream or its nominee, which will distribute such payments to participants in accordance with their procedures). Alcatel Lucent will make payments of all such amounts without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature except as may be required by law. Alcatel Lucent expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the indenture, Alcatel Lucent and the Trustee will treat the registered holders of the Global Notes (i.e. Euroclear or Clearstream (or their respective nominees)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, none of Alcatel Lucent, the Trustee or any or their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to payments made on account of a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Notes

Except as may otherwise be agreed between Euroclear and/or Clearstream and any holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests in such Senior Notes (the ***Euroclear/Clearstream Holders***) through Euroclear and/or Clearstream in euro.

Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of Alcatel Lucent, the Trustee, the initial purchasers or any of their respective agents will be liable to any holder of a Global Note or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised Alcatel Lucent that they will take any action permitted to be taken by a holder of Senior Notes (including the presentation of Senior Notes for exchange as described below) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Senior Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Senior Notes, both Euroclear and Clearstream reserve the right to exchange the Global Notes for definitive registered Senior Notes in certificated form (the ***Definitive Registered Notes***), and to distribute Definitive Registered Notes to its participants.

Transfers

Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of Euroclear and Clearstream and their respective direct or indirect participants, which rules and procedures may change from time to time.

The Global Notes will bear a legend to the effect set forth in "*Transfer Restrictions*". Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers as discussed in "*Transfer Restrictions*". During the Distribution Compliance Period, any sale or transfer of ownership of a Book-Entry Interest within the United States shall not be permitted except pursuant to an exemption from the registration requirements of the U.S. Securities Act.

Definitive Registered Notes

Under the terms of the indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- if Euroclear or Clearstream notifies Alcatel Lucent that it is unwilling or unable to continue as depositary for the Global Notes, and a qualified successor is not appointed by Alcatel Lucent within 120 days;
- if Euroclear or Clearstream so requests following an event of default under the indenture; or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through either Euroclear or Clearstream following an event of default under the indenture.

For so long as the Senior Notes are listed on the Luxembourg Stock Exchange and its rules so require, if Definitive Registered Notes are issued, Alcatel Lucent will publish a notice in Luxembourg in the manner described above in "*Notice to Investors*" and send a copy of such notice to the Luxembourg Stock Exchange. In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such note by surrendering it to the Registrar. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note shall be issued to the transferee in respect of the part transferred, and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed shall be issued to the transferor or the holder, as applicable; provided that no Definitive Registered Note in a denomination less than €1,000, shall be issued. Alcatel Lucent will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

Alcatel Lucent shall not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (a) the record date for any payment of interest on the Senior Notes, (b) any date fixed for redemption of the Senior Notes or (c) the date fixed for selection of the Senior Notes to be redeemed in part. Also, Alcatel Lucent is not required to register the transfer or exchange of any Senior Notes selected for redemption. In the event of the transfer of any Definitive Registered Note, the Transfer Agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the applicable indenture. Alcatel Lucent may require a holder to pay any taxes and fees required by law and permitted by the indenture and the Senior Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Notes have been lost, destroyed or wrongfully taken or if such Definitive Registered Notes are mutilated and are surrendered to the Registrar or at the office of a Transfer Agent, Alcatel Lucent shall issue and the Trustee shall authenticate a replacement Definitive Registered Note if the Trustee's and Alcatel Lucent's requirements are met. The Trustee or Alcatel Lucent may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both the Trustee and Alcatel Lucent to protect Alcatel Lucent, the Trustee or the Paying Agent appointed pursuant to the indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. Alcatel Lucent may charge for its expenses in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by Alcatel Lucent pursuant to the provisions of the indenture, Alcatel Lucent in its discretion may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only in accordance with the indenture and, if required, only after the transferor first delivers to the Transfer Agent a written certification (in the form provided in the indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Senior Notes. See "*Transfer Restrictions*".

Under the terms of the indenture, until definitive certificates representing Senior Notes are ready for delivery, Alcatel Lucent may prepare and the Trustee will authenticate temporary Senior Notes. Temporary Senior Notes will be substantially in the form of definitive Senior Notes but may have variations that Alcatel Lucent considers appropriate for temporary Senior Notes. Without unreasonable delay, Alcatel Lucent will prepare and the Trustee will authenticate definitive Senior Notes in exchange for temporary Senior Notes.

Global clearance, settlement and trading under the book-entry system

The Senior Notes represented by the Global Notes are expected to be listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with the respective rules and operating procedures.

The following description of the operations and procedures of Euroclear and Clearstream is provided solely as a matter of convenience. These operations and procedures are solely within the control of the relevant settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the systems or their participants directly to discuss these matters.

Initial settlement

Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear/Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

Secondary market trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Special timing considerations

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving Senior Notes through Euroclear or Clearstream on days when those systems are open for business.

Clearing information

We expect that the Senior Notes will be accepted for clearance through the facilities of Euroclear and Clearstream.

Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

CERTAIN TAX CONSIDERATIONS

The following is a summary limited to certain tax considerations in France relating to the Senior Notes that may be issued under this Offering Memorandum and specifically contains information on taxes on the income from the securities withheld at source. This summary is based on the laws in force as of the date of this Offering Memorandum and is subject to any changes in law. It does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Senior Notes. Each prospective holder or beneficial owner of Senior Notes should consult its tax adviser as to the tax consequences of any investment in or ownership and disposition of the Senior Notes.

EU Savings Directive

The EU has adopted a Directive EC Council Directive 2003/48/EC regarding the taxation of savings income (the ***Savings Directive***). The Savings Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within their jurisdiction to an individual resident in another Member State or to certain limited types of entities established in that other Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the Commission's advice on the need for changes to the Savings Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above.

The Savings Directive has been implemented in French law under Article 242 ter of the French *Code Général des Impôts* and Articles 49 I ter to 49 I sexies of the Schedule III to the French *Code Général des Impôts*. French Taxation Following the introduction of the French *loi de finances rectificative pour 2009 n° 3* (n° 2009-1674 dated 30 December 2009) (the **Law**), payments of interest and other revenues made by the Issuer with respect to the Senior Notes will not be subject to the withholding tax set out under Article 125 A III of the French *Code Général des Impôts* (the ***50% Withholding Tax***) unless such payments are made outside France in a non-cooperative State or territory (*Etat ou territoire non coopératif*) as set out in the list referred to in Article 238-0 A of the French Code Général des Impôts, as amended from time to time (a ***Non-Cooperative State***). If such payments under the Senior Notes are made in a Non-Cooperative State, a 50 % withholding tax will be applicable by virtue of Article 125 A III of the French *Code Général des Impôts* (subject to certain exceptions and to the more favourable provisions of an applicable tax treaty).

Furthermore, by application of Article 238 A of the French *Code Général des Impôts*, interest and other revenues on such Senior Notes will no longer be deductible from the Issuer's taxable income, as from the fiscal years starting on or after 1 January 2011, if they are paid or accrued to persons established or domiciled in a Non-Cooperative State or paid in such a Non-Cooperative State (the ***Deductibility Exclusion***). Under certain conditions, any such non-deductible interest and other revenues may be recharacterised as constructive dividends pursuant to Article 109 of the French *Code Général des Impôts*, in which case such non-deductible interest and other revenues may be subject to the withholding tax set out under Article 119 bis of the French *Code Général des Impôts*, at a rate of 25% or 50% (subject to the more favourable provisions of an applicable tax treaty).

Notwithstanding the foregoing, by application of the provisions of the Law, neither the 50% Withholding Tax nor the Deductibility Exclusion will apply in respect of the Senior Notes if the Issuer can prove that the principal purpose and effect of the issue of the Senior Notes was not that of allowing the payments of interest or other revenues to be made in a Non-Cooperative State (the ***Exception***). By application of the ruling (*rescrit*) of the French tax authorities n°2010/11 (*FP et FE*) dated 22 February 2010, the issue of Senior Notes will benefit from the Exception without the Issuer having to provide any proof of the purpose and effects of such issue of Senior Notes, if such Senior Notes are:

- admitted to trading on a French or foreign regulated market or a multilateral securities trading system provided that such market or system is not located in a Non-Cooperative State, and the operation of such market is carried out by a market operator or an investment services provider, or by such other similar foreign entity, provided further that such market operator, investment services provider or entity is not located in a Non-Cooperative State; or

- admitted, at the time of their issue, to the operations of a central depositary or of a securities clearing and delivery and payments systems operator within the meaning of Article L.561-2 of the French *Code monétaire et financier*, or of one or more similar foreign depositaries or operators provided that such depositary or operator is not located in a Non-Cooperative State.

Based on the ruling (*rescrit*) of the French tax authorities n°2010/11 (*FP et FE*) dated 22 February 2010, payments of interest and other revenues under the Senior Notes by the Issuer will not be subject to the 50% Withholding Tax and the Deductibility Exclusion will not apply to such payments.

TRANSFER RESTRICTIONS

You are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Senior Notes.

The Senior Notes have not been registered under the U.S. Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Senior Notes are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

Each purchaser of the Senior Notes hereunder (other than each of the initial purchasers) will be deemed to have represented and agreed with the initial purchasers as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

(1) it understands and acknowledges that the Senior Notes have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Senior Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities laws, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act and any other applicable securities laws or pursuant to an exemption therefrom or in a transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraph (4) below;

(2) it is not an "affiliate" (as defined in Rule 144 under the U.S. Securities Act) of the Issuer or acting on the Issuer's behalf and it is purchasing the Senior Notes in an offshore transaction in accordance with Regulation S under the U.S. Securities Act;

(3) it acknowledges that neither we nor the initial purchasers, nor any person representing any of them, has made any representation to it with respect to us or the offer or sale of any Senior Notes, other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Senior Notes. It has had access to such financial and other information concerning us and the Senior Notes as it has deemed necessary in connection with its decision to purchase any of the Senior Notes, including an opportunity to ask questions of, and request information from, us and the initial purchasers. It acknowledges that neither the initial purchasers nor any person representing the initial purchasers make any representation or warranty as to the accuracy or completeness of this Offering Memorandum;

(4) it is purchasing the Senior Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Senior Notes pursuant any exemption from registration available under the U.S. Securities Act;

(5) it agrees on its own behalf and on behalf of any investor account for which it is purchasing the Senior Notes, and each subsequent holder of the Senior Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Senior Notes prior to the date (the ***Resale Restriction Termination Date***) that is 40 days after the later of the commencement or completion of the offering of the Senior Notes only (i) to the Issuer or any subsidiary thereof, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, (iii) pursuant to offers and sales that occur outside the United States and in compliance with Regulation S or (iv) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to compliance with any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clauses (iii) and (iv) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of the Senior Notes is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

Each purchaser acknowledges that each Senior Note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ***U.S. SECURITIES ACT***), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SUCH NOTE, THAT PRIOR TO THE 40TH DAY AFTER THE LATER OF THE COMMENCEMENT OR COMPLETION OF THE OFFERING (THE ***RESALE RESTRICTION TERMINATION DATE***), IT WILL ONLY OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, (A) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES AND MEETING THE REQUIREMENTS OF RULE 904 UNDER THE SECURITIES ACT OR (D) PURSUANT TO ANY AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH CASE TO COMPLIANCE WITH ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (C) OR (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS NOTE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER WILL BE REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THIS NOTE OF THE RESALE RESTRICTIONS SET FORTH ABOVE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

(6) it agrees that it will give to each person to whom it transfers the Senior Notes notice of any restrictions in the transfer of such Senior Notes;

(7) it acknowledges that until 40 days after the commencement of the offering, any offer or sale of the Senior Notes within the U.S. by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act;

(8) it acknowledges that we, the initial purchasers and others will rely upon the truth and accuracy of its acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Senior Notes are no longer accurate, it shall promptly notify the initial purchasers. If it is acquiring any Senior Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account; and

(9) it understands that no action has been taken in any jurisdiction (including the United States) by us or the initial purchasers that would result in a public offering of the Senior Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Senior Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Senior Notes will be subject to the selling restrictions set forth under "*Plan of Distribution*".

LEGAL MATTERS

Certain legal matters with respect to the offering of the Senior Notes will be passed upon for the Issuer by Freshfields Bruckhaus Deringer LLP, U.S. and French counsel to the Issuer. Certain legal matters in connection with the offering of the Senior Notes will be passed upon for the initial purchasers by Allen & Overy LLP, U.S. and French counsel to the initial purchasers.

PLAN OF DISTRIBUTION

Under the terms and conditions contained in a purchase agreement dated 25 November 2010 (the ***Purchase Agreement***), the Issuer has agreed to offer to the initial purchasers and, subject to certain conditions contained therein, the initial purchasers have agreed to subscribe for the following principal amounts of Senior Notes:

Initial Purchasers	Principal Amount of Senior Notes
Goldman Sachs International	€375,000,000
Citigroup Global Markets Limited	€125,000,000
Total	**€500,000,000**

The obligations of the initial purchasers under the Purchase Agreement, including their agreement to subscribe for Senior Notes from the Issuer, are several and not joint. The Purchase Agreement provides that the initial purchasers are obligated to subscribe for all of the Senior Notes if any are subscribed.

The initial purchasers propose to offer the Senior Notes initially at the offering price set out on the cover page of this Offering Memorandum. After the initial offering, the offering price and other selling terms may be changed.

The Issuer has agreed to pay the initial purchasers certain customary fees for their services in connection with this offering and to reimburse them for certain out-of-pocket expenses.

The Issuer has also agreed to indemnify and hold harmless the initial purchasers against certain liabilities.

In the Purchase Agreement, each of the initial purchasers has represented and agreed, severally and not jointly with the other initial purchaser, that:

- it has not offered or sold, and will not offer or sell, any Senior Notes within the United States (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the date of closing of the offering except in accordance with Rule 903 of Regulation S;
- it has complied with the offering restrictions requirements of Regulation S;
- at or prior to the confirmation of sale of Notes, it shall have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period (eithin the meaning of Regulation S) a confirmation or notice substantially to the effect that:

  "(i) The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the ***Act***) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (x) as part of their distribution at any time or (y) otherwise until 40 days after the later of the commencement of the offering and the date of closing of the offering, except in either case in accordance with Regulation S under the Act. Terms used in this paragraph have the meanings given to them by Regulation S.

  and

  (ii) Each distributor selling securities to a distributor, a dealer, or a person receiving a selling concession, fee or other remuneration in respect of the securities sold, prior to the expiration of the 40-day distribution compliance period, must send a confirmation or other notice to the purchaser stating that the purchaser is subject to the same restrictions on offers and sales that apply to a distributor."
- neither it, nor any of its affiliates (as defined in Rule 501(b) of Regulation D) nor any person acting on its or their behalf, has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Senior Notes (it being understood that the initial purchasers shall not be considered to be acting on behalf of the Issuer for the purposes of this paragraph);
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity within the meaning of section 21 of the Financial Services and Markets Act 2000 (the ***FSMA***) received by them in connection with the issue or sale of any Senior Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issue;
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Senior Notes in, from or otherwise involving the United Kingdom; and
- it has not offered or sold or caused to be offered or sold and will not offer or sell or cause to be offered or sold, directly or indirectly, the Senior Notes to the public in France, and it has not released, issued or

distributed or caused to be released, issued or distributed and will not release, issue or distribute or cause to be released, issued or distributed to the public in France this Offering memorandum or any other offering material relating to the Senior Notes, nor have they or will they be used in connection with any offer for subscription or sale of the Senior Notes to the public in France and that any such offers, sales and distributions have been and shall only be made in France to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*) and/or (b) qualified investors (*investisseurs qualifies*), other than individuals, acting for their own account, all as defined in, and in accordance with, Articles L.411-1 and L.411-2 and articles D.411-1 to D.411-3 of the French *Code monétaire et financier*.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the initial purchasers that would permit a public offering of the Senior Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Senior Notes in any jurisdiction where action for this purpose is required. Accordingly, the Senior Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Senior Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Senior Notes, the distribution of this Offering Memorandum and resale of the Senior Notes. See "*Notice to Investors*".

Neither this Offering Memorandum nor any other offering material relating to the Senior Notes has been admitted to the clearance procedures of the *Autorité des marches financiers*. Any investors subscribing for or purchasing the Senior Notes should be acting for their own account; and (iii) the direct and indirect distribution, offer or sale to the public of the Senior Notes acquired by them may only be made in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 of the French *Code monétaire et financier*.

The Senior Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Each initial purchaser has represented and agreed that it has offered and sold the Senior Notes, and will offer and sell the Senior Notes (i) as part of its distribution at any date and (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date of the Senior Notes, only in accordance with Rule 903 of Regulation S under the U.S. Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

In addition, until 40 days after the later of (i) the commencement of this offering and (ii) the issue date of the Senior Notes, an offer or sale of Senior Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

Persons who purchase Senior Notes from the initial purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the issue price set forth on the cover page of this Offering Memorandum.

No sale of similar notes

The Issuer has agreed that during the period from the date of the Purchase Agreement through and including the date that is 60 days after the date of the Purchase Agreement, none of the Issuer or any of its subsidiaries will, without the prior written consent provided for in the Purchase Agreement, offer, sell, contract to sell or otherwise dispose of, in the capital markets, any debt securities issued or guaranteed by the Issuer and having a tenor of more than one year (other than (i) the Senior Notes and (ii) any other debt securities (excluding (x) high yield debt securities and (y) additional notes fungible with the 2014 Bonds) whose principal amount, individually or in the aggregate, is not more than €300 million). The Issuer has also agreed that it will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the safe harbor of Regulation S under the U.S. Securities Act to cease to be applicable to the offer, subscription and sale of the Senior Notes.

