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FIRST HALF REPORT

at June 30, 2009

TABLE OF CONTENT

1. FIRST HALF REPORT AT JUNE 30, 2009

1.1 COMPARISON, FIRST HALF 2008 & 2009

Preliminary remark: In this document, the financial statements for the first half 2009, with comparable information for 2008, are presented in conformity with IFRS standards and interpretations. Because Alcatel-Lucent is quoted on a stock exchange in a European Union country, Alcatel-Lucent's consolidated financial statements, which have been published since the 2005 fiscal year, are prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the EU.

To provide meaningful comparable information, Alcatel-Lucent provides, in addition to the reported results, adjusted financial results, which exclude the main non-cash impacts of purchase price allocation entries in relation to the Lucent business combination. These non-cash impacts are very material and non-recurring due to the different amortization periods depending on the nature of the adjustments. Our reported figures are not comparable with those of our main competitors or other business players, who have not known a business combination similar to that undertaken by Alcatel and Lucent.

Revenues totalled Euro 7,503 million in the first half of 2009 for a decline of 5.8% from Euro 7,965 million in the first half of 2008. The increase in the value of the U.S. dollar vs. the Euro has tempered the decline in our revenues as approximately half of the company's revenues are denominated in or linked to the U.S. dollar. At a constant[4] Euro/USD exchange rate, revenues declined 10.8% year-over-year. Revenues in our Carrier business segment fell at a double-digit rate in the first half of 2009, as recessionary pressures on carrier capex were reflected to varying degrees on revenue growth across all four divisions that comprise the Carrier segment. Spending cuts were, however, sharply focused on legacy technologies. Our wireline business, for example, reflected pronounced weakness in spending for legacy core switching and, to a lesser extent, legacy ADSL access equipment, and our overall wireline revenues dropped sharply in the first half of 2009. Similarly, in our wireless business, a sharp drop in spending for second-generation GSM equipment significantly outweighed increased spending for third- generation technologies, and overall wireless revenues fell at a double-digit rate. The rate of decline in wireless, however, eased significantly in the second quarter. Revenues in our optics and IP divisions were more resilient. Optics revenue declined at a mid-single digit rate, as continued weakness in terrestrial optics offset continued strong growth in submarine optics. There was a slight decline in revenues in our IP division as growth in IP/MPLS service routers was offset by the continued secular decline in spending for legacy ATM equipment. Revenues in the Applications software segment increased at a high single-digit rate, driven by strong carrier spending for applications. Activity in our Enterprise segment was also significantly impacted by global economic conditions, and revenues fell at a double-digit rate in the first half of 2009. Revenues in our Services business segment continued to grow in the first half of 2009, led by very strong gains in Managed and Outsourcing solutions. From a geographic standpoint, the first-half decline in revenues was widespread, but weakness in North America (-21% at constant[4] currency) was much more pronounced than it was in Europe (-7%), the rest of the world (-7%), and Asia Pacific (-3%).

Our adjusted[2] gross margin was 32.3% of revenues in the first half of 2009, down from 35.6% in the first half of 2008. The decline in adjusted[2] gross margin was largely due to lower volumes and shifts in both product and geographic sales mix. The increase in the value of the US dollar also contributed to the decline in adjusted[2] gross margin, as did the non-recurrence of one-time gains. In the first half of 2008, a currency hedging gain and a capital gain on the sale of real estate contributed 0.7 percentage point to adjusted[2] gross margin. Adjusted[2] gross profit was Euro 2,426 million in the first half of 2009, down 14.3% from Euro 2,832 million in the comparable year-ago period.

Adjusted[2] operating expense totalled Euro 2,742 million in the first half of 2009, an increase of 1.4% from Euro 2,703 million in the first half of 2008. The increase reflects a significant reduction in R&D capitalization, the non-recurrence of a one-time gain booked on the sale of patents in the year-ago period, and the recovery of the US dollar. Excluding the impact of capitalization and one-time items, gross R&D expenses fell 4% year over year in the first half, and SG&A expenses were flat.

We had an adjusted[2] operating loss[1] of Euro (316) million or -4.2% of revenue in the first half of 2009, compared with adjusted[2] operating income[1] of Euro 129 million or 1.6% of revenue in the first half of 2008. Adjusted[2] operating margins in all four of our business segments were lower in the first half of 2009 than in the comparable year-ago period.

For the first half of 2009, adjusted[2] net loss (group share) was Euro (302) million or Euro (0.13) per diluted share (USD (0.19) per ADS), compared to an adjusted[2] net loss of Euro (317) million or Euro (0.14) per share (USD (0.22) per ADS) in the first half of 2008. Restructuring costs and income tax expenses were significantly lower in the first half of 2009 than in the year-ago period.

Reported Results and one time items

For the first half of 2009, Alcatel-Lucent's reported revenues were Euro 7,503 million. The reported gross profit was Euro 2,426 million. Reported operating loss[1] was Euro (456) million, including the negative impact from PPA entries of Euro 140 million. For the half, reported net loss (group share) was Euro (388) million or Euro (0.17) per diluted share (USD (0.24) per ADS), including the negative after tax impact from PPA entries of Euro 86 million. Three one time items impacted both the reported and adjusted net income of Alcatel Lucent in the first half of 2009. These include 1) a tax free capital gain on the sale of Thales of Euro 255 million booked in the financial income line 2) a pre tax loss of Euro 175 million (Euro 107 million after tax) related to the change of carrying value of the Lucent 2.875% Series A convertible debenture, also booked in the financial income line 3) a positive contribution in discontinued activities of Euro 129 million related to an earn-out clause on the 2007 sale of the satellite business to Thales. The net after tax impact of all three items was Euro 277 million or Euro 0.12 per share.

Balance Sheet and Pension Status

Alcatel-Lucent paid off the 4.375% bond due February 2009 for a nominal value of Euro 777 million. The company repurchased at a substantial discount USD 99 million (nominal value) of the Lucent 7.75% USD convertible bond due March 2017.

The net cash position was Euro 28 million as of June 30, 2009, compared with net debt of Euro (389) million at December 31, 2008. The reduction in net debt of Euro 417 million primarily reflects the Euro 1,566 million proceeds from the sale of our stake in Thales, partly offset by negative operating cash flow[3] of Euro (330) million, restructuring cash outlays of Euro (282) million, capital expenditures of Euro (340) million and contributions to pensions and OPEB of Euro (122) million. The negative operating cash flow[3] of Euro (330) million is mainly due to an increase in working capital and other assets and liabilities of Euro 310 million.

The funded status of pension and other post retirement benefit (OPEB) plans was Euro (1,162) million as of June 30, 2009, compared to Euro (429) million as of December 31, 2008. The widening of the deficit is due to a decline in plan assets which was only partially offset by a reduction in the net present value of benefit obligations.

Key Figures

Adjusted Profit & Loss Statement In Euro million except for EPS	First 6 months 2009	First 6 months 2008	*% change, y-o-y (% or pt)*	Second half 2008	*% change q-o-q (% or pt)*
Revenues	**7,503**	**7,965**	***-5.8%***	**9,019**	***-16.8%***
Gross profit	**2,426**	**2,832**	***-14.3%***	**2,968**	***-18.3%***
in % of revenues	*32.3%*	*35.6%*	*-3.2 pt*	*32.9%*	*-0.6 pt*
Operating income (1)	**-316**	**129**	***Nm***	**337**	***Nm***
in % of revenues	*-4.2%*	*1.6%*	*-5.8 pt*	*3.7%*	*-7.9 pt*
Net income (loss) (Group share)	**-302**	**-317**	***Nm***	**-1,280**	***Nm***
EPS diluted (in Euro)	-0.13	-0.14	*Nm*	-0.57	*Nm*
E/ADS* diluted (in USD)	-0.19	-0.22	*Nm*	-0.79	*Nm*
Number of diluted shares (million)	2267.3	2259.1	*0.4%*	2259.4	*0.4%*

*E/ADS calculated using the Federal Reserve Bank of New York noon Euro/USD buying rate of USD 1.4020 as of June 30, 2009, of USD 1.5748 as of June 30, 2008 and of USD 1.3919 as of December 31, 2008.