New issue of Senior Notes

The Senior Notes are a new issue of securities for which there currently is no market. We have applied to list the Senior Notes on the Official List of the Luxembourg Stock Exchange and for admission to trading on the Euro MTF Market. We cannot assure you, however, that the Senior Notes will be or remain eligible or listed for trading.

The initial purchasers have advised us that they intend to make a market in the Senior Notes as permitted by applicable law. They are not obligated however, to make a market in the Senior Notes and any market making may be discontinued at any time at their sole discretion. In addition, any such market making activity will be subject to the limits imposed by the U.S. Securities Act and the U.S. Exchange Act of 1934, as amended. Accordingly, there is no assurance that any market for the Senior Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Senior Notes at a particular time or at a price which will be favourable to you. See "*Risk Factors—Risks related to the Senior Notes—There may be no public or active trading market for the Senior Notes*".

Initial settlement

It is expected that delivery of the Senior Notes will be made against payment therefor on or about the date of the settlement of the offering, which will be the fifth business day following the date of pricing of the Senior Notes (such settlement being referred to as "T+5"). Trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Senior Notes on the date of pricing or the next succeeding second business days will be required, by virtue of the fact that the Senior Notes initially will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Senior Notes who wish to trade the Senior Notes on the date of pricing or the next succeeding three business days should consult their own advisers.

Price stabilization and short positions

In connection with this offering, Goldman Sachs International (the ***Stabilizing Manager***), or any person acting for it may engage in transactions that stabilize, maintain or otherwise affect the price of the Senior Notes. Specifically, the Stabilizing Manager, or persons acting on its behalf, may bid for and purchase Senior Notes in the open markets to stabilize the price of the Senior Notes. The Stabilizing Manager, or persons acting on its behalf, may also over-allot the offering, creating a syndicate short position, and may bid for and purchase Senior Notes in the open market to cover the syndicate short position. In addition, the Stabilizing Manager, or persons acting on its behalf, may bid for and purchase Senior Notes in market making transactions as permitted by applicable laws and regulations and impose penalty bids. These activities may stabilize or maintain the respective market price of the Senior Notes above market levels that may otherwise prevail. The Stabilizing Manager is not required to engage in these activities, and may end these activities at any time. Accordingly, no assurances can be given as to the liquidity of, or trading markets for, the Senior Notes. See "*Risk Factors—Risks related to the Senior Notes—There may be no public or active trading market for the Senior Notes*".

Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchases of the Senior Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the Senior Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Senior Notes to be higher than it would otherwise be in the absence of these transactions. Neither we nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Senior Notes. In addition, there is no obligation on the Stabilization Manager to engage in such transactions and neither we nor the initial purchasers make any representation that the Stabilization Manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. Any stabilization action may begin on or after the date on, which adequate public disclosure of the terms of this issue is made and, if begun, may be discontinued at any time, but it must end no later than the earlier of 30 days after the issue date and 60 days after the date of the allotment of the Senior Notes. Any stabilization action or over-allotment must be conducted by the Stabilization Manager (or persons acting on behalf of the Stabilization Manager) in accordance with all applicable laws and rules.

Other relationships

The initial purchasers have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Issuer and its affiliates, for which they received customary compensation.

STATUTORY AUDITORS

Our Consolidated Financial Statements as of and for the years ended 31 December 2009, 2008 and 2007 have been audited by Deloitte & Associés and Ernst & Young et Autres, our statutory auditors, as stated in their reports.

LISTING AND GENERAL INFORMATION

Listing

Application has been made to list the Senior Notes on the Luxembourg Stock Exchange in accordance with its rules.

Luxembourg Listing Information

The Issuer will maintain one or more paying agents for the Senior Notes in London and, for so long as the Senior Notes are admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange and listed on the Official List of the Luxembourg Stock Exchange, a paying agent qualifying as a credit institution or financial institution under the European Union Directive 2006/48/EC and capable of ensuring that the financial service of the Senior Notes is made in Luxembourg.

For so long as the Senior Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange require, copies of the following documents may be inspected and obtained at the specified office of the Listing Agent in Luxembourg during normal course business hours on any weekday:

- the *statuts* (bylaws) of the Issuer;
- the most recent annual audited consolidated financial statements and unaudited condensed interim consolidated financial statements published by the Issuer; and
- the indenture relating to the Senior Notes (which includes the form of the Senior Notes).

Clearing Information

The Senior Notes have been accepted for clearance through the facilities of Euroclear and Clearstream under common code 056456392. The international securities identification number for the Senior Notes is XS0564563921.

Legal Information

We are a *société anonyme* incorporated under the laws of France on 18 June 1898 with a share capital recorded in our *statuts* as at 31 August 2010 of €4,636,275,532 represented by 2,318,137,766 ordinary shares, each with a nominal value of €2, fully paid.

Our registered office is 3, avenue Octave Gréard 75007 Paris, France. Our registration number is 542 019 096 R.C.S. Paris.

The creation and issuance of the Senior Notes was decided on 25 November 2010 by the Chief Executive Officer acting pursuant to a resolution of the board of directors of the Issuer, dated 4 May 2010.

Offering Memorandum

Except as disclosed in this Offering Memorandum and for the avoidance of doubt, in the Documents Incorporated by Reference:

- there has been no significant change in the financial or trading position of the Issuer since 30 September 2010;
- there has been no material adverse change in the prospects of the Issuer, as described in the 2009 Annual Report, since 31 December 2009; and
- the Issuer is not involved in any litigation or arbitration proceedings (including any such proceedings which are pending or threatened and of which the Issuer is aware) which may have or have had in the recent past (covering the past 12 months) a significant effect on the financial position of the Issuer.

ATTACHMENT A

[THIS PAGE INTENTIONALLY LEFT BLANK]

ALCATEL-LUCENT
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2010*

* These condensed consolidated financial statements have been subject to a review by the auditors.

CONSOLIDATED INCOME STATEMENTS

(In millions except per share information)

	Note	Q3 2010	Q3 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009	2009
Revenues	5 & 6	4,074	3,687	11,134	11,190	15,157
Cost of sales (1)		(2,697)	(2,455)	(7,322)	(7,532)	(10,046)
Gross profit		**1,377**	**1,232**	**3,812**	**3,658**	**5,111**
Administrative and selling expenses (1)		(718)	(699)	(2,165)	(2,236)	*(2,913)*
Research and development expenses before capitalization of development expenses		*(674)*	*(610)*	*(1,954)*	*(1,956)*	*(2,527)*
Impact of capitalization of development expenses		*4*	*1*	*(12)*	*2*	*4*
Research and development costs (1)		(670)	(609)	(1,966)	(1,954)	(2,523)
Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments	5	**(11)**	**(76)**	**(319)**	**(532)**	**(325)**
Restructuring costs	18	(71)	(136)	(315)	(337)	(605)
Litigations (2)		10	-	(6)	-	(109)
Gain/(loss) on disposal of consolidated entities (3)		-	-	(3)	-	99
Post-retirement benefit plan amendments	18, 20, 22e	30	38	30	37	248
Income (loss) from operating activities		**(42)**	**(174)**	**(613)**	**(832)**	**(692)**
Interest related to gross financial debt		*(86)*	*(72)*	*(264)*	*(230)*	*(313)*
Interest related to cash and cash equivalents		*10*	*8*	*40*	*46*	*59*
Finance cost	9	(76)	(64)	(224)	(184)	(254)
Other financial income (loss)	9	137	49	222	191	249
Share in net income (losses) of equity affiliates		4	2	12	(4)	1
Income (loss) before income tax and discontinued operations		**23**	**(187)**	**(603)**	**(829)**	**(696)**
Income tax (expense) benefit	11	23	8	(28)	101	60
Income (loss) from continuing operations		**46**	**(179)**	**(631)**	**(728)**	**(636)**
Income (loss) from discontinued operations	10	-	-	(13)	129	132
Net Income (Loss)		**46**	**(179)**	**(644)**	**(599)**	**(504)**
Attributable to:						
- Equity owners of the parent		**25**	**(182)**	**(674)**	**(570)**	**(524)**
- Non-controlling interests		21	3	30	(29)	20
Net income (loss) attributable to the equity owners of the parent per share (in euros / U.S.dollars)						
- Basic earnings per share	12	0.01	(0.08)	(0.30)	(0.25)	(0.23)
- Diluted earnings per share	12	0.01	(0.08)	(0.30)	(0.25)	(0.23)
Net income (loss) before discontinued operations attributable to the equity owners of the parent per share (in euros / U.S. dollars)						
- Basic earnings per share		0.01	(0.08)	(0.29)	(0.31)	(0.29)
- Diluted earnings per share		0.01	(0.08)	(0.29)	(0.31)	(0.29)
Net income (loss) of discontinued operations per share (in euros / U.S. dollars)						
- Basic earnings per share		0.00	0.00	(0.01)	0.06	0.06
- Diluted earnings per share		0.00	0.00	(0.01)	0.06	0.06

(1) Classification of share-based payments between cost of sales, administrative and selling expenses and research & development costs is provided in Note 8.

(2) Related to material litigations (see Note 1p of the 2009 consolidated financial statements): the FCPA litigation disclosed in Note 22a for a negative amount of € 10 million for the nine months ended September 30, 2010 (€93 million in 2009 representing the net present value of US$ 137.4 million) and the Fox River litigation (Lucent's separation agreements) for a positive amount of € 4 million or US$ 5 million for the nine months ended September 30, 2010 (compared to a charge of 16 million or US$ 22 million in 2009).

(3) 2010 and 2009 amounts are related to the disposal of the Fractional Horsepower Motors activity (see Note 3).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009	2009
Net income (loss) for the period	**46**	**(179)**	**(644)**	**(599)**	**(504)**
Financial assets available for sale:	2	5	18	28	*13*
Valuation gains/(losses) taken to equity	*10*	*5*	*26*	*28*	*23*
Transferred to profit or loss on sale	*(8)*	*-*	*(8)*	*-*	*(9)*
Cumulative translation adjustments	(153)	(68)	194	19	39
Cash flow hedging	(50)	7	(31)	1	11
Amount taken to equity	*(43)*	*(4)*	*(7)*	*(12)*	*(9)*
Recycling in income (loss)	*(7)*	*10*	*(24)*	*13*	*20*
Actuarial gains (losses) and adjustments arising from asset ceiling limitation and IFRIC 14	12	(267)	(861)	(625)	(582)
Tax on items recognized directly in equity	2	(4)	9	(10)	(1)
Other adjustments	-	-	-	(54)	(53)
Total other comprehensive income (loss)	**(187)**	**(327)**	**(671)**	**(641)**	**(573)**
Of which transferred to profit and loss	*(15)*	*10*	*(32)*	*13*	*11*
Total comprehensive income (loss) for the period	**(141)**	**(506)**	**(1,315)**	**(1,240)**	**(1,077)**
Attributable to:					
- Equity owners of the parent	**(103)**	**(486)**	**(1,387)**	**(1,191)**	**(1,079)**
- Non-controlling interests	(38)	(20)	72	(49)	2

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of euros)

ASSETS	Note	September 30, 2010	September 30, 2009	December 31, 2009
Non-current assets:				
Goodwill	13	4,311	4,129	4,168
Intangible assets, net		2,096	2,249	2,214
Goodwill and intangible assets, net		**6,407**	**6,378**	**6,382**
Property, plant and equipment, net		1,207	1,236	1,260
Investment in net assets of equity affiliates		56	82	60
Other non-current financial assets, net	14	430	424	392
Deferred tax assets		922	882	836
Prepaid pension costs	20	2,803	2,559	2,400
Other non-current assets	15	220	331	314
Total non-current assets		**12,045**	**11,892**	**11,644**
Current assets:				
Inventories and work in progress, net	4 & 16	2,567	2,171	1,902
Trade receivables and other receivables, net	4 & 16	3,323	3,481	3,519
Advances and progress payments	16	88	101	93
Other current assets	15	1,126	1,332	960
Current income taxes		161	152	157
Marketable securities, net	14 & 19	1,197	1,901	1,993
Cash and cash equivalents	19	3,227	3,378	3,577
Current assets before assets held for sale		*11,689*	*12,516*	*12,201*
Assets held for sale and assets included in disposal groups held for sale	10	219	53	51
Total current assets		**11,908**	**12,569**	**12,252**
Total Assets		**23,953**	**24,461**	**23,896**

(In millions of euros)

EQUITY AND LIABILITIES	Note	September 30, 2010	September 30, 2009	December 31, 2009
Equity:				
Capital stock (€ 2 nominal value: 2,318,206,790, ordinary shares issued at September 30, 2010, 2,318,058,888 ordinary shares issued at September 30, 2009 and 2,318,060,818 ordinary shares issued at December 31, 2009)		4,636	4,636	4,636
Additional paid-in capital		16,718	16,677	16,689
Less treasury stock at cost		(1,566)	(1,567)	(1,567)
Accumulated deficit, fair value and other reserves		(15,913)	(14,588)	(14,518)
Cumulative translation adjustments		(824)	(985)	(976)
Net income (loss) - attributable to the equity owners of the parent		(674)	(570)	(524)
Equity attributable to equity owners of the parent		2,377	*3,603*	*3,740*
Non-controlling interests		631	*537*	*569*
Total equity	17	**3,008**	**4,140**	**4,309**
Non-current liabilities:				
Pensions, retirement indemnities and other post-retirement benefits	20	6,014	5,465	5,043
Bonds and notes issued, long-term	17, 19	3,479	4,078	4,084
Other long-term debt	19	61	63	95
Deferred tax liabilities		1,127	1,106	1,058
Other non-current liabilities	15	247	229	209
Total non-current liabilities		**10,928**	**10,941**	**10,489**
Current liabilities:				
Provisions	4 & 18	1,969	2,074	2,122
Current portion of long-term debt	19	1,146	622	576
Customers' deposits and advances	4 & 16	915	675	639
Trade payables and other payables	16	4,173	3,913	3,926
Current income tax liabilities		68	83	72
Other current liabilities	15	1,675	2,013	1,763
Current liabilities before liabilities related to disposal groups held for sale		*9,946*	*9,380*	*9,098*
Liabilities related to disposal groups held for sale	10	71	-	-
Total current liabilities		**10,017**	**9,380**	**9,098**
Total Equity and Liabilities		**23,953**	**24,461**	**23,896**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of euros)

	Note	Six months ended June 30, 2010	Q3 2010	Nine months ended Sept. 30, 2010	Nine months ended Sept. 30, 2009	2009
Cash flows from operating activities						
Net income (loss) - attributable to the equity owners of the parent		(699)	25	(674)	(570)	(524)
Non-controlling interests		9	21	30	(29)	20
Adjustments	21	399	161	560	201	289
Net cash provided (used) by operating activities before changes in working capital, interest and taxes	21	**(291)**	**207**	**(84)**	**(398)**	**(215)**
Net change in current assets and liabilities (excluding financing):						
Inventories and work in progress	16	(577)	(109)	(686)	132	409
Trade receivables and other receivables	16	583	(137)	446	762	892
Advances and progress payments	16	24	(8)	16	2	12
Trade payables and other payables	16	5	51	56	(602)	(747)
Customers' deposits and advances	16	(18)	121	103	96	(76)
Other current assets and liabilities		(91)	(61)	(152)	(147)	(19)
Cash provided (used) by operating activities before interest and taxes		**(365)**	**64**	**(301)**	**(155)**	**256**
Interest received		28	8	36	57	72
Interest paid		(181)	(100)	(281)	(212)	(244)
Taxes (paid)/received		(68)	(61)	(129)	(62)	(89)
Net cash provided (used) by operating activities		**(586)**	**(89)**	**(675)**	**(372)**	**(5)**
Cash flows from investing activities:						
Proceeds from disposal of tangible and intangible assets		3	19	22	18	25
Capital expenditures		(278)	(184)	(462)	(497)	(691)
Of which impact of capitalization of development costs		*(132)*	*(71)*	*(203)*	*(210)*	*(284)*
Decrease (increase) in loans and other non-current financial assets		3	(18)	(15)	16	20
Cash expenditures for acquisition of consolidated and non-consolidated companies		(1)	(6)	(7)	(6)	(12)
Cash and cash equivalents from consolidated companies acquired			-	-	13	13
Cash proceeds from sale of previously consolidated and non-consolidated companies		14	10	24	1,606	1 765
Cash proceeds from sale (Cash expenditure for acquisition) of marketable securities		248	583	831	(972)	(1 062)
Net cash provided (used) by investing activities		**(11)**	**404**	**393**	**178**	**58**
Cash flows from financing activities:						
Issuance/(repayment) of short-term debt		0	***140***	***140***	(94)	(85)
Issuance of long-term debt		3	***3***	***6***	985	1 056
Repayment/repurchase of long-term debt		(356)	(27)	(383)	(1,029)	(1 214)
Proceeds from issuance of shares		-	-	-	-	-
Proceeds from disposal/(acquisition) of treasury stock		-	-	-	-	-
Dividends paid		(3)	(8)	(11)	(6)	(4)
Net cash provided (used) by financing activities		**(356)**	**108**	**(248)**	**(144)**	**(247)**
Cash provided (used) by operating activities of discontinued operations	10	-	-	-		-
Cash provided (used) by investing activities of discontinued operations	10	-	-	-	118	115
Cash provided (used) by financing activities of discontinued operations	10	-	-	-		-
Net effect of exchange rate changes		429	(249)	180	(89)	(31)
Net Increase (Decrease) In Cash And Cash Equivalents		**(524)**	**174**	**(350)**	**(309)**	**(110)**
Cash and cash equivalents at beginning of period / year		**3,577**	**3,053**	**3,577**	**3,687**	**3 687**
Cash and cash equivalents at end of period / year (1)		**3,053**	**3,227**	**3,227**	**3,378**	**3 577**
Cash and cash equivalents at beginning of year classified as assets held for sale		**-**	**-**	**-**	**-**	**-**
Cash and cash equivalents at end of year classified as assets held for sale		**-**	**-**	**-**	**-**	**-**