Geographic breakdown of revenues (In Euro million)	First 6 months 2009	First 6 months 2008	*% change, y-o-y (% or pt)*	Second half 2008	*% change q-o-q (% or pt)*
North America	2,314	2,539	*-8.8%*	2,546	*-9.1%*
Asia Pacific	1,510	1,456	*3.7%*	1,734	*-12.9%*
Europe	2,534	2,755	*-8.0%*	3,153	*-19.6%*
RoW	1,145	1,215	*-5.8%*	1,586	*-27.8%*
Total group revenues	**7,503**	**7,965**	***-5.8%***	**9,019**	***-16.8%***

Segment breakdown of revenues (In Euro million)	First 6 months 2009	First 6 months 2008	*% change, y-o-y (% or pt)*	Second half 2008	*% change q-o-q (% or pt)*
Carrier	4,603	5,240	*-12.2%*	5,740	*-19.8%*
- o/w IP	572	580	*-1.4%*	645	*-11.3%*
- o/w Optics	1,385	1,447	*-4.3%*	1,768	*-21.7%*
- o/w Wireless	1,886	2,141	*-11.9%*	2,339	*-19.4%*
- o/w Wireline	817	1,124	*-27.3%*	1,057	*-22.7%*
- o/w eliminations	-57	-52	*9.6%*	-69	*-17.4%*
Applications Software	515	477	*8.0%*	568	*-9.3%*
Enterprise	503	603	*-16.6%*	620	*-18.9%*
Services	1,670	1,470	*13.6%*	1,883	*-11.3%*
Other & eliminations	212	175	*Nm*	208	*Nm*
Total group revenues	**7,503**	**7,965**	***-5.8%***	**9,019**	***-16.8%***

Breakdown of segment operating income (1) (loss) (in Euro million)	First 6 months 2009	First 6 months 2008	*% change, y-o-y (% or pt)*	Second half 2008	*% change q-o-q (% or pt)*
Carrier	**-290**	**81**	***Nm***	**170**	***Nm***
In % of revenues	*-6.3%*	*1.5%*	*-7.8 pt*	*3.0%*	*-9.3 pt*
Applications software	**-51**	**-42**	***Nm***	**-7**	***Nm***
In % of revenues	*-9.9%*	*-8.8%*	*-1.1 pt*	*-1.2%*	*-8.7 pt*
Enterprise	**-42**	**35**	***Nm***	**49**	***Nm***
In % of revenues	*-8.3%*	*5.8%*	*-14.2 pt*	*7.9%*	*-16.3 pt*
Services	**24**	**66**	***Nm***	**168**	***Nm***
In % of revenues	*1.4%*	*4.5%*	*-3.1 pt*	*8.9%*	*-7.5 pt*
Other & eliminations	43	-11	*Nm*	-43	*Nm*
Segment op. income (loss)	**-316**	**129**	***NM***	**337**	***Nm***

Business Commentary

CARRIER SEGMENT

In the first half of 2009, revenues for the Carrier segment were Euro 4,603 million compared to Euro 5,240 million in the comparable year-ago period, a 12.2% decrease at current exchange rates and a 17% decrease at a constant[4] rate. Adjusted[2] operating[1] loss was Euro -290 million, an operating margin of -6.3%, compared to adjusted operating income of Euro 81 million or an operating margin of 1.5% in the first half of 2008.

Key highlights:

- Revenues in our IP division were Euro 572 million, a decrease of 1.4% from the first half of 2008, as accelerating growth in IP/MPLS service routers was more than offset by a material decline in ATM switching revenue. Alcatel-Lucent continues to gain market share in the edge IP routing space, as highlighted by reports published by Dell'Oro, IDC, Infonetics, Ovum and Synergy during the second quarter 2009, and the company continues to invest in its IP portfolio to expand its addressable market. On July 16th the company announced the industry's first 100 Gigabit per second line card for metro, edge and core routing, and on April 1st the company announced the introduction of a new packet core gateway based on the 7750 Service Router, a product which is expected to be used as one of the key elements of the evolved packet core in the Verizon LTE roll-out.

- Revenues in our Optics division reflected weakness in the terrestrial segment of the market, where the impact of reduced spending was felt across a widening range of technologies as the first half progressed. Our submarine optics business, however, continued to grow at a strong double-digit rate. Revenues for the Optics division were Euro 1,385 million, a 4.3% decline from Euro 1,447 million in the first half of 2008.

- There were contrasting demand trends at play in our Wireless networks division, where revenues of Euro 1,886 million in the first half of 2009 were down 11.9% from the year-ago period. Currency devaluations, economic weakness and the migration to 3G in China had a pronounced impact on carrier spending for legacy technologies in emerging markets, driving a sharp decline in our GSM business. Spending for third generation technologies was much stronger, particularly in China, but a strong double-digit increase in our WCDMA business and some recovery in CDMA activity were not enough to offset the decline in GSM. Finally, the momentum in LTE continues to build: in addition to its selection as one of the two vendors for Verizon, Alcatel-Lucent was selected by several other operators for their LTE trials.

- Activity in our Wireline networks division was also materially impacted by the legacy-focused cutbacks in service provider spending for new equipment. Our wireline revenues fell 27.3%, to Euro 817 million in the first half of 2009, driven by pronounced weakness in spending for legacy switching and, to a lesser extent, fixed access technologies. Alcatel-Lucent announced several new wins in broadband access in the first half, including Portugal Telecomm, China Mobile and China Telecom.

APPLICATIONS SOFTWARE SEGMENT

For the first half of 2009, revenues for the Applications software segment were Euro 515 million compared to Euro 477 million in the year-ago period, an increase of 8.0% at current exchange rates and a decline of 1% at a constant[4] rate. Adjusted[2] operating loss[1] was Euro -51 million, an operating margin of -9.9%, compared to an adjusted[2] operating loss[1] of Euro -42 million or an operating margin of -8.8% in the first half of 2008.

Key Highlights:

- Carrier applications were a key driver of growth in our applications software segment, particularly in the early part of the first half, with strong gains in spending for rich communications solutions (IMS applications and messaging), subscriber data management, Digital Media & Advertising, and the successful integration of the Motive portfolio. Customer response to the new applications portfolio and the company's applications enablement strategy is very encouraging, highlighted by a strong book-to-bill ratio and a total of 19 design wins in the first half, mainly in subscriber data management, rich communications and Digital Media & Advertising. From a geographic standpoint, demand remains very strong in North America and strong in Asia Pacific, but more muted in EMEA.

- Growth in spending for Genesys, the contact center software activity, bounced back in the latter part of the first half, driven by a surge in demand from the banking sector as well as a major contract with a large W. European operator. The latter highlights the ongoing successful expansion of Genesys from contact centers to customer care, with a particular focus on intelligent workload distribution.

- Profitability in the segment was lower in 2009 than in the first half of 2008, reflecting ongoing R&D investments in carrier applications and the fact that ongoing cost reduction initiatives have yet to fully materialize.

ENTERPRISE SEGMENT

For the first half of 2009, revenues for the Enterprise segment were Euro 503 million compared to Euro 603 million in the year-ago period, a decrease of 16.6% at current exchange rates and down 19% at a constant[4] rate. Adjusted[2] operating loss[1] was Euro -42 million, or -8.3% of revenues, compared to adjusted[2] operating income[1] of Euro 35 million or 5.8% of revenues in the first half of 2008.

Key Highlights:

- Revenues from Enterprise solutions declined in the first half as tough economic conditions and constraints in corporate investment sharply impacted the voice telephony market. Spending for data networking solutions picked up in the latter part of the first half, offsetting some of the weakness in voice.

- Revenues from industrial components were the most impacted by global market conditions and declined at a material rate in the in the first half of 2009, highlighting the highly cyclical nature of the underlying activities.

- From a geographic standpoint, demand was weak in all regions but picked up in the Americas later in the half, driven by a large contract in the healthcare market.

- Most of the segment's operating loss occurred early in the first half. Profitability was materially improved in the second quarter, reflecting a more favorable product and regional mix, lower marketing expenses after the one-time costs incurred in Q1 and initial impacts of the cost containment actions underway.

SERVICES SEGMENT

For the first half of 2009, revenues for the Services segment were Euro 1,670 million compared to Euro 1,470 million in the year-ago period, an increase of 13.6% at current exchange rates and of 11% at a constant[4] rate. Adjusted[2] operating income[1] was Euro 24 million or 1.4% of revenues compared to adjusted[2] operating income[1] of Euro 66 million or 4.5% of revenues in the first half of 2008.

Key Highlights:

- Managed and Outsourcing solutions grew strongly in the first half of 2009, driven by the implementation of many large contracts signed in 2008. On April 30th, Alcatel-Lucent and Bharti Airtel announced that they have formed a joint venture to manage the latter's pan-India broadband and telephone services and help Airtel's transition to next-generation networks. Under this JV, Alcatel-Lucent will design, deploy and manage Bharti Airtel's broadband and telephone network across India.

- Revenues in the Networks and Systems Integration (NS&I) division were flat, as a decline in traditional network roll-out services was offset by the demand for more complex network and software integration services.

- Maintenance revenues increased in the first half of 2009, with gains in both multi-vendor maintenance and the maintenance of Alcatel-Lucent products.

- Although profitability in the services segment was considerably lower in the first half of 2009 than in the year-ago period, it showed a strong sequential recovery in the second quarter due to 1) much higher margins in maintenance after an abnormally low level in the first quarter, 2) a material improvement in the contribution from NS&I attributable to a better mix of projects completed this quarter, and 3) a significant improvement in the profitability of Managed and Outsourcing Solutions.