(1) Includes € 875 million of cash and cash equivalents held in countries subject to exchange control restrictions as of September 30, 2010 (€ 685 million as of September 30, 2009 and € 718 million as of December 31, 2009). Such restrictions can limit the use of such cash and cash equivalents by other group subsidiaries and the parent.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of euros and number of shares)

	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 owners of the parent	Non-controlling interests	TOTAL
Balance at December 31, 2008 after appropriation	**2,259,655,771**	**4,636**	**16,631**	**(12,874)**	**(1,164)**	**(1,566)**	**(1,030)**	**-**	**4,633**	**591**	**5,224**
Changes in equity for the nine month ended September 30, 2009:											
Total comprehensive income (loss) for the nine month period (1)				**(54)**	**(612)**		**45**	**(570)**	**(1,191)**	**(49)**	**(1,240)**
Other capital increases	17,127										
Share-based payments			46						**46**		**46**
Treasury stock	41,046			(4)		(1)			**(5)**		**(5)**
Dividends										(5)	**(5)**
Equity component of Oceane 2015 bond issued in 2009 net of tax				128					**128**		**128**
Other adjustments				(8)					**(8)**		**(8)**
Balance at September 30, 2009	**2,259,713,944**	**4,636**	**16,677**	**(12,812)**	**(1,776)**	**(1,567)**	**(985)**	**(570)**	**3,603**	**537**	**4,140**
Changes in equity for the last three months of 2009											
Total comprehensive income (loss) for the last three months of 2009				**1**	**56**		**9**	**46**	**112**	**51**	**163**
Other capital increases	1,930										
Share-based payments			12						**12**		**12**
Treasury stock	24,550										
Equity component of Oceane 2015 issued in 2009, net of tax											
Dividends											
Other adjustments				12	1				**13**	(19)	**(6)**
Appropriation of net income (loss)				(524)				(524)	**-**		**-**
Balance at December 31, 2009 after appropriation	**2,259,740,424**	**4,636**	**16,689**	**(13,323)**	**(1,719)**	**(1,567)**	**(976)**	**-**	**3,740**	**569**	**4,309**
Changes in equity for the nine month ended September 30, 2010											
Total comprehensive income (loss) for the nine month period (1)					**(865)**		**152**	**(674)**	**(1,387)**	**72**	**(1,315)**
Other capital increases	145,972								**-**		**-**
Share-based payments			29						**29**		**29**
Treasury stock	109,049					1			**1**		**1**
Dividends										(11)	**(11)**
Other adjustments				(6)					**(6)**	1	**(5)**
Balance at September 30, 2010	**2,259,995,445**	**4,636**	**16,718**	**(13,329)**	**(2,584)**	**(1,566)**	**(824)**	**(674)**	**2,377**	**631**	**3,008**

(1) See consolidated statements of comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. On November 30, 2006, 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, unless its existence is extended or shortened by shareholder vote. Alcatel-Lucent's headquarters were situated at 54, rue la Boétie, 75008 Paris, France until May 17, 2010 and from that date are now situated at 3, avenue Octave Gréard, 75007, Paris, France. Alcatel-Lucent is listed principally on the Paris and New York stock exchanges.

The condensed interim 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 November 2, 2010, the Board of Directors authorized the issuance of these condensed interim consolidated financial statements at September 30, 2010.

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 ("EU"), as of the date when our Board of Directors authorized these consolidated financial statements for issuance.

IFRSs can be found at: www.ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission.

IFRSs include the standards approved by the International Accounting Standards Board ("IASB"), that is, IFRSs, International Accounting Standards ("IASs") and accounting interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC").

As of September 30, 2010, all IFRSs that the IASB has published and that are mandatory are the same as those endorsed by the EU and mandatory in the EU, with the exception of:

- IAS 39, which the EU only partially adopted. The part not adopted by the EU has no impact on Alcatel-Lucent's financial statements; and
- Improvements to IFRSs (issued May 2010) (for those improvements that are mandatory from July 1, 2009 or July 1, 2010).

The above improvements and amendments, which are not yet mandatory in the EU, are either not applicable to the Group or will have no significant impact on Alcatel-Lucent's financial statements when adopted by the EU.

As a result, the Group's consolidated financial statements comply with International Financial Reporting Standards as published by the IASB.

New published IASB financial reporting standards, amendments and interpretations applicable to the Group, which the EU has endorsed and which are mandatory in the EU as of January 1, 2010 and adopted by the Group

- Amendments to IFRS 2 "Share-based Payment - Group Cash-settled Share-based Payment Transactions" (issued June 2009);
- A revised IFRS 3 "Business Combinations" and an amended IAS 27 "Consolidated and Separate Financial Statements", which are applied to business combinations for which the acquisition date is on or after January 1, 2010;
- Amendments to IFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations";
- Amendment to IFRS 7 "Improving Disclosures about Financial Instruments";
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items";
- IFRIC 12 "Service Concession Arrangements";

- IFRIC 15 “Agreements for the Construction of Real Estate”;
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”;
- IFRIC 17 “Distributions of Non-cash Assets to Owners”; and
- IFRIC 18 “Transfers of Assets from Customers.

New published IASB financial reporting standards, amendments and interpretations applicable to the Group, which are not yet mandatory, but which the EU has endorsed

The IASB published the following standards, amendments and interpretations prior to September 30, 2010, which are not yet mandatory and for which the Group did not elect early application:

- Amendment to IAS 32 “Financial Instruments: Presentation - Classification of Rights Issues”.
- A revised IAS 24 “Related Party Disclosures” (issued November 2009);
- Amendment to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interactions - Prepayments of a Minimum Funding Requirement” (issued November 2009); and
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (issued November 2009).

These amendments, revised standard and interpretation are not anticipated to have a material impact on our future consolidated financial statements.

New IASB financial reporting standards, amendments and interpretations published, which are not yet mandatory, and which the EU has not yet endorsed

The IASB published the following standard and amendments prior to September 30, 2010, which are not yet mandatory:

- Improvements to IFRSs (issued May 2010) (for those improvements that are mandatory only from January 1, 2011); and
- IFRS 9 “Financial Instruments: Classification and Measurement” (issued November 2009);

The condensed interim consolidated financial statements at September 30, 2010 are prepared in compliance with IAS 34 “Interim Financial Reporting”. The accounting policies and measurement principles adopted for the condensed consolidated financial statements as of and for the nine months ended September 30, 2010 are the same as those used in the audited consolidated financial statements as of and for the year ended December 31, 2009, except for the change in the accounting for business combinations and non-controlling interests disclosed below.

Business combinations after January 1, 2010 (IFRS 3 revised and IAS 27 amended): compared to accounting for business combinations that the Group completed before January 1, 2010, the principal changes are:

- For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Previously, only the latter was permitted.
- The transitional provisions of revised IFRS 3 concerning income taxes could have a material impact on our future consolidated financial statements, because deferred tax assets recognized for the first time after the end of the business combination’s measurement period will be recognized in the income statement and no longer adjusted against goodwill, contrary to the accounting treatment prescribed in previous IFRS 3 (see Note 1n of the 2009 consolidated financial statements filed as part of the Group’s 2009 20-F). In this respect, significant unrecognized income tax loss carry-forwards that relate to Lucent Technologies could materially impact the Group’s consolidated income statement in a positive way, if, in compliance with IAS 12 “Income Taxes”, the Group is able to recognize deferred tax assets in the future corresponding to these tax losses.
- The acquirer is no longer permitted to recognize contingencies acquired in a business combination that is not a present obligation of the acquiree at the date of the business combination.
- Costs the acquirer incurs in connection with a business combination must be accounted for separately from the business combination, which usually means that they are recognized as expenses (rather than included in goodwill).
- Consideration transferred by the acquirer, including contingent consideration, is measured and recognized at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as liabilities are recognized in accordance with IAS 39, IAS 37 or other IFRSs, as appropriate (rather than by adjusting goodwill).

- An acquirer must remeasure any equity interest it holds in the acquiree immediately before achieving control at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss.

Non-controlling interests after January 1, 2010: compared to accounting for non-controlling interests before January 1, 2010, the principal changes are:

- changes in Alcatel-Lucent's ownership interest in a subsidiary that do not result in loss of control are accounted for within equity; and
- when Alcatel-Lucent loses control of a subsidiary, the assets and liabilities and related equity components of the former subsidiary are derecognized. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

Condensed interim consolidated financial statements

Seasonal nature of activity

Interim net sales and income from operations are highly seasonal due to a high level of activity during the last quarter of the year, particularly in December. This characteristic varies from year to year. Pursuant to the IFRS accounting principles, interim net sales are accounted for under the same principles as year-end net sales; that is, in the period in which they are achieved.

NOTE 2. Principal uncertainties regarding the use of estimates

The preparation of consolidated financial statements in accordance with IFRSs requires that the Group makes 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 remains particularly high as of September 30, 2010. 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.

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Valuation allowance for inventories and work in progress on construction contracts	(473)	(532)	(500)
	Nine months ended September 30, 2010	**Nine months ended September 30, 2009**	**Year ended December 31, 2009**
Impact of changes in valuation allowance on income (loss) before income tax and discontinued operations	(92)	(110)	(139)

b/ Impairment of customer receivables

An impairment loss is recorded for customer receivables if the expected 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 Alcatel-Lucent major customers' creditworthiness could have an adverse impact on the Group's future results.

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Accumulated impairment losses on customer receivables	(152)	(191)	(168)
	Nine months ended September 30, 2010	**Nine months ended September 30, 2009**	**Year ended December 31, 2009**
Impact of impairment losses in income (loss) before income tax and discontinued operations	(5)	(14)	(23)

c/ Capitalized development costs, other intangible assets and goodwill

Capitalized development costs

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Capitalized development costs, net	560	553	558

The criteria for capitalizing development costs are set out in Note 1f of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F. Once capitalized, these costs are amortized over the estimated useful lives of the products concerned (3 to 10 years).

The Group 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, the Group may be required to impair or write off some of the capitalized development costs in the future.

An impairment loss of € 3 million for capitalized development costs was accounted for in the first nine months of 2010, € 16 million in the first nine months of 2009 and € 20 million in 2009.

During the fourth quarter of 2009, following the Group's decision to cease any new WiMAX development on the existing hardware platform and software release, restructuring costs of € 44 million were reserved.

Other intangible assets and goodwill

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Goodwill, net	4,311	4,129	4,168
Intangible assets, net (1)	2,096	2,249	2,214
Total	**6,407**	**6,378**	**6,382**

(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 2009 consolidated financial statements filed as part of the Group's 2009 20-F, using market-related information, estimates (primarily based on risk adjusted discounted cash flows derived from Lucent's management) and judgment (in particular in determining the fair values relating to the intangible assets acquired).

No impairment loss was accounted for during the first nine months of 2010 and 2009.

The carrying value of each group of cash generating units at which level goodwill is monitored for internal management purposes (i.e. Product Division) is compared to its recoverable value. The recoverable value is the higher of the value in use and the fair value less costs to sell.

The value in use of each Product Division is calculated using a five year discounted cash flow analysis plus a discounted residual value, corresponding to the capitalization to perpetuity of the normalized cash flows of year 5 (Gordon Shapiro approach).

The fair value less cost to sell of each Product Division is determined based upon the weighted average of the Gordon Shapiro approach described above and the following two approaches:

- five year discounted cash flow analysis plus a Sales Multiple (Enterprise Value-"EV"/Sales) to measure discounted residual value,

- five year discounted cash flow analysis plus an Operating Profit Multiple (Enterprise Value-“EV”/Earnings Before Interest, Tax, Depreciation and Amortization-“EBITDA”) to measure discounted residual value.

The recoverable values of our goodwill and intangible assets, as determined for the impairment tests performed by the Group in the second quarter of 2010, are based on key assumptions which could have a significant impact on the consolidated financial statements. Some of these key assumptions are:

- discount rate;
- a nominal growth (defined as between 0% and 5%) for the telecommunications equipment and related services market in 2010 and
- projected cash-flows which are based on a segment operating income (as defined in Note 5) for 2010 and 2011.

The discount rate used for the annual impairment test of 2010 was the Group’s weighted average cost of capital (“WACC”) of 10 %. This discount rate is an after-tax rate applied to after-tax cash flows. The use of such rate 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. A single discount rate is 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 2010 recoverable values of goodwill and intangibles assets by € 792 million and € 894 million, respectively. An increase of 0.5% in the discount rate would not have impacted impairment losses as of June 30, 2010.

In addition to the annual goodwill impairment tests that occur during the second quarter of each year, impairment tests are carried out if Alcatel-Lucent has indications of a potential reduction in the value of its goodwill or 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.

Due to the change in the economic environment and the volatile behaviour of financial markets, the Group assessed whether as of March 31, 2010, September 30, 2010 and December 31, 2009 there was any indication that any Product Division goodwill may be impaired at that date. The Group concluded that there were no triggering events that would justify performing an additional impairment test as of March 31, 2010, September 30, 2010 and December 31, 2009.

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 of the 2009 consolidated financial statements filed as part of the Group’s 2009 20-F). 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 (such as market statistics and recent transactions).

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. No impairment loss on property, plant and equipment was accounted for in 2009 or in the nine month period ended September 30, 2010.

e/ Provision for warranty costs and other product sales reserves

Provisions are recorded for (i) warranties given to customers on Alcatel-Lucent 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 the income statement 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.

(In millions of euros)

Product sales reserves	September 30, 2010	September 30, 2009	December 31, 2009
Related to construction contracts	103	153	114
Related to other contracts (1)	482	473	482
Total	**585**	**626**	**596**

(1) See note 18.

For further information on the impact on the income statement of changes in these provisions, see Note 18.

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.

(In millions of euros)

Deferred tax assets recognized	September 30, 2010	September 30, 2009	December 31, 2009
Related to the United States	216 (2)	215 (1)	206 (1)
Related to France	501 (2)	496 (1)	451 (1)
Related to other tax jurisdictions	205	171	179
Total	**922**	**882**	**836**

(1) Following the performance of the 2009 annual goodwill impairment test, a reassessment of deferred taxes resulted in reducing the deferred tax assets recorded in the United States and increasing those recognized in France compared to the situation as of December 31, 2008.
(2) Following the performance of the 2010 annual goodwill impairment test, a reassessment of deferred taxes resulted in increasing deferred tax assets recorded in France.

Evaluation of the Group's capacity to utilize tax loss carry-forwards relies on significant judgment. The Group analyzes past events and the positive and negative elements of certain economic factors that may affect its 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 of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F. 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, the Group will be obliged to revise downwards or upwards the amount of the deferred tax assets, which would have a significant impact on Alcatel-Lucent's statement of financial position 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 the future Group income statements as and when such differences are amortized. The remaining deferred tax liabilities related to the purchase price allocation of Lucent as of September 30, 2010 are € 707 million (€ 763 million as of September 30, 2009 and € 751 million as of December 31, 2009).

As prescribed by IFRSs, Alcatel-Lucent 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 the combined company's 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 the income statement.

g/ Pension and retirement obligations and other employee and post-employment benefit obligations

Actuarial assumptions

Alcatel-Lucent's 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 these assumptions would have a material impact on Alcatel-Lucent's results or equity attributable to equity owners of the parent.

	Nine months ended September 30, 2010	Nine months ended September 30, 2009	Year ended December 31, 2009
Weighted average expected rates of return on pension and post-retirement plan assets	6.55%	6.79%	6.69%
Weighted average discount rates used to determine the pension and post-retirement expense	5.24%	6.27%	5.84%

The net effect of pension and post-retirement costs included in "income (loss) before tax and discontinued operations" was a € 222 million increase in pre-tax income during the first nine months of 2010 (€ 150 million increase in pre-tax income during 2009 and a € 36 million decrease in pre-tax income during the first nine months 2009). Included in the € 222 million increase in pre-tax income during the first nine months 2010 was € 30 million booked as a result of certain changes to the management retiree healthcare benefit plan and included in the € 150 million increase in 2009 was € 253 million booked as a result of certain changes to management retiree pension and healthcare benefit plans (refer to Note 20).