Notes

1- Operating income (loss) is the Income (loss) from operating activities before restructuring costs, impairment of assets, gain (loss) on disposals of consolidated entities and post-retirement benefit plan amendment.
2- "Adjusted" refers to the fact that it excludes the main impacts from Lucent's purchase price allocation.
3- Operating cash flow is defined as cash flow after changes in working capital and before interest/tax paid, restructuring cash outlay and pension & OPEB cash outlay.
4- Revenues "constant" rate. This is based on applying (i) to our sales made directly in U.S. dollars or currencies linked to U.S. dollars effected during the first half 2009, the average exchange rate that applied for the first half 2008, instead of the average exchange rate that applied for the first half 2009, and (ii) to our exports (mainly from Europe) effected during the first half of 2009 which are denominated in U.S. dollars and for which we entered into hedging transactions, our average euro/U.S. dollar hedging rate that applied for the first half of 2008. Our management believes that providing our investors with our revenues for the first half of 2009 in constant euro/U.S. dollar exchange rates facilitates the comparison of the evolution of our revenues with that of the industry

1.2 - LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW CHANGES IN FIRST HALF YEARS 2009 AND 2008

Cash and cash equivalents decreased by € 471 million in the first half 2009 to € 3,216 million at June 30, 2009. This decrease was mainly due to cash used by operating activities of € 891 million and to cash used by financing activities of € 876 million, the latter resulting primarily from the reimbursement or repurchase of financial debt, which was partially offset by cash provided by investing activities of € 1,177 million (mainly due to the disposal of the Thales shares for € 1,566 million, less expenditures of € 340 million for tangible and intangible fixed assets).

Net cash provided (used) by operating activities. Net cash used by operating activities before changes in working capital, interest and taxes was € 425 million for the first half 2009 compared to € 41 million of net cash provided for the first half 2008. To calculate net cash used by operating activities before changes in working capital, interest and taxes, the net loss is adjusted for interest income/expense, income taxes and non-cash items (primarily depreciation, amortization, impairments, income statement movements in provisions that have no cash impact and repurchases or changes in financial debt fair values), net gain or loss on disposal of non-current assets, changes in fair values and share-based payments. The net loss is also adjusted for cash outflows in respect of amounts paid during the period that were already provided for at the beginning of the period (mainly ongoing restructuring programs).
The decrease in net cash provided by operating activities between the first halves 2008 and 2009 is partially explained by the impact in the first half 2009 of € 621 million of non-cash items (amortization, impairment of assets and items related to financial debt) that were included in the net loss attributable to the owners of the parent at June 30, 2009 of € 388 million, compared to non-cash items of € 1,405 million in the first half 2008 that notably included impairment losses of € 810 million recorded at June 30, 2008 on the CDMA activities. The decrease is also explained by a negative adjustment of € 372 million for the first half 2009 in respect of financial interest, income taxes, gains on disposal of assets and results of discontinued operations (which included € 129 million for discontinued operations corresponding to the additional selling price on the disposal in 2007 of our space businesses to Thales, € 270 million of gains on disposal of assets that included € 255 million for the sale to Thales and the cancellation of net tax income partially offset by the cancellation of finance costs) compared to a positive adjustment of € 119 million for the first half 2008 (due mainly to taxes and to finance costs).

Net cash used by operating activities was € 891 million for the first half 2009 compared to net cash used of € 433 million for the first half 2008. These amounts take into account the net cash used by operating working capital, vendor financing and other current assets and liabilities that amounted to € 310 million for the first half 2009 and to € 264 million for the first half 2008, which represents an increase of € 46 million in cash used between the first halves 2008 and 2009. This change is explained by an increase in net cash used of € 270 million in respect of other non-operating assets and liabilities for the first half 2009 compared to net cash used of € 95 million for these same elements for the first half 2008, partially offset by a decrease in net cash used by operating working capital.

Net cash provided (used) by investing activities. Net cash provided (used) by investing activities was net cash provided of € 1,177 million in the first half 2009 compared to net cash used of € 553 million in the first half 2008. The difference is mainly due to the net cash of € 1,566 million provided from the disposal of our investment in Thales and to a decrease of € 161 million in purchases of marketable securities (purchases of € 104 million for the first half 2009 compared to € 265 million for the first half 2008). On the other hand, purchases of tangible and intangible fixed assets were relatively stable between the first halves 2009 and 2008.

Net cash provided (used) by financing activities. Net cash used by financing activities amounted to € 876 million for the first half 2009 compared to net cash used of € 36 million for the first half 2008. This change was mainly due to repayment of the 4.375% bond maturing February 2009 for an amount of € 777 million and to a lesser degree to the partial repurchase of the Lucent 7.75% convertible bond for US$ 38 million (€ 28 million).

Disposed of or discontinued operations. Disposed of or discontinued operations provided net cash of € 118 million for the first half 2009 (adjustment of the selling price of the space businesses sold to Thales in 2007) compared to € 0 million for the first half 2008.

CAPITAL RESOURCES

Resources and cash flow outlook. Our capital resources may be derived from a variety of sources, including the generation of positive cash flow from on-going operations, the issuance of debt and equity in various forms, and banking facilities, including the revolving credit facility of € 1.4 billion maturing in April 2012 (with an extension until April 5, 2013 for an amount of € 837 million) and on which we have not yet drawn (see "Syndicated facility" Note 17-d of the consolidated financial statements at June 30, 2009). Our ability to draw upon these resources at any time is dependent upon a variety of factors, including our customers' ability to make payments on outstanding accounts receivable, lenders' and investors' perception of our credit quality, our ability to meet the financial covenant for our revolving facility and debt and equity market conditions generally. Given current conditions, access to the debt and equity markets may not be relied upon at this time.

Our short-term cash requirements are primarily related to funding our operations, including our restructuring program, capital expenditures and short-term debt repayments. We believe that our cash, cash equivalents and marketable securities, including short-term investments, aggregating € 4,241 million as of June 30, 2009, are sufficient to fund our cash requirements for the next 12 months. Approximately € 622 million of our cash, cash equivalents and marketable securities are held in countries, primarily China, which are subject to exchange control restrictions. These restrictions can limit the use of such funds by our subsidiaries outside of the local jurisdiction. Repatriation efforts are underway to reduce that amount. We do not expect that such restrictions will have an impact on our ability to meet our cash obligations.

In July 2009, we announced new restructuring plans in various European countries that are still being negotiated. These plans could have a material cost impact that, at present, is not reliably estimable. Such impact will be additional to our previous estimate, for which forecasted cash outlays in respect of previously-announced restructuring plans were to be of the same order of magnitude in 2009 as in 2008, i.e. approximately € 570 million.

On the other hand, compared to the € 901 million spent in 2008, we expect to materially reduce our capital expenditures, including capitalization of development expenditures. We repaid a total of € 777 million in respect of our 4.375% bond that matured in February 2009. Also in February 2009, Alcatel-Lucent repurchased at a substantial discount a part of its 7.75% bond maturing in March 2017 for U.S. $ 99 million. Later in 2009, depending upon market and other conditions, we may continue our bond repurchase program in order to redeem certain of our outstanding bonds.

Based on our current view of our business and capital resources and the overall market environment, we believe we have sufficient resources to fund our operations. If, however, the business environment were to materially worsen, the credit markets were to limit our access to bid and performance bonds, or our customers were to dramatically pull back on their spending plans, our liquidity situation could deteriorate. If we are unable to generate sufficient cash from operations to meet cash requirements in excess of our current expectations, we might be required to obtain the additional cash either through additional operating improvements or from external sources, such as increases in share capital, assets sales or financing from third parties, the availability of which is dependent upon a variety of factors, as noted above.

CUSTOMER FINANCING

Based on standard industry practice, we extend financing to certain of our customers by granting extended payment terms, making direct loans, or providing guarantees to third-party financing sources. More generally, as part of our business, we routinely enter into long-term contracts, which can involve our customers paying significant amounts over long periods of time.

As of June 30, 2009, net of reserves, we had an exposure of € 320 million under drawn customer financing arrangements, representing approximately € 316 million of deferred payments and loans, and € 4 million of guarantees. In addition, as of this date, we had further commitments to provide customer financing for approximately € 77 million. It is possible that these further commitments will expire without our having to actually provide the committed financing.

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

CAPITAL EXPENDITURES

We expect to materially reduce capital expenditures in 2009 compared to the € 901 million, including capitalization of development expenditures, that was spent in 2008 (of which € 399 million during the first half 2008 and € 502 million during the second half 2008). We expect to make capital expenditures of approximately € 350 million during the second half of 2009 (€340 million for the first half 2009). We believe that our current cash and cash equivalents, cash flows and funding arrangements provide us with adequate flexibility to meet our short-term and long-term financial obligations and to pursue our capital expenditure program, as planned. We base our judgment on current and future economic and market conditions. If these conditions were to deteriorate, we could be required to engage in additional restructuring efforts and to seek additional sources of capital, which may be difficult if there is no improvement in the market environment, given our limited ability to access the fixed income market at this point

1.3 – MARKET RISK

Financial instruments

Although, at June 30, 2009, our exposure to financial market risks was not materially different from our exposure at the end of last year, as described in our 2008 Form 20-F, outstanding amounts may vary significantly in terms of exposure to the underlying and to derivative instrument fair values according to market conditions.

The only material change worth mentioning is the break-down of our gross financial debt after hedging between fixed rate debt and floating rate debt. The fixed rate debt part of our gross financial debt represents approximately 90 % of our total gross debt as of June 30, 2009 compared to 56% as of December 31, 2008.