Discount rates

Discount rates for Alcatel-Lucent's U.S. plans are determined using the values published in the "original" CitiGroup Pension Discount Curve, which is based on AA-rated corporate bonds. Each future year's expected benefit payments are discounted by the discount rate for the applicable year listed in the CitiGroup Curve, and for those years beyond the last year presented in the CitiGroup Curve for which we have expected benefit payments, we apply the discount rate of the last year presented in the Curve. After applying the discount rates to all future years' benefits, we calculate a single discount rate that results in the same interest cost for the next period as the application of the individual rates would have produced. Discount rates for Alcatel-Lucent's non U.S. plans are determined based on Bloomberg AA Corporate yields.

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have decreased or increased the 2009 net pension and post-retirement result by approximately € (35) million and € 49 million, respectively.

Expected return on plan assets

Expected return on plan assets for Alcatel-Lucent's U.S. plans are determined based on recommendations from our external investment advisor and our own experienced historical returns. Our advisor develops its recommendations by applying the long-term return expectations it develops for each of many classes of investments, to the specific classes and values of investments held by each of our benefit plans. Expected return assumptions are long-term assumptions and are not intended to reflect expectations for the period immediately following their determination. Although these assumptions are reviewed each year, we do not update them for small changes in our advisor's recommendations. However, the pension expense or credit for our U.S. plans is updated every quarter using the fair value of assets and discount rates as of the beginning of the quarter. The expected return on plan assets (accounted for in "other financial income (loss)") for Alcatel-Lucent's U.S. plans for the third quarter of 2010 is based on June 30, 2010 plan asset fair values. However, the expected return on plan assets for Alcatel-Lucent's non U.S. plans for each quarter of 2010 is based on the fair values of plan assets at December 31, 2009.

Holding all other assumptions constant, a 0.5% increase or decrease in the expected return on plan assets would have increased or decreased the 2009 net pension and post-retirement result by approximately € 122 million.

For its U.S. plans, Alcatel-Lucent recognized a US$ 25 million increase in the net pension credit during the third quarter of 2010, which is accounted for in "other financial income (loss)". This increase corresponds to a higher expected return on plan assets for Alcatel-Lucent's U.S. plans due to the increase in plan asset fair values and a lower interest cost due to a decrease in discount rates. Alcatel-Lucent expects a US$ 48 million increase in the net pension credit for its U.S. plans to be accounted for in "other financial income (loss)" during the fourth quarter of 2010 for the same reasons. Alcatel-Lucent does not anticipate a material impact outside its U.S. plans.

Healthcare inflation trends

Regarding healthcare inflation trend rates for Alcatel-Lucent's U.S. plans, our actuaries annually review expected cost trends from numerous healthcare providers, recent developments in medical treatments, the utilization of medical services, and Medicare future premium rates published by the U.S. Government's Center for Medicare and Medicaid Services (CMS) as these premiums are reimbursed for some retirees. They apply these findings to the specific provisions and experience of Alcatel-Lucent's U.S. post-retirement healthcare plans in making their recommendations. In determining our assumptions, we review our recent experience together with our actuary's recommendations.

Participation assumptions

Alcatel-Lucent's U.S. post-retirement healthcare plans allow participants to opt out of coverage at each annual enrollment period, and for almost all to opt back in at any future annual enrollment. An assumption is developed for the number of eligible retirees who will elect to participate in our plans at each future enrollment period. Our actuaries develop a recommendation based on the expected increases in the cost to be paid to a retiree participating in our plans and recent participation history. We review this recommendation annually after the annual enrollment has been completed and update it if necessary.

Mortality assumptions

The mortality assumption for Alcatel-Lucent’s U.S. plans is based on actual recent experience of the participants in our management pension plan and our occupational pension plans. For the 2009 year-end valuation, we updated the mortality assumptions, again based on the actual experience of the two plans. We looked at the experience for the years of 2004 through 2008. As was the case previously, there was insufficient experience to develop assumptions for active employees and former employees who have delayed commencing their pension benefits, so we used the RP 2000 mortality table projected up to year 2009.

Plan assets investment

At its meeting on July 29, 2009, the Board of Directors approved the following modifications to the asset allocation of Alcatel-Lucent's pension funds: the investments in equity securities were to be reduced from 22.5% to 15% and the investments in bonds were to be increased from 62.5% to 70%, while investments in alternatives (i.e., real estate, private equity and hedge funds) were to remain unchanged. The reduction in equity investments in favor of fixed income securities was achieved immediately. The implementation of the asset allocation approved on July 29, 2009 was completed as of January 1, 2010. We believe that these changes should lead to a slight decrease in long-term returns from financial assets. The impact of these changes has been reflected in our expected return assumptions for year 2010.

Plan assets are invested in many different asset categories (such as cash, equities, bonds, real estate and private equity). 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 values 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 September 30, 2010 actual fair values of private equity, venture capital, real estate and absolute return investments were 10% lower than the ones used for accounting purposes as of September 30, 2010, and since the Management Pension Plan has a material investment in these asset classes (the asset ceiling is not applicable to this plan), equity would be negatively impacted by approximately € 225 million.

2010 US Health Care Legislation

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law; and on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA) that amended the PPACA was also signed into law. Under the new legislation, the subsidy paid to Alcatel-Lucent by Medicare for continuing to provide prescription drug benefits to the Group’s U.S. employees and retirees that are at least equivalent to those provided by Medicare Part D, will no longer be tax free after 2012. This change in law resulted in a write-down of our deferred tax assets, which caused a € 77 million charge to the consolidated income statement and a € 6 million profit to the consolidated statement of comprehensive income (refer to Note 11). In addition, reductions in the Medicare payments to Medicare Advantage plans, such as our Private Fee For Service plan, which we offer to our U.S. management retirees, resulted in the need to change our related cost assumption, with an increase in our benefit obligation of € 6 million recognized in the consolidated statement of comprehensive income as an actuarial loss (see Note 20). There are several other provisions that may affect our post-retirement health care benefit obligations but for which additional guidance is needed and expected in order to determine the impact, but we do not expect any impact to be material.

h/ Revenue recognition

As indicated in Note 1o of the 2009 consolidated financial statements included in the Group’s 2009 20-F, revenue under IAS 18 accounting 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, the Group applies 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 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.

Contracts that are multiple element arrangements can include hardware products, stand-alone software, installation and/or integration services, extended warranty, product roadmaps, as examples. Revenue for each unit of accounting is recognized when earned based on the relative fair value of each unit of accounting as determined by internal or third-party analyses of market-based prices. If the criteria described in Note 1o are met, revenue is earned when units of accounting are delivered. If such criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting. Significant judgment is required to allocate contract consideration to each unit of accounting and determine whether the arrangement is a single unit of accounting or a multiple element arrangement. Depending upon how such judgment is exercised, the timing and amount of revenue recognized could differ significantly.

For multiple element arrangements that are based principally on licensing, selling or otherwise marketing software solutions, judgment is required as to whether such arrangements are accounted for under IAS 18 or IAS 11. Software arrangements requiring significant production, modification or customization are accounted for as a construction contract under IAS 11. All other software arrangements are accounted for under IAS 18, in which case the Group requires vendor specific objective evidence (VSOE) of fair value to separate the multiple software elements. If VSOE of fair value is not available, revenue is deferred until the final element in the arrangement is delivered or revenue is recognized over the period that services are being performed if services are the last undelivered element. Significant judgment is required to determine the most appropriate accounting model to be applied in this environment and whether VSOE of fair value exists to allow separation of multiple software 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 the net income (loss) could be significant.

It can be difficult to evaluate the Group's capacity to recover receivables. Such evaluation is based on the customers' creditworthiness and on the Group's 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).

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 (revised), 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, only errors may be corrected.

j/ Accounting treatment of convertible bonds with optional redemption periods/dates before contractual maturity

Some of our convertible bonds have optional redemption periods/dates occurring before their contractual maturity. All the Alcatel-Lucent convertible bond issues were accounted for in accordance with IAS 32 requirements (paragraphs 28 to 32) as described in Note 1m to the 2009 consolidated financial statements included in the Group's 2009 20-F. Classification of the liability and equity components of a convertible instrument is not revised when a change occurs in the likelihood that a conversion will be exercised. On the other hand, if optional redemption periods/dates occur before the contractual maturity of a debenture, a change in the likelihood of redemption before the contractual maturity can lead to a change in the estimated payments. As prescribed by IAS 39, if an issuer revises the estimates of payment due to reliable new estimates, it must adjust the carrying amount of the instrument by computing the present value of the remaining cash flows at the original effective interest rate of the financial liability to reflect the revised estimated cash flows. The adjustment is recognized as income or expense in profit or loss.

As described in Notes 9, 17 and 19, such a change in estimates occurred during the second quarter of 2009 regarding Lucent's 2.875% Series A convertible debenture. Similar changes in estimates could occur in the future for all convertible debentures with optional redemption periods/dates. A loss corresponding to the difference between the present value of the revised estimated cash flows and the carrying amount derived from the split accounting, as described in Note 1m to the 2009 consolidated financial statements included in the Group's 2009 20-F, could impact "other financial income (loss)" as a result of any change in the Group's estimate of redemption triggers on all of Lucent's convertible debt. An approximation of the potential negative impact on "other financial income (loss)" is the carrying amount of the equity component, as disclosed in Notes 17 and 19.

Because of the new accounting treatment described above, the carrying amount of the Lucent 2.875% Series A convertible debentures was equal to the nominal value of the debentures just before the first optional redemption date (i.e. June 15, 2010). Some of the holders of the Series A convertible debentures did not request redemptions as of June 15, 2010. At June 30, 2010, and as described in Notes 9, 17 and 19, we did not consider it possible to estimate reliably the future cash flows and the expected life of the remaining outstanding debentures, because the next optional redemption date (i.e. June 15, 2015) is too far in the future. Thus, and as prescribed by IAS 39, we reapplied the initial accounting treatment and adjusted the carrying amount of the outstanding Series A convertible debentures using their contractual cash flows up to their contractual maturity date (i.e. June 15, 2023). A profit corresponding to the difference between the outstanding nominal value and the present value of the cash flows up to the contractual maturity date was recognized in "Other financial income (loss)" during the second quarter of 2010. Further changes in estimates in respect of the Series A convertible debentures may occur in the future, in which case the carrying amount of the debentures could be further adjusted.

k/ Insured damages

In 2008, Alcatel-Lucent experienced a fire in a newly-built factory containing new machinery. 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 were insured and gave right to an indemnity claim, the amount of which was definitively settled as of September 30, 2009. Alcatel-Lucent received € 33 million on its business interruption insurance, which was accounted for in other revenues during 2009, when the cash was received.

In December 2009, the roof and technical floor of Alcatel-Lucent Spain's headquarters in Madrid partially collapsed for unknown reasons. Alcatel-Lucent Spain rents this building and the lease is accounted for as an operating lease. The damaged assets were derecognized as of December 31, 2009 with a negative impact of € 1 million on income (loss) from operating activities. All costs related to this incident (damaged assets, displacement and relocation costs, etc.) are insured subject to a € 15 million deductible. Displacement and relocation costs below this threshold will be accounted for as incurred in 2010. These costs represented a negative impact of € 1 million on income (loss) from operating activities during the first nine months of 2010. As the cause of the incident is still not known, nothing has been reserved related to Alcatel-Lucent Spain's potential liability to third parties. At this stage, Alcatel-Lucent Spain's liability is not considered probable. However, depending upon the results of the investigation, this situation could evolve.

NOTE 3. Changes in consolidated companies

No material change in consolidated companies occurred during the first nine months of 2010.

The main changes in consolidated companies for 2009 were as follows:

- On November 23, 2009, Alcatel-Lucent announced an agreement to sell its electrical fractional horsepower motors and drives activities, Dunkermotoren GmbH, to Triton, a leading European private equity firm, for an enterprise value of € 145 million. The sale was completed on December 31, 2009 and the preliminary cash proceeds received was € 128 million. The 2009 net capital gain of € 99 million is presented in the line item "Gain/(loss) on disposal of consolidated entities" in the income statement. This amount was subject to a purchase price adjustment that occurred in the first six months of 2010 for an amount of € (3) million.
- On April 30, 2009, Bharti Airtel and Alcatel-Lucent announced the formation of a joint venture to manage Bharti Airtel's pan-India broadband and telephone services and help Airtel's transition to next generation network across India. A new legal entity was formed which was fully consolidated by Alcatel-Lucent from September 30, 2009 onwards.
- The sale of our 20.8% stake in Thales was completed during the second quarter of 2009 with a capital gain of € 255 million accounted for in "other financial income (loss)". This capital gain takes into account € 191 million corresponding to the remaining part of the capital gain that was accounted for in connection with the contribution of our railway signaling business and our integration and services activities for mission-critical systems sold in 2007, and which was eliminated as an intra-group transaction.
- The purchase price of € 670 million paid to the Group by Thales for the disposal of the space business completed in 2007 was subject to adjustment in 2009. As a result, Thales was required to pay to the Group an additional € 130 million (before fees), which was accounted for in "income from discontinued operations" and cashed in for an amount of € 118 million during the second quarter of 2009.

NOTE 4. Change in accounting policy and presentation

Since the Group's adoption of IFRSs in 2004 for construction contracts, costs incurred to date plus recognized profits less the sum of recognized losses (in the case of provisions for contract losses) and progress billings were determined quarterly on a contract-by-contract basis. If the amount was positive, it was included in the statement of financial position as an asset under "amount due from customers on construction contracts". If the amount was negative, it was included as a liability under "amount due to customers on construction contracts". This presentation was based on our understanding of the requirements of IAS 11.

In practice, however, disclosure of these amounts in the statement of financial position is not common. Instead, the information is commonly disclosed in the notes to the financial statements. For this reason, the Group has decided to stop presenting in the statement of financial position the asset and liability for amounts due from, and amounts due to, customers on construction contracts, respectively. Instead, the information will be disclosed as a note in our annual consolidated financial statements. Inventories and work in progress-net, trade receivables and other receivables-net, product sales reserves and, occasionally, customers' deposits and advances are items in the statement of financial position that will be impacted by the new presentation. Notes 16 and 18 to these financial statements show how the amounts due to/due from customers on construction contracts as of September 30, 2009 and December 31, 2009 have been reclassified to the aforesaid captions, to be comparable with the new presentation at September 30, 2010.

NOTE 5. Information by operating 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.

Starting in 2010, Alcatel-Lucent no longer organizes its business according to four operating segments (also called business segments) – Carrier, Applications Software, Enterprise and Services. As of January 1, 2010, the Group is organized in three operating segments.

The tables below present information for the operating segments described hereunder. They take into account the new organization effective January 1, 2010.

The information reported for each of our three operating segments is the same as that presented to the Chief Operating Decision Maker (i.e. the Chief Executive Officer) and is used to make decisions on resource allocation and to assess performance. As of January 1, 2010, the three operating segments are:

- ***Networks***: this segment, which is essentially the same as the former Carrier segment, is streamlined to encompass five product divisions: IP, Optics, Wireless networks, Wireline networks and Radio Frequency Systems (RFS).
- ***Applications:*** develops and maintains software products for our applications business. It consists of the Applications Software segment that was in place in 2009 and the enterprise voice telephony and data networking businesses that were part of the Enterprise segment in 2009. The enterprise voice and data businesses are increasingly focused on software-based platforms, as is the case with applications, and also share an increasingly common enterprise customer base with our applications business.
- ***Services***: this segment, which is substantially the same as the former Services segment, is composed of four product divisions: Managed & outsourcing solutions, Product attached services, Multivendor maintenance, and Network and system integration. It no longer includes OSS/BSS (operations support systems/business support systems) software activities that are now part of the Applications Software segment.

The former Enterprise segment no longer exists as a separate segment. Its voice and data businesses have been moved to Applications, as noted above, while a portion of its Industrial Components business (electrical fractional horsepower motors and drives activities) was sold to Triton in 2009 (refer to Note 3) and the remaining Industrial Components business is now included in a segment that we call “Other”.

Segment information for the prior periods has been re-presented to conform to the current period presentation, to reflect the new organization effective January 1, 2010.

The information by operating segment follows the same accounting policies as those used and described in these condensed interim 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.

a/ Information by operating segment

(In millions of euros)

Q3 2010	Networks	Applications	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	2,450	482	945	3,877	197	**4,074**
Revenues from transactions with other operating segments	9	17	3	29	(29)	-
Revenues from operating segments	**2,459**	**499**	**948**	**3,906**	**168**	**4,074**
Segment operating income (loss)	**31**	**15**	**28**	**74**	**(13)**	**61**

(In millions of euros)

Q3 2009 (re-presented)	Networks	Applications	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	2,222	458	865	3,545	142	**3,687**
Revenues from transactions with other operating segments	9	15	4	28	(28)	-
Revenues from operating segments	**2,231**	**473**	**869**	**3,573**	**114**	**3,687**
Segment operating income (loss)	**(26)**	**-**	**38**	**12**	**(23)**	**(11)**

(In millions of euros)

Nine months ended September 30, 2010	Networks	Applications	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	6,669	1,357	2,595	10,621	513	**11,134**
Revenues from transactions with other operating segments	22	47	8	77	(77)	-
Revenues from operating segments	**6,691**	**1,404**	**2,603**	**10,698**	**436**	**11,134**
Segment operating income (loss)	**(42)**	**(29)**	**7**	**(64)**	**(42)**	**(106)**

(In millions of euros)

Nine months ended September 30, 2009 (re-presented)	Networks	Applications	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	6,820	1,340	2,528	10,688	502	**11,190**
Revenues from transactions with other operating segments	14	39	11	64	(64)	**-**
Revenues from operating segments	**6,834**	**1,379**	**2,539**	**10,752**	**438**	**11,190**
Segment operating income (loss)	**(316)**	**(85)**	**62**	**(339)**	**12**	**(327)**

(In millions of euros)

2009 (re-presented)	Networks	Applications	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	9,047	1,864	3,537	14,448	709	**15,157**
Revenues from transactions with other operating segments	29	50	32	111	(111)	**-**
Revenues from operating segments	**9,076**	**1,914**	**3,569**	**14,559**	**598**	**15,157**
Segment operating income (loss)	**(297)**	**(5)**	**203**	**(99)**	**43**	**(56)**

b/ Reconciliation to consolidated financial statements

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Revenues from reportable segments	3,906	3,573	10,698	10,752	14,559
Revenues from Other segment	197	142	513	502	709
Intersegment eliminations	(29)	(28)	(77)	(64)	(111)
Total Group revenues	**4,074**	**3,687**	**11,134**	**11,190**	**15,157**
Reportable segments operating income (loss)	74	12	(64)	(339)	(99)
Operating income (loss) from Other segment and unallocated amounts (1)	(13)	(23)	(42)	12	43
Segment operating income (loss)	**61**	**(11)**	**(106)**	**(327)**	**(56)**
PPA (2) adjustments (excluding restructuring costs and impairment of assets)	(72)	(65)	(213)	(205)	(269)
Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments	**(11)**	**(76)**	**(319)**	**(532)**	**(325)**
Restructuring costs	(71)	(136)	(315)	(337)	(605)
Litigations	10	-	(6)	-	(109)
Post-retirement benefit plan amendments	30	38	30	37	248
Gain/(loss) on disposal of consolidated entities		-	(3)	-	99
Income (loss) from operating activities	**(42)**	**(174)**	**(613)**	**(832)**	**(692)**

(1) Including € 58 million of share-based payments that were not allocated to reportable segments in 2009.
(2) PPA: purchase price allocation entries related to Lucent business combination.

c/ Products and Services revenues

The following table sets forth revenues and other income by product and service:

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
IP products	365	277	954	839	1,155
Optics products	642	704	1,819	2,083	2,835
Wireline products	394	398	1,052	1,203	1,591
Wireless products	1,049	843	2,844	2,695	3,466
Applications	482	458	1,357	1,340	1,864
Services	945	865	2,595	2,528	3,537
Other	197	142	513	502	709
Total	**4,074**	**3,687**	**11,134**	**11,190**	**15,157**

d/ Information by geographical segment

(In millions of euros)

	France	Other Western Europe	Rest of Europe	Asia Pacific	U.S.A.	Other Americas	Rest of world	Conso-lidated
Nine months period ended September 30, 2010 - Revenues								
- by customer location	1,014	2,091	443	2,035	3,787	860	904	**11,134**
Nine months period ended September 30, 2009 - Revenues								
- by customer location	1,123	2,207	436	2,238	3,301	859	1,026	**11,190**
2009 - Revenues								
- by customer location	1,533	3,039	631	2,978	4,369	1,185	1,422	**15,157**

NOTE 6. Revenues

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Construction contract revenues and other product & services revenues	3,985	3,594	10,906	10,853	14,712
License revenues	29	15	80	132	178
Rental income and other income [1]	60	77	148	205	267
Total	**4,074**	**3,687**	**11,134**	**11,190**	**15,157**

(1) Of which € 77 million related to R&D tax credits in France in the nine months ended September 30, 2010 (€ 72 million in the nine months ended September 30, 2009 and € 93 million in 2009).

NOTE 7. Impairment losses recognized in the income statement

(In millions of euros)

Nine months ended September 30, 2010	Networks	Applications	Services	Other	Total Group
Impairment losses for goodwill					
Impairment losses for capitalized development costs [1]	(3)				**(3)**
Impairment losses for other intangible assets					
Impairment losses for property, plant and equipment					
Impairment losses for shares in equity affiliates				(1)	**(1)**
Impairment losses for financial assets				(6)	**(6)**
Total - Net	**(3)**			**(7)**	**(10)**
of which reversal of impairment loss	-	-	-	-	**-**

(1) Refer to Note 2c

(In millions of euros)

Nine months ended September 30, 2009	Networks	Applications	Services	Other	Total Group
Impairment losses for goodwill	-	-	-	-	**-**
Impairment losses for capitalized development costs [1]	-	(16)	-	-	**(16)**
Impairment losses for other intangible assets	-	-	-	-	**-**
Impairment losses for property, plant and equipment	-	-	-	-	**-**
Impairment losses for shares in equity affiliates	-	-	-	-	**-**
Impairment losses for financial assets	-	-	-	1	**1**
Total - Net	**-**	**(16)**	**-**	**1**	**(15)**
of which reversal of impairment loss	-	-	-	*1*	***1***

(1) Refer to Note 2c

(In millions of euros)

2009	Networks	Applications	Services	Other	Total Group
Impairment losses for goodwill	-	-	-	-	**-**
Impairment losses for capitalized development costs (1)	(4)	(16)	-	-	**(20)**
Impairment losses for other intangible assets	-	-	-	-	**-**
Impairment losses for property, plant and equipment	-	-	-	-	**-**
Impairment losses for shares in equity affiliates	-	-	-	-	**-**
Impairment losses for financial assets	-	-	-	(1)	**(1)**
Total - Net	**(4)**	**(16)**	**-**	**(1)**	**(21)**
of which reversal of impairment loss	-	-	-	1	1

(1) Refer to Note 2c.

NOTE 8. Share-based payments (stock option plans)

Impact on income (loss) from operating activities of share-based payments resulting from stock options, stock purchase plans and restricted stock units

Compensation expense recognized for share-based payments in accordance with IFRS 2 is analyzed as follows:

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Compensation expense for share-based payments	10	15	30	47	59
Presented in the income statement:					
- cost of sales	*2*	*3*	*7*	*12*	*14*
- administrative and selling expenses	*5*	*6*	*14*	*21*	*26*
- research and development costs	*3*	*5*	*9*	*14*	*17*
- restructuring costs	*-*	*1*	*-*	*-*	*1*
Of which equity settled	*9*	*14*	*29*	*46*	*58*
Of which cash settled (1)	*1*	*1*	*1*	*1*	*1*

(1) French taxes paid at the grant date by Alcatel-Lucent for stock options, restricted stock units and performance shares granted from January 1, 2008 onwards.

By simplification, for historical Alcatel plans, during the vesting period and as a result of employees leaving the Group, no share-based payment forfeitures are taken into account when determining compensation expense for share-based payment granted. During the vesting period and as a result of employees leaving the Group, the accounting impact of share-based payment forfeiture is recognized when the forfeiture is made. For share-based payments 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 share-based payments granted by Alcatel-Lucent since March 2007 are applied when determining compensation expense. The estimated forfeiture rate is ultimately adjusted to actual.

Share-based payments cancelled after the vesting period and share-based payments not exercised do not result in correcting charges previously recognized.

Information (characteristics, fair values, assumptions and numbers) regarding all stock options and performance shares granted before December 31, 2009 are given in Note 23e of the 2009 consolidated financial statements filed as part of the Group’s 2009 20F.

At a meeting on March 17, 2010, the Board of Directors authorized the grant of 18,734,266 stock options and a maximum of 7,314,502 performance shares. Using a 45% expected volatility, a 3% risk free rate and a 0.8% distribution rate on future income, the fair value of one stock option is € 0.95 and the fair value of one performance share is € 2.40. Vesting conditions and availability for stock-options are the same as for stock-options granted during 2009 excluding the March 2009 all employees plan as described in Note 23e of the 2009 consolidated financial statements filed as part of the Group’s 2009 20-F. Regarding performance shares authorized for granting on March 17, 2010, vesting conditions and availability are the same as the performance shares granted in the past, as described in Note 23e of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F, except the performance condition, which is based on one criterion instead of several criteria.

NOTE 9. Financial income (loss)

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Finance costs	**(76)**	**(64)**	**(224)**	**(184)**	**(254)**
Dividends	-	1	1	2	3
Provisions for financial risks	-	-	-	-	-
Impairment losses on financial assets	(5)	1	(6)	1	(1)
Net exchange gain (loss)	27	2	(33)	12	-
Financial component of pension and post-retirement benefit costs (1)	91	29	222	43	105
Actual and potential capital gain/(loss) on financial assets (shares of equity affiliates or non-consolidated securities and financial receivables) and marketable securities (2)	9	10	18	278	295
Other (3)	15	6	20	(145)	(153)
Other financial income (loss)	**137**	**49**	**222**	**191**	**249**
Total Financial Income (Loss)	**61**	**(15)**	**(2)**	**7**	**(5)**

(1) Change between 2010 and 2009 is mainly related to Lucent pension credit (refer to Note 20).
(2) Of which for 2009: a capital gain of € 250 million related to the disposal of Thales shares in May 2009.
(3) 2010: of which a loss of € 1 million in the first quarter of 2010 related to the partial repurchases of Lucent's 2.875% Series A convertible bonds (see Note 19) and a profit of € 24 million in the second quarter of 2010 related to resuming the initial accounting treatment in respect of the outstanding Lucent 2.875 % Series A convertible debentures (see Note 19).
2009: of which a gain of € 50 million in the first quarter of 2009 related to the partial repurchase of Lucent's 7.75% bonds due March 2017 (see Note 19). In the second quarter 2009, a loss of € 175 million related to a change of estimated future cash flows related to Lucent's 2.875 % Series A convertible debentures (see Note 19) and a loss of € 1 million and € 2 million respectively in the third and fourth quarters of 2009 related to the partial repurchases of Lucent's 2.875% Series A convertible bonds and of Alcatel's 4.75% Oceane due January 2011 (see Note 19).

NOTE 10. Discontinued operations, assets held for sale and liabilities related to disposal groups held for sale

Discontinued operations for 2009 and the first nine months of 2010 are as follows:

- for the first nine months of 2010: settlements of litigations related to businesses disposed of in prior periods;
- in 2009: adjustment of the selling price related to the disposal of the space business to Thales that was sold in 2007.

Other assets held for sale concern real estate property or business sales in progress at September 30, 2010 and real estate property sales in progress at December 31, 2009 and September 30, 2009.

(In millions of euros)

Income statement of discontinued operations	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Revenues	-	-	-	-	-
Cost of sales	-	-	-	-	-
Gross profit	**-**	**-**	**-**	**-**	**-**
Administrative and selling expenses	-	-	-	-	-
Research and development costs	-	-	-	-	-
Net capital gain (loss) on disposal of discontinued operations (1)	-	-	-	129	132
Income (loss) from operations	**-**	**-**	**-**	**129**	**132**
Financial income (loss)	-	-	-	-	-
Other income (loss)	-	-	(13)	-	-
Income (loss) on discontinued operations	**-**	**-**	**(13)**	**129**	**132**

(1) The 2009 impact results from an adjustment of the purchase price related to the contribution of our interests in two joint ventures in the space sector to Thales (refer to Note 3 of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F).

(In millions of euros)

Statement of financial position	September 30, 2010	September 30, 2009	December 31, 2009
Goodwill	-	-	-
Other assets	-	-	-
Cash	-	-	-
Assets of disposal groups	-	-	**-**
Real estate properties and other assets held for sale (1)	219	53	51
Assets held for sale	**219**	**53**	**51**
Customer deposits and advances	-	-	-
Other liabilities (1)	(71)	-	(1)
Liabilities related to disposal groups held for sale	**(71)**	**-**	**(1)**

(1) Of which € 167 million of assets and € (71) millions of liabilities corresponding to the Vacuum business.

The cash flows of discontinued operations for Q3 2010, Q3 2009, and the nine month periods ended September 30, 2010 and September 30, 2009 and year 2009 are as follows:

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Net income (loss)	-	-	(13)	129	132
Net cash provided (used) by operating activities before changes in working capital	-	-	-	-	-
Other net increase (decrease) in net cash provided (used) by operating activities	-	-	-	-	-
Net cash provided (used) by operating activities (a)	-	-	-	-	-
Net cash provided (used) by investing activities (b)	-	-	-	118	115
Net cash provided (used) by financing activities (c)	-	-	-	-	-
Total (a) + (b) + (c)	**-**	**-**	**-**	**118**	**115**

NOTE 11. Income tax

Analysis of income tax (expense) benefit

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Current income tax (expense) benefit	**(11)**	**(10)**	**(57)**	**(21)**	**(63)**
Deferred taxes related to the purchase price allocation for the Lucent transaction (1)	31	29	93	91	115
Deferred taxes related to Lucent's post-retirement benefit plans (2) (5)	(21)	(9)	(123)	(18)	(35)
Deferred taxes related to Lucent's 2.875 % Series A convertible debentures (3)	-	(2)	(9)	66	65
Other deferred income tax (expense) benefit, net (4)	24	-	68	(17)	(22)
Deferred income tax benefit (expense), net	**34**	**18**	**29**	**122**	**123**
Income tax benefit (expense)	**23**	**8**	**(28)**	**101**	**60**

(1) Related to the reversal of deferred tax liabilities accounted for in the purchase price allocation of Lucent.

(2) Tax impact of the pension credit and changes in 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 1k of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F).

(3) Changes of deferred tax liabilities related to Lucent's 2.875 % Series A convertible debentures (see Notes 2j, 17 and 19).

(4) The nine month period ended September 30, 2010 impact is mainly due to the re-assessment of the recoverability of the deferred tax assets mainly in connection with the 2010 annual impairment test of goodwill performed in the second quarter of 2010. 2009 impacts are mainly due to the re-assessment of the recoverability of deferred tax assets recognized in connection with the 2009 annual impairment test of goodwill performed in the second quarter of 2009.

(5) The nine month period ended September 30, 2010 impact is mainly due to consequences of the recent Healthcare laws enacted in the U.S. These laws have one significant provision that impacted the Group involving the Medicare Part D tax free subsidy of about US$ 34 million annually that we receive from the Government for continuing to provide our prescription drug benefits to Medicare-eligible active represented employees and formerly represented retirees. This legislation eliminates the deduction for expense allocable to the subsidy beginning in 2013, resulting in a reduction in our deferred tax asset and a corresponding income statement charge of about US$ 101 million (€ 77 million) in the first nine months of 2010 that includes the enactment date.

NOTE 12. Earnings per share

a/ Number of shares comprising the capital stock

Number of shares	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Number of ordinary shares issued (share capital)	2,318,206,790	2,318,058,888	2,318,060,818
Treasury shares	(58,211,345)	(58,344,944)	(58,320,394)
Number of shares in circulation	**2,259,995,445**	**2,259,713,944**	**2,259,740,424**
Weighting effect of share issues for stock options exercised	(104,832)	(14,670)	(12,584)
Weighting effect of treasury shares	(94,695)	(16,129)	(30,977)
Number of shares used for calculating basic earnings per share	**2,259,795,918**	**2,259,683,145**	**2,259,696,863**

b/ Earnings per share calculation

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 are calculated on the assumption that the bonds and notes will be systematically redeemed for shares (the "if converted method").

The tables below reconcile basic earnings per share to diluted earnings per share for the periods presented:

(in millions of euros)

Net income (loss)	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Net income (loss) attributable to the equity owners of the parent - basic	25	(182)	(674)	(570)	(524)
Adjustment for dilutive securities on net income: Interest expense related to convertible securities	-	-	-	-	
-Net income (loss) - diluted	**25**	**(182)**	**(674)**	**(570)**	**(524)**

Number of shares	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Weighted average number of shares - basic	**2,259,849,569**	**2,259,699,253**	**2,259,795,918**	**2,259,683,145**	**2,259,696,863**
Dilutive effects:					
- Equity plans (stock options, RSU)	15,873,208	-	-	-	-
- Alcatel-Lucent’s convertible bonds (Oceane) issued on June 12, 2003 and on September 10, 2009	-	-	-	-	-
- 7.75 % convertible securities	-	-	-	-	-
- 2.875 % Series A convertible securities	-	-	-	-	-
- 2.875 % Series B convertible securities	-	-	-	-	-
Weighted average number of shares - diluted	**2,275,722,777**	**2,259,699,253**	**2,259,795,918**	**2,259,683,145**	**2,259,696,863**

Earnings per share, attributable to the owners of the parent (in euros)	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Basic	0.01	(0.08)	(0.30)	(0.25)	(0.23)
Diluted	0.01	(0.08)	(0.30)	(0.25)	(0.23)

c/ Ordinary shares

Ordinary shares owned by consolidated subsidiaries of the Group	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Number of Alcatel-Lucent ordinary shares (weighted average number)	58,281,711	58,347,601	58,306,040	58,361,073	58,351,371
Number of Alcatel-Lucent share equivalents	-	-	-	-	-

d/ Shares subject to future issuance

	September 30, 2010	September 30, 2009	December 31, 2009
Number of stock options not exercised	210,162,526	233,077,798	212,292,704

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:

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Equity plans (stock options, RSU)	-	12,514,811	16,985,492,	7,615,004	7,624,288
Alcatel-Lucent's convertible bonds (Oceane) issued on June 12, 2003 and on September 10, 2009	360,162,302	362,484,868	360,162,302	362,484,868	360,162,302
7.75 % convertible securities	37,557,287	37,557,287	37,557,287	37,557,287	37,557,287
2.875 % Series A convertible securities	35,518,551	232,825,366	33,444,847	304,343,652	196,117,249
2.875 % Series B convertible securities	329,306,028	282,762,393	310,079,930	369,620,117	325,813,655

NOTE 13. Impairment test of goodwill

Specific impairment test as of January 1, 2010 in connection with the new organization

Due to the new organization of our reporting structure beginning January 1, 2010 (see Note 5), an additional impairment test was performed as of January 1, 2010 on the goodwill relating to the Product Divisions that changed. The remaining goodwill as of December 31, 2009 was reallocated to the new Product Divisions using a relative value approach similar to the one used when an entity disposes of an operation within a Product Division.