We are exposed to credit risk on marketable securities, cash and cash equivalents and derivative instruments in the event of counterparty default. We closely monitor this credit risk daily, within strict limits based on the counterparties’ credit ratings. As of today, we have not recorded any significant loss due to these circumstances.

1.4 – RESEARCH & DEVELOPMENT

During the first half 2009, our research and development costs amounted to € 1,345 million, including the impact of the capitalization of development costs, the capital gain (loss) on disposal of fixed assets and the impact of the purchase price allocation entries for the business combination with Lucent, as disclosed in Note 4 of the consolidated financial statements included elsewhere in this document, which represented 17.9 % of revenues of the period, compared to costs of € 1,410 million in the first half of 2008, which represented 17.7 % of the revenues for that period. Excluding the impact of the capitalization of development costs and capital gain (loss) on disposal of fixed assets and the impact of the purchase price allocation entries of the business combination with Lucent, research and development costs amounted to € 1,267 million for the first half 2009 compared with €1,285 millions for the first half 2008.

1.5 - RELATED PARTY TRANSACTIONS

The main related party transactions are set forth in chapter 7.7 and in Note 32 to the consolidated financial statements within chapter 13 of the "Document de Référence"* filed with the AMF on March 31, 2009 (file number: D.09-175).

No material related party transactions occurred in the 6-month period ended June 30, 2009, apart from the earn-out received during the first half 2009 in relation with the disposal of our Space business to Thales in 2007.

* This information contained in the "Document de Référence" is available in English in the 2008 Annual report on Form 20-F, plus the "Additional Information".

1.6 - RISK FACTORS

The main risk factors that could have an adverse impact on the Group's situation are described and measured in Chapter 3 of the "Document de Référence"* filed with the AMF on March 31, 2009 (file number: D.09-175). Alcatel-Lucent considers that no other material risks occurred in the 6-month period ended June 30, 2009.

* This information contained in the "Document de Référence" is available in English in the 2008 Annual report on Form 20-F, plus the "Additional Information".

1.7 - MARKET AND OUTLOOK

Alcatel-Lucent reiterates its guidance for 2009. The company continues to expect the global telecommunications equipment and related services market to be down between 8% and 12% at constant[4] currency in 2009. The company still anticipates an adjusted[2] operating profit[1] around break-even in 2009.

Progress on cost reduction plan: In order to meet its year-end cost reduction targets, the company has taken a number of actions on a regional basis. These actions include headcount reductions, contractor reductions, co-sourcing, facility consolidation, reducing the use of agents, reducing commissions, and finding other operational efficiencies. To date, the company estimates that it has achieved approximately 35% of its plan to reduce costs and expenses by Euro 750 million on an exit run rate by the fourth quarter 2009.

Update on the co-sourcing strategy. On June 18, 2009, Alcatel-Lucent and HP announced a 10-year co-sourcing agreement which is expected to help improve the efficiency of Alcatel-Lucent's IS/IT infrastructure as well as boost its top-line through an innovative joint go-to-market approach. Alcatel-Lucent is currently exploring other co-sourcing partnerships in order to improve the efficiency of its legacy R&D.

Completion of the Thales transaction: on May 17th 2009, the company completed the sale of its 20.8% stake in Thales to Dassault Aviation for Euro 1.566 billion. Alcatel-Lucent is currently evaluating the potential sale of other non core assets.

2 - STATEMENT FOR THE HALF-YEARLY FINANCIAL REPORT
(Free translation of a French language original)*

I certify that, to the best of my knowledge, the accounts included in this half-yearly financial report 2009 are prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position, profit or loss of the issuer, and the undertakings in the consolidation taken as a whole; and that the interim management report includes a fair review of the material events that occurred in the first six months of the financial year and their impact on the interim accounts, of the main related party transactions, and a description of the principal risks and uncertainties for the remaining six months of the year.

Paris, on July 30, 2009

Ben Verwaayen

Chief Executive Officer

3 - STATUTORY AUDITORS' REVIEW REPORT ON HALF-YEARLY FINANCIAL INFORMATION

(Free translation* of a French language original)
* This is a free translation into English of the auditors' review report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France for the convenience of the English speaking reader.

Alcatel-Lucent

Period from January 1, 2009 to June 30, 2009

To the shareholders,

In compliance with the assignment entrusted to us by your shareholders' meeting and in accordance with article L.451-1-2 III of the French Monetary and Financial Code (Code Monétaire et Financier), we hereby report to you on:

- Our review of the accompanying condensed half-yearly consolidated financial statements of Alcatel-Lucent for the period from January 1, 2009 to June 30, 2009, and
- The verification of the information contained in the interim management report ("first half report")

These condensed half-yearly consolidated financial statements have been prepared under the responsibility of the board of directors. They have been established, as described in note 2 to the condensed half-yearly consolidated financial statements, in the context in which the degree of volatility and lack of visibility are still high as of June 30, 2009. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with the professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with French professional standards and consequently does not enable us to obtain assurance that the financial statements, taken as a whole, are free from material misstatements, as we would not become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that these condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – IFRS as adopted by the European Union applicable to interim financial information.

2. Specific verification

We have also verified the information provided in the first half report in respect of the condensed half-yearly consolidated financial statements that were the object of our review.

We have no matters to report on the fairness and consistency of this information with the condensed half-yearly consolidated financial statements.

Neuilly-sur-Seine, July 30, 2009
The Statutory Auditors

DELOITTE & ASSOCIES	ERNST & YOUNG
Antoine de Riedmatten	Jean-Yves Jégourel

4 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS at JUNE 30, 2009*

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

CONSOLIDATED INCOME STATEMENTS

(In millions of euros)

	Note	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Revenues	4	3,905	4,101	7,503	7,965	16,984
Cost of sales		(2,612)	(2,669)	(5,077)	(5,136)	(11,190)
Gross profit [(1)]		**1,293**	**1,432**	**2,426**	**2,829**	**5,794**
Administrative and selling expenses [(1)]		(769)	(751)	(1,537)	(1,546)	(3,093)
Research and development expenses before capitalization of development expenses		*(655)*	*(726)*	*(1,346)*	*(1,467)*	(2,858)
Impact of capitalization of development expenses		*1*	*24*	*1*	*57*	101
Research and development costs [(1)]		(654)	(702)	(1,345)	(1,410)	(2,757)
Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments	4	**(130)**	**(21)**	**(456)**	**(127)**	**(56)**
Restructuring costs	16	(123)	(265)	(201)	(387)	(562)
Impairment of assets	10	-	(810)	-	(810)	(4,725)
Gain/(loss) on disposal of consolidated entities		-	-	-	(1)	(7)
Post-retirement benefit plan amendments	16, 18, 21	1	(18)	(1)	(18)	47
Income (loss) from operating activities		**(252)**	**(1,114)**	**(658)**	**(1,343)**	**(5,303)**
Interest relative to gross financial debt		*(74)*	*(95)*	*(158)*	(191)	(391)
Interest relative to cash and cash equivalents		*16*	*45*	*38*	93	179
Finance costs	6	(58)	(50)	(120)	(98)	(212)
Other financial income (loss)	6	93	100	142	193	366
Share in net income (losses) of equity affiliates		3	28	(6)	56	96
Income (loss) before income tax, related reduction of goodwill and discontinued operations		**(214)**	**(1,036)**	**(642)**	**(1,192)**	**(5,053)**
Income tax income (expense)	8	87	(50)	93	(69)	(153)
Income (loss) from continuing operations		**(127)**	**(1,086)**	**(549)**	**(1,261)**	**(5,206)**
Income (loss) from discontinued operations and assets held for sale	7	129	-	129	-	33
NET INCOME (LOSS)		**2**	**(1,086)**	**(420)**	**(1,261)**	**(5,173)**
Attributable to:						
- Owners of the parent		**14**	**(1,102)**	**(388)**	**(1,283)**	**(5,215)**
- Non-controlling interests		(12)	16	(32)	22	42
Net income (loss) attributable to the owners of the parent per share (in euros)						
- Basic earnings per share	9	0.01	(0.49)	(0.17)	(0.57)	(2.31)
- Diluted earnings per share	9	0.01	(0.49)	(0.17)	(0.57)	(2.31)
Net income (loss) before discontinued operations attributable to the owners of the parent per share (in euros)						
- Basic earnings per share		(0.05)	(0.49)	(0.23)	(0.57)	(2.32)
- Diluted earnings per share		(0.05)	(0.49)	(0.23)	(0.57)	(2.32)
Net income (loss) of discontinued operations per share (in euros)						
- Basic earnings per share		0.06	0.00	0.06	0.00	0.01
- Diluted earnings per share		0.05	0.00	0.06	0.00	0.01