No impairment loss was accounted for in connection with this impairment test.

2010 Annual impairment test of goodwill

The 2010 annual impairment test of goodwill (performed in May/June 2010) did not result in any impairment loss.

In those groups of Cash Generating Units (Note 1g of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F) in which there is significant goodwill, the data and assumptions used for the annual goodwill impairment test were as follows:

(in millions of euros)

2010 Annual test	Net carrying amount of goodwill (2)	Difference between recoverable amount (A) and carrying amount of the net assets (B) (A) - (B)	Discount rate	Valuation method
Optics division	1,168	885	10.0 %	Value in use (1)
Maintenance division	1,808	842	10.0 %	Value in use (1)
Other CGU	1,607			Discounted cash flows and other data(3)
Total net	**4,583**			

(1) Discounted cash flows for 5 years plus a terminal value determined with a perpetual growth applied to the normalized cash flow of year 5.
(2) At the date of the annual impairment test (i.e. June 30, 2010).
(3) 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 0% and +2.5% depending on the Group's CGUs.

2009 Annual impairment test of goodwill

The 2009 annual impairment test of goodwill (performed in May/June 2009) did not result in any impairment loss.

In those groups of Cash Generating Units (Note 1g of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F) in which there is significant goodwill, the data and assumptions used for the annual goodwill impairment test were as follows:

(in millions of euros)

2009 Annual test	Net carrying amount of goodwill (2)	Difference between recoverable amount (A) and carrying amount of the net assets (B) (A) - (B)	Discount rate	Valuation method
Optics division	1,145	269	11.0%	Discounted cash flows and other data (1)
Maintenance division	1,623	379	11.0%	Same as above (1)
Other CGU	1,434	-	-	Same as above (1)
Total net	**4,202**			

(1) Discounted cash flows for 5 years plus a terminal value. Other data: multiples derived from market capitalizations.
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 were between 0% and +2.5% depending on the Group's CGUs.
The difference between the fair value (determined as disclosed in Note 2c of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F) and the carrying value amounted to € 379 million as of June 30, 2009.
(2) At the date of the annual impairment test (i.e. June 30, 2009).

NOTE 14. Financial assets

(In millions of euros)

	September 30, 2010			September 30, 2009			December 31, 2009		
	Other non-current financial assets (1)	Marketable securities (2)	Total	Other non-current financial assets (1)	Marketable securities (2)	Total	Other non-current financial assets (1)	Marketable securities (2)	Total
Financial assets available for sale	330	285	**615**	340	232	**572**	305	271	**576**
Financial assets at fair value through profit or loss		912	**912**		1,669	**1,669**		1,722	**1,722**
Financial assets at amortized cost	100		**100**	84		**84**	87		**87**
Total	**430**	**1,197**	**1,627**	**424**	**1,901**	**2,325**	**392**	**1,993**	**2,385**

(1) Of which € 99 million matures within one year from September 30, 2010 (€ 75 million as of September 30, 2009 and € 78 million as of December 31, 2009).
Of which € 25 million of financial assets at amortized cost represented a loan to one of Alcatel-Lucent's joint ventures as of September 30, 2010 (€ 34 million as of September 30, 2009 and € 29 million as of December 31, 2009).
(2) Of which € 1,197 million is current as of September 30, 2010 (€ 1,901 million as of September 30, 2009 and € 1,993 million as of December 31, 2009).

No financial asset is considered as being held to maturity.

The cumulated fair value changes of financial assets available for sale represented a potential gain as of September 30, 2010 of € 63 million (€ 52 million as of September 30, 2009 and € 43 million as of December 31, 2009).

NOTE 15. Other assets and liabilities

(In millions of euros)

Other assets	September 30, 2010	September 30, 2009	December 31, 2009
Other current assets	1,126	1,332	960
Other non-current assets	220	331	314
Total	**1,346**	**1,663**	**1,274**
Of which:			
Currency derivatives	147	86	35
Interest - rate derivatives - hedging	48	43	44
Interest - rate derivatives - other	115	360	235
Commodities derivatives	-	-	-
Other tax receivables	573	624	502
Other current and non - current assets	463	550	458

(In millions of euros)

Other liabilities	September 30, 2010	September 30, 2009	December 31, 2009
Other current liabilities	1,675	2,013	1,763
Other non-current liabilities	247	229	209
Total	**1,922**	**2,242**	**1,972**
Of which:			
Currency derivatives	151	49	51
Interest-rate derivatives - hedging	1	1	1
Interest-rate derivatives - other	116	362	237
Commodities derivatives	-	-	-
Other tax payables	314	376	350
Accrued wages and social charges	963	891	850
Other current and non - current liabilities	377	563	483

NOTE 16. Operating working capital

(In millions of euros)

	September 30, 2010	September 30, 2009 restated	December 31, 2009 restated
Inventories and work in progress, net	2,567	2,171	1,902
Trade receivables and other receivables, net	3,323	3,481	3,519
Advances and progress payments	88	101	93
Customers' deposits and advances	(915)	(675)	(639)
Trade payables and other payables	(4,173)	(3,913)	(3,926)
Operating working capital, net	**890**	**1,165**	**949**

As explained in Note 4, the presentation of the working capital items related to construction contracts was amended from January 1, 2010 onwards.

(In millions of euros)

Operating working capital - restated (see Note 4)	As Published in 2009		Reclassification		Restated	
	September 30, 2009	December 31, 2009	September 30, 2009	December 31, 2009	September 30, 2009	December 31, 2009
Inventories and work in progress, net	1,868	1,624	303	278	2,171	1,902
Trade receivables and other receivables, net	3,086	3,221	395	298	3,481	3,519
Advances and progress payments	101	93	-	-	101	93
Customers' deposits and advances	(672)	(639)	(3)	-	(675)	(639)
Trade payables and other payables	(3,913)	(3,926)	-	-	(3,913)	(3,926)
Amounts due from customers on construction contracts	631	528	(631)	(528)	-	-
Amounts due to customers on construction contracts	(89)	(66)	89	66	-	-
Operating working capital, net	**1,012**	**835**	**153**	**114**	**1,165**	**949**

The amounts of € 153 million as of September 30, 2009 and € 114 million as of December 31, 2009 represent product sales reserves on construction contracts. They have been reclassified to Provisions in the statement of financial position.

(In millions of euros)

	December 31, 2009	Cash flow	Change in consolidated companies	Translation adjustments and other (1)	September 30, 2010
Inventories and work in progress	2,402	686	10	(58)	3,040
Trade receivables and other receivables	3,687	(446)	11	223	3,475
Advances and progress payments	93	(16)	-	11	88
Customers' deposits and advances	(639)	(103)	-	(173)	(915)
Trade payables and other payables	(3,926)	(56)	(24)	(167)	(4,173)
Operating working capital, gross	**1,617**	**65**	**(3)**	**(164)**	**1,515**
Cumulated valuation allowances	(668)	-	(4)	47	(625)
Operating working capital, net	**949**	**65**	**(7)**	**(117)**	**890**

(1) Of which a reclassification of € (70) million of operating working capital related to the Vacuum business that has been reclassified in assets held for sale (see note 10).

Receivables sold without recourse

Balances

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Outstanding amounts of receivables sold without recourse (1)	634	620	612

(1) Without recourse in case of payment default by the debtor. See accounting policies in Note 1s of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F.

Changes in receivables sold without recourse

(In millions of euros)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009	December 31, 2009
Impact on cash flows from operating activities	22	(210)	(218)

NOTE 17. Compound financial instruments

(In millions of euros)

	Oceane 2015			Oceane 2011		
	Sept. 30, 2010	Sept. 30, 2009	Dec. 31, 2009	Sept. 30, 2010	Sept. 30, 2009	Dec. 31, 2009
Statement of financial position						
Equity component	186	219	211	6	30	23
Equity	**186**	**219**	**211**	**6**	**30**	**23**
Convertible bonds - due after one year	814	781	789	0	851	815
Convertible bonds - due within one year and interest paid and payable	13	3	16	846	30	39
Financial debt	**827**	**784**	**805**	**846**	**881**	**854**
Income statement						
Finance costs relating to gross debt	(63)	(5)	(25)	(32)	(43)	(53)

(In millions of euros)

	7.75 % Lucent			2.875 % Series A, Lucent			2.875 % Series B, Lucent		
	Sept. 30, 2010	Sept. 30, 2009	Dec. 31, 2009	Sept. 30, 2010	Sept. 30, 2009	Dec. 31, 2009	Sept. 30, 2010	Sept. 30, 2009	Dec. 31, 2009
Statement of financial position									
Equity component	85	88	87	25	14	7	260	252	254
Equity	**85**	**88**	**87**	**25**	**14**	**7**	**260**	**252**	**254**
Convertible bonds - due after one year	615	567	578	46	0	0	409	373	381
Convertible bonds - due within one year and interest paid and payable	2	2	2	1	486	362	5	5	1
Financial debt	**617**	**569**	**580**	**47**	**486**	**362**	**414**	**378**	**382**
Income statement									
Finance costs relating to gross debt	(47)	(45)	(58)	(12)	(24)	(31)	(22)	(20)	(27)

Compound financial instruments issued by Lucent before the business combination

2.875% Series A and B Convertible Debentures

The following table summarizes the specific terms of these securities.

	Series A	Series B
Amount outstanding as at September 30, 2010	$ 95,000,000	$ 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

In June 2009, we re-assessed the reliability of the future estimated cash flows from the Lucent 2.875 % Series A convertible debentures. Based upon the remaining period until the June 15, 2010 optional redemption date, the current and recent Alcatel-Lucent share price and other market data, we considered that it was reliably estimable that bondholders would redeem the bonds on the optional redemption date. Therefore, the estimated future cash flows associated with this convertible debenture were changed and the accounting presentation was amended in accordance with IAS 39 requirements. This change in estimate represented an "other financial loss" of US$ 233 million (€ 175 million-see Note 9) and a corresponding increase in the carrying value of this financial debt compared to December 31, 2008.

Some of the Series A debentures were repurchased during the first quarter of 2010 and during the third and the fourth quarters of 2009 through open market purchases (see Note 19).

The outstanding nominal value of the Series A convertible debentures was US$ 455 million just before June 15, 2010. By this date, a nominal value of US$ 360 million of Series A debentures had been presented for reimbursement. The US$ 360 million plus accrued interest was paid in cash to the bondholders. At June 30, 2010 and for the remaining US$ 95 million of bonds outstanding, we did not consider it possible to estimate reliably the future cash flows and the expected life of the remaining debentures. This is because the next optional redemption date of June 15, 2015 is too far in the future and too many uncertainties exist concerning Alcatel-Lucent's share price and other market data to envisage the redemption of these debentures as of June 15, 2015. Thus, and as prescribed by IAS 39, we applied the initial accounting treatment and adjusted the carrying amount of the outstanding Series A convertible debentures, using the contractual cash flows up to the contractual maturity date of the debentures, that is June 15, 2023. A profit of US$ 32 million (€ 24 million-see Note 9) was recognized in "Other financial income (loss)" in the second quarter of 2010, resulting in a corresponding decrease in the carrying value of the Series A convertible debentures.

7.75% Convertible Securities (Liability to Subsidiary Trust Issuing Preferred Securities)

During fiscal year 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.

Conversion ratio	40.3306
Conversion price	$ 24.80
Redemption period at Lucent's option	After March 19, 2007
Maturity date	March 15, 2017

Some of these bonds were repurchased during the first quarter of 2009 (see Note 19).

NOTE 18. Provisions

a/ Balance at closing

(In millions of euros)

	September 30, 2010	Restated September 30, 2009	Restated December 31, 2009
Provisions for product sales	585	626	596
Provisions for restructuring	429	446	459
Provisions for litigation	144	142	142
Other provisions	811	860	925
Total (1)	**1,969**	**2,074**	**2,122**
(1) Of which: portion expected to be used within one year	*1,170*	*1,196*	*1,303*
portion expected to be used after one year	*799*	*878*	*819*

As explained in Note 4, the presentation of the working capital items related to construction contracts was amended from January 1, 2010 onwards.

(In millions of euros)

Provisions - restated	**As Published**		**Reclassification**		**Restated**	
	September 30, 2009	**December 31, 2009**	**September 30, 2009**	**December 31, 2009**	**September 30, 2009**	**December 31, 2009**
Provisions for product sales	473	482	153	114	626	596
Provisions for restructuring	446	459	-	-	446	459
Provisions for litigation	142	142	-	-	142	142
Other provisions	860	925	-	-	860	925
Total	**1,921**	**2,008**	**153**	**114**	**2,074**	**2,122**

b/ Change during the nine month period ended September 30, 2010

(In millions of euros)

	December 31, 2009	Appropriation	Utilization	Reversals	Change in consolidated companies	Other	September 30, 2010
Provisions for product sales (1)	596	419	(300)	(138)	-	8	585
Provisions for restructuring	459	326	(286)	(30)	-	(40)	429
Provisions for litigation	142	29	(19)	(14)	-	6	144
Other provisions	925	70	(108)	(82)	-	6	811
Total	**2,122**	**844**	**(713)**	**(264)**	**-**	**(20)**	**1,969**
Effect on the income statement:							
- Income (loss) from operating activities before restructuring costs, litigations, capital gain/(loss) on disposal of consolidated entities and post - retirement benefit plan amendments		(480)		192			(288)
- Restructuring costs		(321)		30			(291)
- Litigations (2)		(5)		4			(1)
- Post - retirement benefit plan amendments		-		-			-
- Other financial income (loss)		(11)		15			4
- Income taxes		(13)		23			10
- Income (loss) from discontinued operations		(14)		-			(14)
Total		**(844)**		**264**			**(580)**

(1) Including provisions for product sales on construction contracts which are no longer accounted for in amounts due to/from customers on construction contracts (see Note 4).

(2) Related to material litigations (see Note 1p of the 2009 consolidated financial statements): the FCPA litigation disclosed in Note 22a for a negative amount of € 5 million for the nine months ended September 30, 2010 (€93 million in 2009 representing the net present value of US$ 137.4 million) and the Fox River litigation (Lucent's separation agreements) for a positive amount of € 4 million or US$ 5 million for the nine months ended September 30, 2010 (compared to a charge of 16 million or US$ 22 million in 2009).