(1) Classification of share-based payments between cost of sales, administrative and selling expenses and research & development costs is provided in note 5.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Net income (loss) for the period	**2**	**(1,086)**	**(420)**	**(1,261)**	**(5,173)**
Other comprehensive income:					
Financial assets available for sale:	7	(29)	23	(14)	(38)
Reclassification adjustments for gains/losses taken to equity	*7*	*(28)*	*23*	*(13)*	*(38)*
Reclassification adjustment for profit or loss on sale	-	*(1)*	-	*(1)*	-
Cumulative translation adjustments	(21)	83	87	(487)	112
Cash flow hedging:	1	14	(5)	4	5
Amount taken to equity	*(7)*	*(2)*	*(8)*	*(19)*	*(14)*
Reclassification adjustments for income included in income(loss)	*8*	*16*	*2*	*23*	*19*
Actuarial gains (losses) and adjustments arising from asset ceiling limitation	(348)	(138)	(358)	(312)	(1,965)
Tax on items recognized directly in equity	(27)	90	(6)	133	429
Other adjustments	(7)	-	(54)	108	86
Total other comprehensive income	**(395)**	**20**	**(314)**	**(568)**	**(1,371)**
Of which transferred to profit and loss	*8*	*15*	*2*	*22*	*19*
Total comprehensive income (loss) for the period	**(393)**	**(1,066)**	**(734)**	**(1,829)**	**(6,544)**
Attributable to:					
- Owners of the parent	**(352)**	**(1,086)**	**(705)**	**(1,844)**	**(6,635)**
- Non-controlling interests	(41)	20	(29)	15	91

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of euros)

ASSETS	Notes	June 30, 2009	June 30, 2008	December 31, 2008
Non-current assets:				
Goodwill	10	4,202	6,204	*4,215*
Intangible assets, net		2,385	3,800	*2,567*
Goodwill and intangible assets, net		6,587	10,004	6,782
Property, plant and equipment, net		1,296	1,336	1,351
Share in net assets of equity affiliates	14	97	1,413	113
Other non-current financial assets, net	11	452	677	696
Deferred tax assets		857	1,237	852
Prepaid pension costs	18	2,485	3,129	2,298
Marketable securities, net	17	-	-	-
Other non-current assets	12	502	552	650
Total non-current assets		**12,276**	**18,348**	**12,742**
Current assets:				
Inventories and work in progress, net	13	2,198	2,353	2,196
Amounts due from customers on construction contracts	13	499	640	495
Trade receivables and other receivables, net	13	3,424	3,772	4,330
Advances and progress payments	13	106	137	99
Other current assets, net	12	1,404	1,179	1,395
Current income taxes		153	78	113
Marketable securities, net	11, 17	1,025	1,150	906
Cash and cash equivalents	17	3,216	3,259	3,687
Current assets before assets held for sale		*12,025*	*12,568*	*13,221*
Assets held for sale and assets included in disposal groups held for sale	7	55	27	1,348
Total current assets		**12,080**	**12,595**	**14,569**
TOTAL ASSETS		**24,356**	**30,943**	**27,311**

(In millions of euros)

EQUITY AND LIABILITIES	Notes	June 30, 2009	June 30, 2008	December 31, 2008
Equity:				
Capital stock (€ 2 nominal value: 2,318,043,149 ordinary shares issued at June 30, 2009, 2,317,465,163 ordinary shares issued at June 30, 2008, and 2,318,041,761 ordinary shares issued at December 31, 2008)		4,636	4,635	4,636
Additional paid-in capital		16,663	16,590	16,631
Less treasury stock at cost		(1,566)	(1,567)	(1,566)
Retained earnings, fair value and other reserves		(14,459)	(7,419)	(8,823)
Cumulative translation adjustments		(935)	(1,564)	(1,030)
Net income (loss) - Attributable to the owners of the parent		(388)	(1,283)	(5,215)
Equity attributable to equity holders of the parent		*3,951*	*9,392*	*4,633*
Non-controlling interests		*556*	*512*	*591*
Total equity	15	**4,507**	**9,904**	**5,224**
Non-current liabilities:				
Pensions, retirement indemnities and other post-retirement benefits	18	5,271	4,020	4,807
Bonds and notes issued, long term	15, 17	3,525	3,583	3,931
Other long-term debt	17	63	66	67
Deferred tax liabilities		1,050	1,699	1,152
Other non-current liabilities	12	397	486	443
Total non-current liabilities		**10,306**	**9,854**	**10,400**
Current liabilities:				
Provisions	16	1,982	2,545	2,424
Current portion of long-term debt	17	698	1,194	1,097
Customers' deposits and advances	13	593	972	929
Amounts due to customers on construction contracts	13	186	271	188
Trade payables and other payables	13	4,017	4,151	4,571
Current income tax liabilities		80	92	185
Other current liabilities	12	1,987	1,960	2,293
Total current liabilities		**9,543**	**11,185**	**11,687**
TOTAL EQUITY AND LIABILITIES		**24,356**	**30,943**	**27,311**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of euros)

	Note	Q2 2009	Q1 2009	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Cash flows from operating activities						
Net income (loss) - Attributable to the owners of the parent		14	(402)	(388)	(1,283)	(5,215)
Non-controlling interests		(12)	(20)	(32)	22	42
Adjustments	19	(81)	76	(5)	1,302	5,826
Net cash provided (used) by operating activities before changes in working capital, interest and taxes	**19**	**(79)**	**(346)**	**(425)**	**41**	**653**
Net change in current assets and liabilities (excluding financing):						
- Decrease (increase) in inventories and work in progress	13	179	(271)	(92)	(251)	(88)
- Decrease (increase) in trade receivables and other receivables	13	68	453	521	295	109
- Decrease (increase) in advances and progress payments	13	10	(16)	(6)	(21)	9
- Increase (decrease) in trade payables and other payables	13	(482)	(51)	(533)	(292)	4
- Increase (decrease) in customers' deposits and advances	13	(55)	125	70	100	(64)
- Change in other assets and liabilities		(105)	(165)	(270)	(95)	(101)
Cash provided (used) by operating activities before interest and taxes		**(464)**	**(271)**	**(735)**	**(223)**	**522**
- Interest received		15	24	39	85	157
- Interest (paid)		(54)	(99)	(153)	(209)	(349)
- Taxes (paid)/received		(18)	(24)	(42)	(86)	(123)
Net cash provided (used) by operating activities		**(521)**	**(370)**	**(891)**	**(433)**	**207**
Cash flows from investing activities:						
Proceeds from disposal of tangible and intangible assets		10	2	12	91	188
Capital expenditures		(175)	(165)	(340)	(399)	(901)
Of which impact of capitalization of development costs		*(68)*	*(71)*	*(139)*	*(206)*	*(410)*
Decrease (increase) in loans and other non-current financial assets		7	10	17	24	26
Cash expenditures for acquisition of consolidated and non-consolidated companies		3	5	8	(16)	(73)
Cash and cash equivalents from consolidated companies acquired			-	-	-	-
Cash proceeds from sale of previously consolidated and non-consolidated companies		1,583	1	1,584	12	22
Cash proceeds from sale of (increase in) marketable securities		(369)	265	(104)	(265)	12
Net cash provided (used) by investing activities		**1,059**	**118**	**1,177**	**(553)**	**(726)**
Cash flows from financing activities:						
Issuance/(repayment) of short-term debt		29	(57)	(28)	(29)	(24)
Issuance of long-term debt		-	-	-	-	-
Repayment/repurchase of long-term debt	17	(24)	(818)	(842)	-	(226)
Proceeds from issuance of shares		-	-	-	-	-
Proceeds from disposal/(acquisition) of treasury stock		-	-	-	-	-
Dividends paid		(5)	(1)	(6)	(7)	(7)
Net cash provided (used) by financing activities		**-**	**(876)**	**(876)**	**(36)**	**(257)**
Net cash provided (used) by operating activities of discontinued operations	7	-	-	-	-	-
Net cash provided (used) by investing activities of discontinued operations	7	118	-	118	-	21
Net cash provided (used) by financing activities of discontinued operations	7	-	-	-	-	-
Net effect of exchange rate changes		(127)	128	1	(96)	65
Net increase (decrease) in cash and cash equivalents		**529**	**(1,000)**	**(471)**	**(1,118)**	**(690)**
Cash and cash equivalents at beginning of period/year		**2,687**	**3,687**	**3,687**	**4,377**	**4,377**
Cash and cash equivalents at end of period/year		**3,216** [1]	**2,687** [1]	**3,216**	**3,259**	**3,687** [1]
Cash and cash equivalents at beginning of period / year classified as assets held for sale		**-**	**-**	**-**	**-**	**-**
Cash and cash equivalents at end of period / year classified as assets held for sale		**-**	**-**	**-**	**-**	**-**