At period-end, contingent liabilities exist with regards to ongoing tax disputes and outstanding litigations. 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 September 30, 2010.

c/ Analysis of restructuring provisions

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Opening balance	**459**	**595**	**595**
Utilization during period	(286)	(404)	(561)
Restructuring costs (social costs and other monetary costs)	291	266	517
Reversal of discounting impact (financial loss)	5	5	12
Effect of acquisition (disposal) of consolidated subsidiaries	-	-	-
Cumulative translation adjustments and other changes	(40)	(16)	(104)
Closing balance	**429**	**446**	**459**

d/ Restructuring costs

(In millions of euros)

	Q3 2010	Q3 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009	2009
Social costs - Restructuring reserves	(37)	(101)	(205)	(214)	(368)
Other monetary costs - Restructuring reserves	(11)	(7)	(31)	(52)	(119)
Other monetary costs - Payables	(22)	(1)	(55)	(1)	(30)
Valuation allowances or write-offs of assets	(1)	(27)	(24)	(70)	(88)
Total restructuring costs	**(71)**	**(136)**	**(315)**	**(337)**	**(605)**

NOTE 19. Financial debt

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Marketable securities - short term, net	1,197	1,901	1,993
Cash and cash equivalents	3,227	3,378	3,577
Cash, cash equivalents and marketable securities	**4,424**	**5,279**	**5,570**
(Convertible and other bonds - long-term portion)	(3,479)	(4,078)	(4,084)
(Other long-term debt)	(61)	(63)	(95)
(Current portion of long-term debt and short - term debt)	(1,146)	(622)	(576)
(Financial debt, gross)	**(4,686)**	**(4,763)**	**(4,755)**
Derivative interest rate instruments - other current and non-current assets	48	43	44
Derivative interest rate instruments - other current and non-current liabilities	(1)	(1)	(1)
Loan to joint venturer - financial asset (loan to co-venturer)	25	34	28
Cash (financial debt), net	**(190)**	**592**	**886**

a/ Bonds

Balances at December 31, 2009 and at September 30, 2010

(In millions of euros)

Remaining amounts to be reimbursed	December 31, 2009	Currency translation impact	Other changes during the first nine months of 2010	September 30, 2010
Issued by Alcatel - Lucent:				
- Oceane 5.00 % - € 1,000 million (5) due January 2015	1,000	-	-	1,000
- Oceane 4.75 % - € 818 m (5)) due January 2011 (1)	818	-	-	818
- 6.375 %- € 462 m (5) due April 2014 (1)	462	-	-	462
- Floating rate € 100 m (5) due 2011 extendable to 2016 (6)	-	-	100	100
Issued by Lucent:				
- 7.75 %- US$ 931 m (5) due March 2017 (2)	671	37	-	708
- 2.875 % - US$ 95 m (5) Series A due June 2023 (2) (3) (4)	369	33	(330)	72
- 2.875 % - US$ 881 m (5) Series B due June 2025 (2) (3)	638	35	-	673
- 6.50 % - US$ 300 m (5) due January 2028	187	11	-	198
- 6.45 % - US$ 1,360 m (5) due March 2029	850	47	-	897
Sub-total	**4,995**	**163**	**(230)**	**4,928**
Equity component and issuing fees of Oceane 2015 issued by Alcatel - Lucent	(211)	-	25	(186)
Equity component and issuing fees of Oceane 2011 issued by Alcatel	(23)	-	17	(6)
Equity component of Lucent's 2.875 % Series A convertible debentures (4)	(7)	-	(18)	(25)
Equity component of other convertible bonds issued by Lucent	(341)	(20)	16	(345)
Fair value of interest rate instruments relating to bonds and expenses included in the calculation of the effective interest rate	32	-	(6)	26
Carrying amount of bonds	**4,445**	**143**	**(196)**	**4,392**

(1) Benefit from a full and unconditional subordinated guaranty from Lucent Technologies Inc. (now known as Alcatel-Lucent USA Inc.).
(2) See Note 17 for details on redemption options.
(3) Benefit from a full and unconditional subordinated guaranty from Alcatel - Lucent.
(4) Due to uncertainties over the future cash flows and the expected life of the 2.875 % Series A debentures outstanding, we reapplied the initial accounting treatment. The carrying value of this bond was decreased by US$ 32 million with a corresponding adjustment in "other financial loss" as disclosed in Note 9. Refer to additional comments in Notes 2j and 17.
(5) Face amounts outstanding as at September 30, 2010.
(6) The maturity dates of the notes are February 2011 for a nominal amount of € 25 million, May 2011 for a nominal amount of € 50 million and August 2011 for a nominal amount of € 25 million. Alcatel-Lucent may exercise an option to extend the maturity dates until February 2016 for a nominal amount of € 25 million, May 2016 for a nominal amount of € 50 million and August 2016 for a nominal amount of € 25 million.

Changes during the nine month period ended September 30, 2010:

- Issuance of new debt:

In July 2010, Alcatel-Lucent issued a series of notes for an aggregate € 100 million in notional value. The notes are floating rate and due in February 2011 for a nominal amount of € 25 million, May 2011 for a nominal amount of € 50 million and August 2011 for a nominal amount of € 25 million.

At each maturity date, Alcatel-Lucent has an option to extend the maturity dates for one year or until 2016. These notes are reported in the short-term debt line item in the analysis by maturity (see Note 19b).

- Repurchases (redemption before maturity date):

In the first quarter of 2010, US$ 75 million in nominal value of the Lucent 2.875% Series A convertible debentures were bought back for US$ 75 million in cash, excluding accrued interest, and then cancelled.

Nominal value repurchased:
Lucent convertible bond 2.875% Series A: US$ 75,000,000

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.

A loss of € 1 million related to these repurchases was recorded in "other financial income (loss)" in the first quarter of 2010 (see Note 9).

- Redemption before maturity date due to the existence of an optional redemption date:

At the holder's option, the Lucent 2.875% Series A convertible debentures were redeemable at 100% of the principal amount plus any accrued and unpaid interest at the first optional redemption date, i.e. June 15, 2010.

The outstanding nominal value of the Series A convertible debentures was equal to US$ 455 million just before June 15 2010. At this date, US$ 360 million in nominal value of these debentures were redeemed for US$ 360 million in cash, plus accrued interest.

Nominal value subject to redemption:

Lucent convertible bond 2.875% US$ Series A:	US$ 360,000,000

Because of the new accounting treatment applied in Q2 2009, the carrying amount of the Lucent 2.875% Series A convertible debentures was equal to the nominal value of the debentures as of June 15, 2010. No gain or loss related to the partial redemption, therefore, was recorded.

Changes in 2009:

- Issuance of new debt:

Alcatel-Lucent issued a 5.00% bond convertible into/or exchangeable for new or existing Alcatel-Lucent shares due January 1, 2015 for a total value of € 1,000 million.

The carrying value of the debt component at the date of issuance was valued at € 779 million. The difference between the nominal value and the carrying value of the debt component at the date of issuance, equal to € 221 million, is amortized within finance costs over the life of the debt.

- Repurchases (redemption before maturity date):

Lucent 7.75% convertible debenture due March 2017 was subject to partial buy-back and cancellation in the first quarter of 2009, using US$ 28 million in cash, corresponding to a nominal value of US$ 99 million.

Lucent 2.875% Series A convertible debenture was subject to partial buy-back and cancellation in the third quarter of 2009, using US$ 25 million in cash, excluding accrued interest, corresponding to a nominal value of US$ 25 million. In the fourth quarter of 2009, Alcatel-Lucent bought back additional Series A bonds using US$ 193 million in cash, excluding accrued interest, corresponding to a nominal value of US$ 195 million.

Alcatel-Lucent Oceane 4.75 % due January 2011 was subject to partial buy-back and cancellation in the third quarter of 2009, using € 167 million in cash excluding accrued interests, corresponding to a nominal value of € 167 million. In the fourth quarter of 2009, Alcatel-Lucent bought back additional Oceane 4.75% using € 37 million in cash, excluding accrued interest, corresponding to a nominal value of € 37 million.

Nominal value repurchased:

Lucent convertible bond 7.75% due March 2017:	US$ 99,000,000
Lucent convertible bond 2.875% Series A:	US$ 220,000,000
Alcatel-Lucent Oceane 4.75 % due January 2011:	€ 204,308,743

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.

A gain of € 50 million related to these repurchases was recorded in "other financial income (loss)" in the first quarter of 2009, a loss of € 1 million in the third quarter of 2009 and a loss of € 2 million during the fourth quarter of 2009 (see Note 9).

- Repayments:

Alcatel-Lucent's 4.375% EUR bond due February 2009 was repaid in February 2009 for a nominal value of € 777 million.

b/ Analysis by maturity date and type of rate

(In millions of euros)

	September 30, 2010	September 30, 2009	December 31, 2009
Current portion of long-term debt (1) (2)	817	482	361
Short-term debt (3)	329	140	215
Financial debt due within one year	**1,146**	**622**	**576**
Of which: - within 3 months	*85*	*59*	*137*
- between 3 and 6 months	*912*	*48*	*403*
- between 6 and 9 months	*81*	*506*	*18*
- over 9 months	*68*	*9*	*18*
from October 1, 2011 to December 31, 2011	7		
2011 (2)			874
from October 1, 2010 to December 31, 2011 (2)		892	
2012	18	10	10
2013	420	377	389
2014	501	483	486
2015 and thereafter	2,594	2,379	2,420
Financial debt due after one year (4)	**3,540**	**4,141**	**4,179**
Total	**4,686**	**4,763**	**4,755**

(1) Amounts as of December 31, 2009 and September 30, 2009 are related to the Lucent 2.875 % Series A convertible debentures, due to the existence of a put option exercisable as of June 15, 2010.
(2) Amount as of September 30, 2010 is related to the Alcatel-Lucent Oceane 4.75 % due January 2011 (€ 815 million as of December 31, 2009 and € 851 million as of September 30, 2009).
(3) Amount as of September 30, 2010 is related to the Alcatel-Lucent floating rate series of notes, issued in July 2010 for an aggregate nominal value of € 100 million, due 2011 but extendable annually up to 2016 for € 96 million.
(4) The convertible securities may be retired earlier based on early redemption or buy back options. See note 17. In case of optional redemption periods/dates occurring before the contractual maturity of the debenture, the likelihood of the redemption before the contractual maturity could lead to a change in the estimated payments. As prescribed by IAS 39, if an entity revises the estimates of payment, due to reliable new estimates, it shall adjust the carrying amount of the instrument by computing the present value of remaining cash flows at the original effective interest rate of the financial liability to reflect the revised estimated cash flows. The adjustment is recognized as income or expense in profit or loss.

Breakdown of the debt by type of rate

Financial debt at fixed rate after hedging is approximately 88% of the total gross debt as of September 30, 2010 and at the end of 2009.

c/ Credit rating

Credit ratings of Alcatel-Lucent and Alcatel-Lucent USA Inc. (ex Lucent) post business combination

At November 2, 2010, the credit ratings of Alcatel-Lucent 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	November 9, 2009	November 9, 2009

At November 2, 2010, the credit ratings of Alcatel-Lucent USA Inc. (ex Lucent) 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 ithdrawn (1)	n.a	n.a	December 11, 2006	n.a
Standard & Poor's	B	n.a	Negative	November 9, 2009	November 9, 2009

Moody's: 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 securities of Lucent Technologies Capital Trust I 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 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.

The rating grid of Moody's ranges from AAA, which is the highest rated class, 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 November 9, 2009, Standard & Poor's lowered to B from B+ its long-term corporate credit ratings and senior unsecured ratings on Alcatel-Lucent and on Alcatel-Lucent USA Inc. The B short-term credit rating of Alcatel-Lucent was affirmed. The rating on the trust preferred securities of Lucent Technologies Capital Trust I was lowered from CCC+ to CCC. The negative outlook of the ratings was maintained.

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 conditions likely will impair the obligor's capacity or willingness to meet its financial commitment on the obligation."

The CCC rating for the trust preferred securities of Lucent Technologies Capital Trust I is in the CCC category, which also includes CCC+ and CCC- ratings. Standard & Poor's gives the following definition to the CCC category: "An obligation rated "CCC" is currently vulnerable to non payment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation."

Rating clauses affecting Alcatel-Lucent and Alcatel-Lucent USA Inc. debt at September 30, 2010

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 Alcatel-Lucent USA Inc's (ex Lucent) outstanding bonds do not contain clauses that could trigger an accelerated repayment in the event of a lowering of their respective credit ratings.

d/ 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). 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. Since the € 1.4 billion facility was established, Alcatel-lucent has complied every quarter with the financial covenant that is included in the facility. The facility was undrawn at the date of approval by Alcatel-Lucent's Board of Directors of these financial statements.

NOTE 20. Pensions, retirement indemnities and other post-retirement benefits

Alcatel-Lucent has elected to apply the option offered by the amendment of IAS 19 (see Note 1k of the 2009 consolidated financial statements filed as part of the Group's 2009 20-F) which allows for immediate recognition in the statement of comprehensive income of actuarial gains and losses as well as any adjustments resulting from asset ceiling limits.

98% of Alcatel-Lucent's total benefit obligations and 98% of Alcatel-Lucent's plan asset fair values were re-measured as of September 30, 2010. Alcatel-Lucent's pension and post-retirement obligations in the United States and Alcatel-Lucent's main pension plans outside of the U.S. (in France, Germany, United Kingdom, the Netherlands and Belgium) have been re-measured. The impact of not re-measuring other pension and post-retirement obligations is considered not material.

For Alcatel-Lucent's pension and post-retirement obligations in the United States, the impacts considered were (i) decreases in interest rates, (ii) differences between actual and expected plan asset performance and (iii) benefit payments. Actuarial gains of € 1,428 million (of which € 1,425 million related to pensions and € 3 million related to post-retirement benefits) resulted from higher actual plan asset returns than expected and actuarial losses of € (2,023) million (of which € (1,781) million related to pensions and € (242) million related to post-retirement benefits) resulted from an increase of plan obligations mainly due to discount rate decreases.

For Alcatel-Lucent's main pension plans outside of the U.S., the impacts were estimated based on a sensitivity analysis that considered changes in interest rates and differences between actual and expected plan asset performance. Actuarial gains of € 199 million resulted from higher actual plan asset returns than expected and actuarial losses of € (391) million were related to an increase of plan obligations due to discount rate decreases. The impacts from all other pension and post-retirement plans were not significant.

Discount rates used to measure Alcatel-Lucent's pension and post-retirement obligations in the United States and Alcatel-Lucent's main pension plans outside of the U.S. as of September 30, 2010 have been updated and are as follows:

Discount rate	September 30, 2010	September 30, 2009	December 31, 2009
US - Pension	4.54%	5.29%	5.53 %
US - Post-retirement health care and other	3.88%	4.79%	4.93 %
US - Post-retirement life	4.79%	5.41%	5.73 %
Euro - Pension	4.00%	4.75%	5.00 %
UK - Pension	5.00%	5.50%	5.75 %

The change in the unrecognized surplus of plan assets (asset ceiling) and in the IFRIC14 effect during the nine-month period ended September 30, 2010 was € (74) million and related only to pensions (positive impact of € 372 million at September 30, 2009 and € 375 million in 2009).

Change in pension and post-retirement net asset (liability) recognized:

(In millions of euros)

	September 30, 2010			September 30, 2009			December 31, 2009		
	Pension benefits	Post-retirement benefits	Total	Pension benefits	Post-retirement benefits	Total	Pension benefits	Post-retirement benefits	Total
Net asset (liability) recognized at the beginning of the period	**(139)**	**(2,504)**	**(2,643)**	**70**	**(2,579)**	**(2,509)**	**70**	**(2,579)**	**(2,509)**
Operational charge	(40)	(2)	(42)	(93)	(2)	(95)	(125)	(4)	(129)
Financial income (1)	327	(105)	222	169	(126)	43	261	(156)	105
Curtailment (2)	12	-	12	(22)	-	(22)	(74)	(5)	(79)
Management pension and non represented healthcare plan amendment (3)	-	30	30	-	38	38	216	37	253
Total recognized in profits (losses)	**299**	**(77)**	**222**	**54**	**(90)**	**(36)**	**278**	**(128)**	**150**
Actuarial gains and (losses) for the period	(548)	(239) (5)	(787)	(792)	(205)	(997)	(784)	(173)	(957)
Asset ceiling limitation and IFRIC14 effect	(74)	-	(74)	372	-	372	375	-	375
Total recognized in Statement of comprehensive income (4)	**(622)**	**(239)**	**(861)**	**(420)**	**(205)**	**(625)**	**(409)**	**(173)**	**(582)**
Contributions and benefits paid	138	26	164	115	44	159	179	47	226
420 transfer	-	-	-	-	-	-	(246)	246	-
Change in consolidated companies	-	-	-	-	-	-	-	-	-
Other (reclassifications and exchange rate changes)	34	(127)	(93)	(35)	140	105	(11)	83	72
Net asset (liability) recognized at the end of the period	**(290)**	**(2,921)**	**(3,211)**	**(216)**	**(2,690)**	**(2,906)**	**(139)**	**(2,504)**	**(2,643)**
Of which:									
- Prepaid pension costs	2,803	-	2,803	2,559	-	2,559	2,400	-	2,400
- Pension, retirement indemnities and post-retirement benefits liability	(3,093)	(2,921)	(6,014)	(2,775)	(2,690)	(5,465)	(2,539)	(2,504)	(5,043)

(1) This income is mainly due to the expected return on plan assets that is higher than the interest cost (see Note 9).
(2) Accounted for in restructuring costs.
(3) Accounted for on a specific line item "Post-retirement benefit plan amendments" in the income statement.
(4) The amounts recognized directly in the Statement of comprehensive income indicated in the table above differ from those disclosed in the Statement of comprehensive income, due to the amounts related to discontinued activities, which are excluded in the above schedule.
(5) Includes a € 6 million actuarial loss related to a change in the Private Fee For Service cost assumption due to the 2010 US Healthcare reform.

Funded status

(In millions of euros)	September 30, 2010	September 30, 2009	December 31, 2009
Benefit obligation	(28,820)	(26,047)	(25,910)
Fair value of plan assets	27,411	24,780	24,925
Funded status	**(1,409)**	**(1,267)**	**(985)**
Unrecognized prior service cost and surplus (due to application of asset ceiling and IFRIC14)	(1,802)	(1,639)	(1,658)
Net amount recognized	**(3,211)**	**(2,906)**	**(2,643)**

2010 U.S. management healthcare plan amendment

The Patient Protection and Affordable Care Act (PPACA) of 2010 reduced funding for Medicare Advantage plans and eliminated the Medicare Advantage Private-Fee-For-Service arrangement (PFFS) effective January 1, 2011. As a result, our PFFS plan will be transitioned to another Medicare Advantage plan called the National Preferred Provider Organization (PPO). The impact of the reduced funding was reflected in the first quarter of 2010. Alcatel-Lucent USA Inc. amended its Medicare Advantage National PPO plan in the third quarter of 2010 with an effective date of January 1, 2011 to increase the out-of-pocket maximums paid by Medicare eligible management participants and their Medicare eligible dependents, which reduced the benefit obligation by € 30 million. This impact is accounted for in the “Post-retirement benefit plan amendments” line item of the income statement.