(1) Includes € 622 million of cash and cash equivalents held in countries subject to exchange control restrictions as of June 30, 2009 (€ 521 million as of June 30, 2008 and € 678 million as of December 31, 2008). 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	Additi-tional 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, 2007 after appropriation	**2,259,050,733**	**4,635**	**16,543**	**(7,736)**	**397**	**(1,567)**	**(1,085)**	**-**	**11,187**	**515**	**11,702**
Changes in equity for the six month period ended June 30, 2008:											
Total comprehensive income (loss) for the six month period (1)				**55**	**(137)**		**(479)**	**(1,283)**	**(1,844)**	**15**	**(1,829)**
Other capital increases	23,743										
Deferred share-based payments			47						**47**		**47**
Treasury stock owned	46,209								**-**		**-**
Dividends									**-**	(19)	**(19)**
Other adjustments				2					**2**	1	**3**
Balance at June 30, 2008	**2,259,120,685**	**4,635**	**16,590**	**(7,679)**	**260**	**(1,567)**	**(1,564)**	**(1,283)**	**9,392**	**512**	**9,904**
Changes in equity for the last six months of 2008:											
Total comprehensive income (loss) for the last six months of 2008				**31**	**(1,424)**	**-**	**534**	**(3,932)**	**(4,791)**	**76**	**(4,715)**
Other capital increases	576,598	1							**1**		**1**
Share-based payments			38						**38**		**38**
Treasury stock	(41,512)			(3)		1			**(2)**		**(2)**
Other adjustments				(5)					**(5)**	3	**(2)**
Balance at December 31, 2008 before appropriation	**2,259,655,771**	**4,636**	**16,631**	**(7,659)**	**(1,164)**	**(1,566)**	**(1,030)**	**(5,215)**	**4,633**	**591**	**5,224**
Proposed appropriation of net income (loss)				(5,215)				5,215	**-**		**-**
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 six month period ended June 30, 2009:											
Total comprehensive income (loss) for the six month period (1)				(54)	(358)	-	95	(388)	**(705)**	(29)	**(734)**
Other capital increases	1,388		-						**-**		**-**
Share-based payments			32						**32**		**32**
Treasury stock	37,561			1					**1**		**1**
Dividends									**-**	(5)	**(5)**
Other adjustments				(10)					**(10)**	(1)	**(11)**
Balance at June 30, 2009	**2,259,694,720**	**4,636**	**16,663**	**(12,937)**	**(1,522)**	**(1,566)**	**(935)**	**(388)**	**3,951**	**556**	**4,507**

(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. Alcatel changed its name to Alcatel-Lucent on completion of the business combination with Lucent Technologies Inc. Alcatel-Lucent was incorporated on June 18, 1898 and will be dissolved on June 30, 2086, except if dissolved earlier or if its existence is extended by shareholder vote. Alcatel-Lucent's headquarters are situated at 54, rue la Boétie, 75008 Paris, France. Alcatel-Lucent is listed principally on the Paris and New York stock exchanges.

The 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 July 29, 2009, the Board of Directors authorized the issuance of these condensed interim consolidated financial statements at June 30, 2009.

Note 1 Summary of accounting policies

Due to the listing of Alcatel-Lucent's securities on the Euronext Paris and in accordance with the European Union's regulation No. 1606/2002 of July 19, 2002, the condensed interim consolidated financial statements of the Group are prepared in accordance with IFRSs (International Financial Reporting Standards), as adopted by the European Union, as of the date when our Board of Directors authorized these condensed interim consolidated financial statements for issuance.
IFRSs are available 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 the accounting interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC").

The condensed interim consolidated financial statements at June 30, 2009 are prepared in compliance with IAS 34 "Interim Financial Reporting". The accounting policies and measurement principles adopted for the condensed interim consolidated financial statements at June 30, 2009 are the same as those used in the consolidated financial statements at December 31, 2008, except the changes disclosed hereafter.

At June 30, 2009, the IFRSs adopted by the European Union were the same as International Financial Reporting Standards published by the IASB, with the exception of IAS 39, which was only partially adopted, but which has no impact on Alcatel-Lucent's financial statements. As a result, the Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as published by the IASB.

New financial reporting standards and interpretations that the Group applies but which are not yet mandatory

As of June 30, 2009, Alcatel-Lucent had not applied any new International Financial Reporting Standards and Interpretations that the European Union has published and adopted but which were not yet mandatory.

New financial reporting standards or amendments applied as of January 1, 2009

<u>IAS 1 –Presentation of Financial Statements - revised</u>

The main changes from the previous version of IAS 1 are as follows:
The statements "balance sheet" and "cash flow statement" are now denominated "statement of financial position" and "statement of cash flows".

IAS 1 revised requires that (i) all changes arising from transactions with owners in their capacity as owners be presented separately from non-owner changes in equity, (ii) income and expenses be presented in one statement (statement of comprehensive income) or two statements (a separate income statement and a statement of comprehensive income) and (iii) the total comprehensive income be presented in the financial statements.

Other new financial reporting standards, amendments and interpretations published and applied by the Group

The IASB published the following standards and interpretations before June 30, 2009, which were endorsed by the European Union and have to be applied as of June 30, 2009:

- Amendment to IFRS 2 “Share-based Payment” - Vesting Conditions and Cancellations;
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” - Puttable Financial Instruments and Obligations arising on Liquidation;
- Improvements to IFRSs issued by the IASB in May 2008 (except the improvements related to IFRS 5- “Non-current Assets Held For Sale and Discontinued Operations”, improvement applicable as of July 1st 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”;
- Amendment to IFRIC 9 and IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded Derivatives;
- IFRIC 11 “Group and Treasury Share Transactions”; and
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation".

None of these new standards or amendments had a material impact on the consolidated financial statements for the six-month period ended June 30, 2009.

New financial reporting standards, amendments and interpretations published and mandatory but not yet endorsed by the European Union

The IASB published the following interpretations before June 30, 2009, which have not yet been endorsed by the European Union, but which are effective for other than European-listed companies for annual periods beginning on or after 1 January 2009:

- Amendment to IFRS 7 “Financial Instruments: Disclosures” – Improving Disclosures about Financial Instruments;
- Amendment to IFRIC 9, IAS 39 “Embedded derivatives”;
- Amendment to IAS 39.80 “Financial Instruments: Recognition and Measurement” included in Improvements to IFRS issued by the IASB in May 2008; and
- IFRIC 15 "Agreements for the Construction of Real Estate ".

None of these amendments or interpretations would have had a material impact on the financial statements, if they had been applied.

New financial reporting standards, amendments and interpretations published but not yet mandatory and not yet applied by the Group

- A revised IFRS 3 “Business Combinations” and an amended IAS 27 “Consolidated and Separate Financial Statements”. Our intention is to apply it to business combinations for which the acquisition date is on or after the beginning of 2010;
- Revised IFRS 1 "First-time Adoption of IFRSs" issued in November 2008;
- Improvements to IFRSs (issued by the IASB in May 2008) related to IFRS 5- “Non-current Assets Held For Sale and Discontinued Operations”);
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement” – Eligible Hedged Items;
- Improvements to IFRSs (issued by the IASB in April 2009);
- Amendments to IFRS 2 “Group Cash-settled Share-based Payment Transactions” issued in June 2009;
- IFRIC 17 “Distributions of Non-cash Assets to Owners”; and
- IFRIC 18 “Transfers of Assets from Customers”.

None of these new standards and interpretations is anticipated to have a material impact on our future consolidated financial statements except IFRS 3 revised and IAS 27 amended. These revised or amended standards could have a material impact on our future consolidated financial statements, if we were to enter into significant, new business combinations.

Transitional provisions of IFRS 3 affecting income taxes could also have a material impact on our future consolidated financial statements, since deferred tax assets recognized after completion of a business combination but not initially recognized will be recognized in the income statement without any related reduction of goodwill, contrary to the accounting treatment prescribed in the current IFRS 3 (see note 1n).

In this respect, significant unrecognized income tax loss carry-forwards that relate to Lucent Technologies could materially impact the Group's 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.

a/ Basis of preparation

The condensed interim consolidated financial statements have been prepared in accordance with IFRSs under the historical cost convention, with the exception of certain categories of assets and liabilities. The categories concerned are detailed in the following notes.

b/ Consolidation methods

Companies over which the Group has control are fully consolidated.

Companies over which the Group has joint control are accounted for using proportionate consolidation.

Companies over which the Group has significant influence (investments in "associates" or equity affiliates) are accounted for under the equity method. Significant influence is assumed when the Group's interest in the voting rights is greater than or equal to 20%.

In accordance with SIC 12 "Consolidation – Special purpose entities", special purpose entities (SPE) are consolidated when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group.

All significant intra-group transactions are eliminated.

c/ Business combinations

Regulations governing first-time adoption: Business combinations that were completed before January 1, 2004, the transition date to IFRSs, were not restated, as permitted by the optional exemption included in IFRS 1. Goodwill was therefore not recognized for business combinations occurring prior to January 1, 2004, which were previously accounted for in accordance with article 215 of Regulation No. 99-02 of the "Comité de la Réglementation Comptable". According to this regulation, the assets and liabilities of the acquired company are maintained at their carrying value at the date of the acquisition, adjusted for the Group's accounting policies, and the difference between this value and the acquisition cost of the shares is adjusted directly against equity.

Business combinations after January 1, 2004: These business combinations are accounted for in accordance with the purchase method required by IFRS 3. Once control is obtained over a company, its assets, liabilities and contingent liabilities are measured at their fair value at the acquisition date in accordance with IFRS requirements. Any difference between the fair value and the carrying value is accounted for in the respective underlying asset or liability, including both the Group interest and non-controlling interests. Any excess between the purchase price and the Group's share in the fair value of such net assets is recognized as goodwill (see intangible and tangible assets).