2009 U.S. management pension plan amendment

On October 21, 2009, Alcatel-Lucent USA Inc. froze the US defined benefit management pension plan and the US Supplemental pension plan effective January 1, 2010. No additional benefits will accrue in these plans after December 31, 2009 for their 11,500 active U.S. – based participants who are not union-represented employees. As a result, a credit of € 216 million before tax was booked during the fourth quarter of 2009 in the “Post-retirement benefit plan amendments” line item of the income statement. Also effective on January 1, 2010, the company changed its defined contribution 401(k) savings plan to provide for the company to make the same level of matching contributions for all of its 15,000 U.S. – based employees who are not union-represented employees, which is expected to increase the company’s annual cash contributions by about € 22 million.

These amendments have no impact on deferred tax.

2009 U.S. management healthcare plan amendment

Effective January 1, 2009, post-retirement medical benefits for Medicare eligible Management participants are provided through a fully insured Medicare Advantage Private Fee-For-Service (PFFS) Plan. Under this plan, the PFFS plan contracts directly with the Centers for Medicare & Medicaid Services to provide all Medicare Parts A and B benefits for Medicare eligible management retirees. Alcatel-Lucent USA Inc. amended the PFFS in the third quarter of 2009 with an effective date of January 1, 2010 to increase the out-of-pocket maximums paid by Medicare eligible management participants and their Medicare eligible dependants, which reduced the benefit obligation by approximately € 37 million. This impact is accounted for in the “Post-retirement benefit plan amendments” line item of the income statement.

This amendment had no impact on deferred tax.

In 2009, a € 5 million additional expense was recognized in the specific line item “Post-retirement benefit plan amendments” concerning the Raetsch case (see Note 22).

NOTE 21. Net cash provided (used) by operating activities before changes in working capital, interest and taxes

(In millions of euros)

	Q3 2010	Nine months ended September 30, 2010	Nine months ended September 30, 2009	December 31, 2009
Net income (loss) attributable to the equity owners of the parent	**25**	**(674)**	**(570)**	**(524)**
Non-controlling interests	**21**	**30**	**(29)**	**20**
Adjustments:				
- Depreciation and amortization of tangible and intangible assets	248	744	728	969
Of which impact of capitalized development costs	*67*	*215*	*208*	*280*
- Post-retirement benefit plan amendment	(30)	(30)	(37)	(247)
- Changes in pension and other post-retirement benefit obligations, net	(135)	(344)	(107)	(202)
- Provisions, other impairment losses and fair value changes	45	(36)	(241)	(91)
- Repurchase of bonds and change of estimates related to Lucent 2.875% Series A convertible debentures	-	(24)	124	124
- Net (gain) loss on disposal of assets	(24)	(32)	(286)	(401)
- Share in net income (losses) of equity affiliates (net of dividends received)	(5)	(12)	20	16
- (Income) loss from discontinued operations	-	13	(129)	(131)
- Finance costs	76	224	184	254
- Share-based payments	9	29	46	58
- Taxes	(23)	28	(101)	(60)
Sub-total of adjustments	**161**	**560**	**201**	**289**
Net cash provided (used) by operating activities before changes in working capital, interest and taxes	**207**	**(84)**	**(398)**	**(215)**

NOTE 22. 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-Lucent 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-Lucent subsidiaries to various public officials in Costa Rica, two political parties in Costa Rica and representatives of Instituto Costarricense de Electricidad (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.

Alcatel-Lucent 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 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 stated it would 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 requested information regarding Alcatel-Lucent's operations in other countries.

In connection with these allegations, on December 19, 2006, the DOJ indicted one of the two former employees 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.

Alcatel-Lucent is cooperating with the U.S., French and Costa Rican authorities in the respective investigations described above. 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.

In connection with the Costa Rica 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. Three 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. The trial of the criminal case started on April 14, 2010 and is ongoing.

Alcatel-Lucent entered into discussions with the Attorney General's Office directed to a negotiated resolution of the Attorney General's social damages claims and the moral damages claims of ICE. Those discussions resulted in a signed agreement entered into on January 20, 2010 under which the Attorney General's social damages claims were dismissed in return for a payment by CIT of approximately U.S.$ 10 million. That agreement was approved by the Court having jurisdiction over the Attorney General's claims on February 24, 2010 and payment was made shortly thereafter. ICE's claims are not included in the agreement with the Attorney General. To the extent that any of these claims are not resolved by agreement, Alcatel-Lucent intends to defend against them vigorously and to deny any liability or wrongdoing with respect to such 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 the termination by ICE of this portion of the 400 KL GSM Contract 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. $ 78.1 million in the aggregate, of which ICE has collected U.S.$ 5.9 million.

In June 2008, CIT filed an administrative appeal against the termination 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 partial termination of 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. On April 20, 2009, CIT filed a petition to the Court to recover the U.S. $ 15.1 million performance bond amount and offered the replacement of such bond with a new bond that will guarantee the results of the final decision of the Court. CIT appealed the Court's rejection of such petition and the appeal was resolved on March 18, 2010 in favor of CIT. As a consequence of this decision, CIT will collect the aforementioned U.S. $ 15.1 million amount upon submission to the Court of a bank guarantee for an equivalent amount. A hearing originally scheduled for June 1, 2009 was suspended due to ICE's decision not to present to the Court the complete administrative file wherein ICE decided the partial termination of the 400KL GSM Contract. The preliminary court hearing, which commenced on October 6, 2009 recently concluded and the case will proximately be set for trial.

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. The administrative proceeding was suspended on December 8, 2009 pending the resolution of the criminal case mentioned above. In March 2010, CIT was notified of a new administrative proceeding whereby ICE seeks to ban CIT from procurement contracts, as a consequence of alleged material breaches under the 400KL GSM Contract (in particular, in connection with failures related to road coverage and quality levels).

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 2010. 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.

Alcatel-Lucent has recognized a provision in connection with the various ongoing proceedings in Costa Rica when reliable estimates of the probable future outflow were available.

On April 30, 2010 ICE filed a civil RICO claim in state court in Miami, Florida (USA). ICE claims that several different Alcatel-Lucent entities, along with a former employee, were engaged in a worldwide scheme of bribery and corruption, during which it made payments to senior officials of the Costa Rican government and ICE. ICE claims it was damaged from this conduct and seeks treble damages, disgorgement, and other damages and relief. The Alcatel-Lucent defendants have filed a motion to dismiss, which is pending before the court.

As previously disclosed in its public filings, Alcatel-Lucent has engaged in settlement discussions with the DOJ and the SEC with regard to the ongoing FCPA investigations. These discussions have resulted in December 2009 in agreements in principle with the staffs of each of the agencies. There can be no assurances, however, that final agreements will be reached with the agencies or accepted in court. If finalized, the agreements would relate to alleged violations of the FCPA involving several countries, including Costa Rica, Taiwan, and Kenya. Under the agreement in principle with the SEC, Alcatel-Lucent would enter into a consent decree under which Alcatel-Lucent would neither admit nor deny violations of the antibribery, internal controls and books and records provisions of the FCPA and would be enjoined from future violations of U.S. securities laws, pay U.S. $45.4 million in disgorgement of profits and prejudgment interest and agree to a three-year French anticorruption compliance monitor to evaluate in accordance with the provisions of the consent decree (unless any specific provision therein is expressly determined by the French Ministry of Justice to violate French law) the effectiveness of Alcatel-Lucent's internal controls, record-keeping and financial reporting policies and procedures. Under the agreement in principle with the DOJ, Alcatel-Lucent would enter into a three-year deferred prosecution agreement (DPA), charging Alcatel-Lucent with violations of the internal controls and books and records provisions of the FCPA, and Alcatel-Lucent would pay a total criminal fine of U.S. $ 92 million—payable in four installments over the course of three years. In addition, three Alcatel-Lucent subsidiaries—Alcatel-Lucent France, Alcatel-Lucent Trade International AG and Alcatel Centroamerica—would each plead guilty to violations of the FCPA's antibribery, books and records and internal accounting controls provisions. The agreement with the DOJ would also contain provisions relating to a three-year French anticorruption compliance monitor. If Alcatel-Lucent fully complies with the terms of the DPA, the DOJ would dismiss the charges upon conclusion of the three-year term.

Alcatel-Lucent has recognized a provision of € 99 million as of September 30, 2010 in connection with these FCPA investigations, which is equivalent to the sum of U.S. $ 45.4 million as agreed upon in the agreement in principle with the SEC and U.S.$ 92 million as agreed upon in the agreement in principle with the DOJ, discounted back to net present value and converted into Euros.

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-Lucent commenced an investigation into this matter. As a result of the investigation, Alcatel-Lucent 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 is now final. On December 9, 2009, the Supreme Court denied the appeal filed by the Taiwan Prosecutor Office against the High Court's ruling with respect to the individual defendants.

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

c/ Kenya and Nigeria

The SEC and the DOJ 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.

Following information voluntarily disclosed by Alcatel-Lucent to the US and French authorities, the French authorities have requested Alcatel-Lucent to produce further documents related to payments made by its subsidiaries to certain consultants in Nigeria. Alcatel-Lucent has responded to the request and is continuing to cooperate with the investigating authorities.

d/ French Polynesia

The French authorities have initiated an investigation of the submarine cable subsidiary of Alcatel-Lucent, Alcatel-Lucent Submarine Networks ("ALSN"), and certain former or current employees, relating to a project for a submarine cable between Tahiti and Hawaii awarded to ALSN in 2007 by the state-owned telecom agency of French Polynesia ("OPT"). On September 23, 2009, four of those former employees were charged ("mis en examen") with aiding and abetting favoritism in connection with the award by OPT of a public procurement project. On November 23, 2009, ALSN was charged with benefitting from favoritism ("recel de favoritisme") in connection with the same alleged favoritism. Alcatel-Lucent commenced, and is continuing, an investigation into this matter.

Alcatel-Lucent is unable to predict the outcome of this investigation and its effect on ALSN's business. If ALSN were convicted of a criminal violation, the French courts could, among other things, fine ALSN and/or ban it from participating in French public procurement contracts for a certain period. ALSN expects to generate approximately € 18 million of revenue from French public procurement contracts in 2010. Accordingly, Alcatel-Lucent does not believe that a loss of business as a result of such a ban would have a material effect on the Alcatel-Lucent group as a whole.

e/ Lucent's employment and benefits related cases

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 alleged that Lucent Technologies Inc. (now known as Alcatel-Lucent USA Inc.) failed to maintain health care benefits for retired management employees for each year from 2001 through 2006 as required by the U.S. Internal Revenue Code, the U.S. 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. The Special Committee denied the plaintiffs' claims and the case returned to the court, where limited discovery was completed.

By Opinion and Order, each dated June 11, 2008, the court granted in part and denied in part 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 defendants 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, 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.

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. As a result of the ongoing discovery and analysis, this reserve was adjusted from time to time. On January 21, 2010, the parties agreed to settle the lawsuit for the sum of U.S. $ 36 million. The settlement is memorialized in a binding and executed Settlement Agreement. The settlement is subject to court approval, including approval of the settlement amount and the amount of class counsel's fees to be deducted therefrom, approval of a plan of allocation of the net settlement proceeds to class members, and certification of a settlement class by the court. On June 3, 2010, the court indicated its preliminary approval of the settlement and set September 10, 2010 as the deadline for filing objections and September 27, 2010 as the date for a final hearing. The court later reset the date for filing objections to the settlement to October 22, 2010 and rescheduled the final hearing for November 8, 2010.

Lucent implemented various actions to address the rising costs of providing retiree health care benefits and the funding of Lucent pension plans. These actions led to the filing of cases against Lucent (now closed) and may lead to the filing of additional cases.

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

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 two trials held in 2008. In one of these trials, on April 4, 2008, a jury awarded Alcatel-Lucent approximately U.S. $ 357 million in damages for Microsoft's infringement of the "Day" patent, which relates to a computerized form entry system. On June 19, 2008, the Court entered judgment on the verdict and also awarded prejudgment interest exceeding U.S. $ 140 million. The total amount awarded Alcatel-Lucent relating to the Day patent exceeded U.S. $ 497 million.

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, with the exception of Microsoft's appeal of the Day patent verdict to the Court of Appeals for the Federal Circuit. 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. Also, on May 13, 2009, Alcatel-Lucent and Dell agreed to a settlement and dismissal of the appeal issues relating to Dell from the April 2008 trial.

On September 11, 2009, the Federal Circuit issued its opinion affirming that the Day patent is both a valid patent and infringed by Microsoft in Microsoft Outlook, Microsoft Money, and Windows Mobile products. However, the Federal Circuit vacated the jury's damages award and ordered a new trial in the District Court in San Diego to re-calculate the amount of damages owed to Alcatel-Lucent for Microsoft's infringement. On November 23, 2009, the Federal Circuit denied Microsoft's *en banc* petition for a rehearing on the validity of the Day patent.

On February 22, 2010, Microsoft filed a Petition for a Writ of Certiorari in the United States Supreme Court asking the Supreme Court to review the Federal Circuit's September 11, 2009 decision to affirm the District Court's finding that Microsoft's Outlook, Money and Windows Mobile products infringed the Day patent. On April 23, 2010, Alcatel-Lucent filed its Brief in Opposition and the Supreme Court denied Microsoft's Petition on May 24, 2010. A trial is scheduled for January 11, 2011 in US District Court in San Diego to determine the amount of compensation owed to Alcatel-Lucent by Microsoft for its infringement of the Day patent.

In a parallel proceeding, the United States Patent and Trademark Office issued a Reexamination Certificate on March 2, 2010 confirming the validity of the Day patent in response to a reexamination request filed by Dell in May of 2007.

g/ Effect of the various proceedings

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. 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 beyond those to be made by reason of the various settlement agreements described in this Note 22.

NOTE 23. Events after the statement of financial position date

On December 1, 2010, we will transfer about 6,300 participants from the U.S. occupational pension plans to the U.S. management pension plan. We expect to transfer about US$ 810 million in assets and between US$ 520 million and US$ 490 million in obligations, depending of the discount rate methodology ultimately chosen for the January 1, 2010 funding valuation, and thereby improve the funded status of the U.S. management pension plan by about US$ 290 million to US$ 320 million at the time of the transfer. However, the actual improvement to the funded status will depend on the values of assets and the discount rates as of January 1, 2011, and may be less than these amounts. As reported in the 2009 consolidated financial statements, our management pension plan benefit obligation exceeded the plan assets by US$ 1,232 million. This amount was determined using corporate bond-based discount rates as of December 31, 2009 and the fair value of plan assets as of that same date as required by accounting standards. However, under U.S. law, pension plan funding calculations also permit the use of averaged discount rates and asset values over historical periods as long as two years with prescribed returns added to the historical asset values. We will not have to determine the funding methodologies for the January 1, 2010 funding valuation until October 15, 2011. These methodologies the Group will select at that time will then also apply to future January 1, funding valuations. Using currently available methodologies, the January 1, 2010 funding valuation would not result in any required contributions to our U.S. management plan. During the first three quarters of 2010, asset values have increased and discount rates have declined. However, we cannot at this time address the potential results of the January 1, 2011 funding valuation, except to note that the above-mentioned transfer will improve the results. Should a contribution be required, it would be due by September 15, 2012. Our U.S. occupational pension plans will remain significantly overfunded after this transfer.

This transfer was announced to related pension plans participants on October 12 and 13, 2010.

There were no other events that should be disclosed or adjusted that occurred between September 30, 2010, date of the statement of financial position, and November 2, 2010, the date when the Board of Directors authorized the condensed consolidated financial statements for issue.

PRINCIPAL OFFICE OF ALCATEL LUCENT

3, avenue Octave Gréard
Paris, 75007 France

LEGAL ADVISORS TO ALCATEL LUCENT

As to U.S. and French Law

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London, United Kingdom
EC4Y1HS

Freshfields Bruckhaus Deringer LLP
2, rue Paul Cézanne
Paris, France
75008

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to U.S. and French Law

Allen & Overy LLP
One Bishops Square
London, United Kingdom
E1 6AD

Allen & Overy LLP
26, boulevard des Capucines
Paris, France
75009

LEGAL ADVISORS TO THE TRUSTEE

Allen & Overy LLP
One Bishops Square
London, United Kingdom
E1 6AD

AUDITORS OF ALCATEL LUCENT

Deloitte & Associés
185, avenue Charles de Gaulle Bp 136
Neuilly-sur-Seine, France
92524

Ernst & Young et Autres
41, rue Ybry
Neuilly-sur-Seine, France
92200

TRUSTEE

Citibank, N.A.
Citigroup Centre
Canada Square, Canary Wharf
London, United Kingdom
E14 5LB

LISTING AGENT

BNP Paribas Securities Services,
Luxembourg Branch
33, rue de Gasperich
Howald - Hesperange
L-2085 Luxembourg

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square, Canary Wharf
London, United Kingdom
E14 5LB

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
Frankfurt am Main, Germany
D-60323