If the initial accounting for a business combination cannot be completed before the end of the annual period in which the business combination is effected, the initial accounting must be completed within twelve months of the acquisition date.

The accounting treatment of deferred taxes related to business combinations is described in note 1n below.

The accounting treatment of stock options of companies acquired in the context of a business combination is described in note 1w below.

d/ Translation of financial statements denominated in foreign currencies

The statements of financial position of consolidated entities having a functional currency different from the presentation currency of the Group (i.e. euro) are translated into euros at the closing exchange rate (spot exchange rate at the statement of financial position date), and the income statements and statement of cash flow of such consolidated entities are translated at the average period to date exchange rate. The resulting translation adjustments are included in equity under the caption "Cumulative translation adjustments".

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are considered as assets and liabilities of that entity. They are therefore expressed in the entity's functional currency and translated into euros using the closing exchange rate.

Regulations governing first-time adoption: In accordance with the option available under IFRS 1, the accumulated total of translation adjustments at the transition date was deemed to be zero. This amount was reversed against retained earnings, leaving the amount of equity unchanged. Translation adjustments that predate the IFRS transition will therefore not be included when calculating gains or losses arising from the future disposal of consolidated subsidiaries or equity affiliates existing as of the IFRS transition date.

e/ Translation of foreign currency transactions

Foreign currency transactions are translated at the rate of exchange applicable on the transaction date. At period-end, foreign currency monetary assets and liabilities are translated at the rate of exchange prevailing on that date. The resulting exchange gains or losses are recorded in the income statement in "other financial income (loss)".

Exchange gains or losses on foreign currency financial instruments that represent an economic hedge of a net investment in a foreign subsidiary are reported as translation adjustments in equity under the caption "Cumulative translation adjustments" until the disposal of the investment. Refer to note 1d above for information on the recognition of translation adjustments at the IFRS transition date.

In order for a currency derivative to be eligible for hedge accounting treatment (cash flow hedge or fair value hedge), its hedging role must be defined and documented and it must be seen to be effective for the entirety of its period of use. Fair value hedges allow companies to protect themselves against exposure to changes in fair value of their assets, liabilities or firm commitments. Cash flow hedges allow companies to protect themselves against exposure to changes in future cash flows (for example, revenues generated by the company's assets).

The value used for derivatives is their fair value. Changes in the fair value of derivatives are accounted for as follows:

- For derivatives treated as cash flow hedges, changes in their fair value are accounted for in equity and then transferred from equity to the income statement (cost of sales) when the hedged revenue is accounted for. The ineffective portion is recorded in "other financial income (loss)".
- For derivatives treated as fair value hedges, changes in their fair value are recorded in the income statement where they offset the changes in fair value of the hedged asset, liability or firm commitment.

In addition to derivatives used to hedge firm commitments documented as fair value hedges, from April 1, 2005 onwards, Alcatel-Lucent has designated and documented highly probable future streams of revenue and has entered into hedge transactions with respect to such revenue. The corresponding derivatives are accounted for in accordance with the requirements governing cash flow hedge accounting.

Certain foreign exchange derivatives are not considered eligible for hedge accounting treatment, as the derivatives are not designated as hedges for cost/benefit reasons.

Derivatives related to commercial bids are not considered eligible for hedge accounting treatment and are accounted for as trading financial instruments. Changes in fair values of such instruments are included in the income statement in cost of sales (in the operating segment "other").

Once a commercial contract is effective, the corresponding firm commitment is hedged with a derivative treated as a fair value hedge. Revenues made pursuant to such a contract are then accounted for, throughout the duration of the contract, using the spot rate prevailing on the date on which the contract was effective, insofar as the exchange rate hedging is effective.

f/ Research and development expenses and other capitalized development costs

In accordance with IAS 38 "Intangible Assets", research and development expenses are recorded as expenses in the year in which they are incurred, except for:

development costs, which are capitalized as an intangible asset when the following criteria are met:

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

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

Specifically for software, useful life is determined as follows:

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

Capitalized software development costs are those incurred during the programming, codification and testing phases. Costs incurred during the design and planning, product definition and product specification stages are accounted for as expenses.

The amortization of capitalized software costs during a reporting period is the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product and (b) the straight-line method over the remaining estimated economic life of the software or the product it is incorporated within.

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

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

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

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

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

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

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

Capitalized development costs considered as assets (either generated internally and capitalized or reflected in the purchase price of a business combination) are generally amortized over 3 to 10 years.

Impairment tests are carried out using the methods described in the following paragraph.

g/ Goodwill, intangible assets and property, plant and equipment

In accordance with IAS 16 "Property, Plant and Equipment" and with IAS 38 "Intangible Assets", only items whose cost can be reliably measured and for which future economic benefits are likely to flow to the Group are recognized as assets.

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

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

Goodwill

Since transition to IFRSs, goodwill is no longer amortized in accordance with IFRS 3 “Business Combinations”. Before January 1, 2004, goodwill was amortized using the straight-line method over a period, determined on a case-by-case basis, not exceeding 20 years.

Goodwill is tested for impairment at least annually. This is done during the second quarter of the year. The impairment test methodology is based on a comparison between the recoverable amounts of each of the Group’s business divisions (considered as the grouping of cash generating units ("CGU") at which level the impairment test is performed) and the Group business division’s net asset carrying values (including goodwill). Within Alcatel-Lucent’s reporting structure, Business Divisions are one level below the four operating segments (Carrier, Applications Software, Enterprise and Services). Such recoverable amounts are mainly determined using discounted cash flows over five years and a discounted residual value.

An additional impairment test is also performed when events indicating a potential decrease of the recoverable value of a Business Division occur. Goodwill impairment losses cannot be reversed.

Equity affiliate goodwill is included with the related investment in “share in net assets of equity affiliates”. The requirements of IAS 39 are applied to determine whether any impairment loss must be recognized with respect to the net investment in equity affiliates. The impairment loss is calculated according to IAS 36 requirements.

When the reporting structure is reorganized in a way that changes the composition of one or more Business Divisions to which goodwill was allocated, a new impairment test is performed on the goodwill for which the underlying Business Divisions have changed. Such a reallocation was made in October 2007 and January 1, 2009 using a relative value approach similar to the one used when an entity disposes of an operation within a Business Division.

Intangible assets

Intangible assets mainly include capitalized development costs and those assets acquired in business combinations, being primarily acquired technologies or customer relationships. Intangible assets, other than trade names, are generally amortized on a straight-line basis over their estimated useful lives (i.e. 3 to 10 years). However, software amortization methods may be adjusted to take into account how the product is marketed. Amortization is classified as cost of sales, research and development costs (acquired technology, IPR&D, etc.) or administrative and selling expenses (customer relationships), depending on the designation of the asset. Impairment losses are accounted for in a similar manner or in restructuring costs if they occur as part of a restructuring plan or on a specific line item if very material (refer to note 1p). In Process R&D amortization begins once technical feasibility is reached. Certain trade names are considered to have indefinite useful lives and therefore are not amortized.

Capital gain/loss of intangible assets are accounted for in the corresponding cost line items in the income statement depending of the nature of the underlying asset (i.e. cost of sales, administrative and selling expenses or research and development costs).

Property, plant and equipment

Property, plant and equipment are valued at historical cost for the Group less accumulated depreciation expenses and any impairment losses. Depreciation expense is generally calculated over the following useful lives:

. buildings and building improvements	5-50 years
. infrastructure and fixtures	5-20 years
. plant and equipment	1-10 years

Depreciation expense is determined using the straight-line method.

Assets acquired through finance lease arrangements or long-term rental arrangements that transfer substantially all the risks and rewards associated with ownership of the asset to the Group (tenant) are capitalized.

Residual value, if considered to be significant, is included when calculating the depreciable amount. Property, plant and equipment are segregated into their separate components if there is a significant difference in their expected useful lives, and depreciated accordingly.

Depreciation and impairment losses are accounted for in the income statement under cost of sales, research and development costs or administrative and selling expenses, depending on the nature of the asset or in restructuring costs if they occur as part of a restructuring plan or on a specific line item if very material (see note 1p).

In addition, capital gains/losses of property, plant and equipment are accounted for in the corresponding cost line items in the income statement depending of the nature of the underlying asset (i.e. cost of sales, administrative and selling expenses or research and development costs).

h/ Non-consolidated investments and other non-current financial assets

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", investments in non-consolidated companies are classified as available-for-sale and therefore measured at their fair value. The fair value for listed securities is their market price. If a reliable fair value cannot be established, securities are valued at cost. Fair value changes are accounted for directly in equity. When objective evidence of impairment of a financial asset exists (for instance, a significant or prolonged decline in the value of an asset), an irreversible impairment loss is recorded. This loss can only be released upon the sale of the securities concerned.

Loans are measured at amortized cost and are subject to impairment losses if there is objective evidence of a loss in value. The impairment represented by the difference between net carrying amount and recoverable value is recognized in the income statement and can be reversed if recoverable value rises in the future.

The portfolio of non-consolidated securities and other financial assets is assessed at each quarter-end for objective evidence of impairment.

i/ Inventories and work in progress

Inventories and work in progress are valued at the lower of cost (including indirect production costs where applicable) or net realizable value.

Net realizable value is the estimated sales revenue for a normal period of activity less expected selling costs.

j/ Treasury stock

Treasury shares owned by Alcatel-Lucent or its subsidiaries are valued at cost and are deducted from equity. Proceeds from the sale of such shares are recognized directly in equity.

k/ Pension and retirement obligations and other employee and post-employment benefit obligations

In accordance with the laws and practices of each country where Alcatel-Lucent is established, the Group participates in employee benefit plans.

For defined contribution plans, the Group expenses contributions as and when they are due. As the Group is not liable for any legal or constructive obligations under the plans beyond the contributions paid, no provision is made. Provisions for defined benefit plans and other long-term employee benefits are determined as follows:

- using the Projected Unit Credit Method (with projected final salary), each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to calculate the final obligation. Actuarial assumptions such as mortality rates, rates of employee turnover and projection of future salary levels are used to calculate the obligation;
- the "corridor" method is no longer used from January 1, 2007 (see below).

The service cost is recognized in "income from operating activities" and the interest cost and expected return on plan assets are recognized in "financial income (loss)". In case of plan amendments, the impact is presented on a specific line item of the income statement if material (see note 1p).

Prepaid pension costs cannot exceed the net total present value of any available refund from the plan or reduction in future contributions to the plan. When Alcatel-Lucent expects to use excess pension plan assets to fund retiree healthcare for formerly represented retirees and has the ability to do so, such use is considered as a refund from the related plan. In particular, under Section 420 of the Internal Revenue Code in the United States of America as amended by the Pension Protection Act of 2006, Alcatel-Lucent could use excess pension plan assets applicable to formerly represented retirees to fund the retiree healthcare plan for such retirees until 2013.

As of January 1, 2007, the Group has elected the option provided for in the amendment of IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" (paragraphs 93A to 93D) that allows for the immediate recognition of actuarial gains and losses and any adjustments arising from asset ceiling limitations, net of deferred tax effects, outside of the income statement in the statement of comprehensive income.

Regulations governing first-time adoption

In accordance with the option available under IFRS 1, the accumulated unrecognized actuarial gains and losses at the transition date were recorded in equity. Before the change in accounting method, which was retrospectively applied from January 1, 2005, the corridor method had been applied starting January 1, 2004.

Certain other post-employment benefits such as life insurance and health insurance (particularly in the United States) or long-service medals (bonuses awarded to employees for extended service particularly in France and Germany), are also recognized as provisions, which are determined by means of an actuarial calculation similar to the one used for retirement provisions.

The accounting treatment used for employee stock options is detailed in note 1w below.

l/ Provisions for restructuring and restructuring costs

Provisions for restructuring costs are made when restructuring programs have been finalized and approved by Group management and have been announced and committed before the statement of financial position date of the Group's financial statements, resulting in an obligating event of the Group to third parties. Such costs primarily relate to severance payments, early retirement, costs for notice periods not worked, training costs of terminated employees, costs linked to the closure of facilities or the discontinuance of product lines and any costs arising from plans that materially change the scope of the business undertaken by the Group or the manner in which such business is conducted.

Other costs (removal costs, training costs of transferred employees, etc) and write-offs of fixed assets, inventories, work in progress and other assets, directly linked to restructuring measures, are also accounted for in restructuring costs in the income statement.

The amounts reserved for anticipated payments made in the context of restructuring programs are valued at their present value in cases where the settlement date is beyond the normal operating cycle of the company and the time value of money is deemed to be significant. The impact of the passage of time on the present value of the payments is included in other financial income (loss).

m/ Financial debt – compound financial instruments

Certain financial instruments contain both a liability and an equity component, including bonds that can be converted into or exchanged for new or existing shares and notes mandatorily redeemable for new or existing shares. The different components of compound financial instruments are accounted for in equity and in bonds and notes issued according to their classification, as defined in IAS 32 "Financial Instruments: Disclosure and Presentation".

For instruments issued by historical Alcatel, the financial liability component was valued on the issuance date at the present value (taking into account the credit risk at issuance date) of the future cash flows (including interest and repayment of the nominal value) of a bond with the same characteristics (maturity, cash flows) but without any equity component. The portion included in equity is equal to the difference between the debt issue amount and the financial liability component.

The financial liability component of Lucent's convertible bonds was computed at present value on the business combination closing date, using the method as described in the preceding paragraph, taking into account the contractual maturity dates. The difference between the fair value of the convertible bonds and the corresponding financial liability component was accounted for in equity.

In accordance with IAS 32 AG33 and AG34 requirements, the consideration paid in connection with an early redemption of a compound financial instrument is allocated at the date of redemption between the liability and the equity components with an allocation method consistent with the method used initially. The amount of gain or loss relating to the liability component is recognized in “other financial income (loss)” and the amount of consideration relating to the equity component is recognized in equity.

n/ Deferred taxation and penalties on tax claims

Deferred taxes are computed in accordance with the liability method for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts, including the reversal of entries recorded in individual accounts of subsidiaries solely for tax purposes. All amounts resulting from changes in tax rates are recorded in equity or in net income (loss) for the year in which the tax rate change is enacted.

Deferred tax assets are recorded in the consolidated statement of financial position when it is probable that the tax benefit will be realized in the future. Deferred tax assets and liabilities are not discounted.

To assess the ability of the Group to recover deferred tax assets, the following factors are taken into account:

- existence of deferred tax liabilities that are expected to generate taxable income, or limit tax deductions upon reversal,
- forecasts of future tax results,
- the impact of non-recurring costs included in income or loss in recent years that are not expected to be repeated in the future,
- historical data concerning recent years’ tax results, and
- if required, tax planning strategy, such as the planned disposal of undervalued assets.

As a result of a business combination, an acquirer may consider it probable that it will recover its own deferred tax assets that were not recognized before the business combination. For example, an acquirer may be able to utilize the benefit of its unused tax losses against the future taxable profit of the acquiree. In such cases, the acquirer recognizes a deferred tax asset, but does not include it as part of the accounting for the business combination, and therefore does not take it into account in determining the goodwill or the amount of any excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of the combination.

If the potential benefit of the acquiree’s income tax loss carry-forwards or other deferred tax assets does not satisfy the criteria in IFRS 3 for separate recognition when a business combination is initially accounted for, but is subsequently realized, the acquirer will recognize the resulting deferred tax income in profit or loss. If any initially unrecognized deferred tax assets related to the business combination with Lucent are recognized in future financial statements of the combined company, the impact will be accounted for in the income statement (for the tax losses not yet recognized related to both historical Alcatel and Lucent entities).

Penalties recognized on tax claims are accounted for in the “income tax” line item in the consolidated income statement.

o/ Revenues

Revenues include net sales and service revenues from the Group’s principal business activities and income due from licensing fees and from income grants, net of value added taxes (VAT).

Most of the Group’s sales are generated from complex contractual arrangements that require significant revenue recognition judgments, particularly in the areas of the sale of goods and equipment with related services constituting multiple-element arrangements, construction contracts and contracts including software. Judgment is also needed in assessing the collectibility of corresponding receivables.

Revenues from the sale of goods and equipment are recognized when persuasive evidence of an arrangement with the customer exists, delivery has occurred, the significant risks and rewards of ownership of a product have been transferred to the customer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. For arrangements in which the customer specifies formal acceptance of the goods, equipment, services or software, revenue is generally deferred until all the acceptance criteria have been met.

Revenues from contracts with multiple-element arrangements, such as those including products with installation and integration services, are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by internal or third-party analyses of market-based prices. A delivered element is considered a separate unit of accounting if it has value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered elements in the arrangement, and delivery or performance of the undelivered elements is considered probable and substantially under the Group's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting in accordance with the criteria described in the preceding paragraph.

Under IAS 11, construction contracts are defined as contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose of use (primarily those related to customized network solutions and network build-outs with a duration of more than two quarters). For revenues generated from construction contracts, the Group applies the percentage of completion method of accounting in application of the above principles, provided certain specified conditions are met, based either on the achievement of contractually defined milestones or on costs incurred compared with total estimated costs. Any probable construction contract losses are recognized immediately in cost of sales. If uncertainty exists regarding customer acceptance, or the contract's duration is relatively short, revenues are recognized only to the extent of costs incurred that are recoverable, or on completion of the contract. Construction contract costs are recognized as incurred when the outcome of a construction contract cannot be estimated reliably. In this situation, revenues are recognized only to the extent of the costs incurred that are probable of recovery. Work in progress on construction contracts is stated at production cost, excluding administrative and selling expenses. Changes in provisions for penalties for delayed delivery or poor contract execution are reported in revenues and not in cost of sales.

Advance payments received on construction contracts, before corresponding work has been carried out, are recorded in customers' deposits and advances. Costs incurred to date plus recognized profits less the sum of recognized losses (in the case of provisions for contract losses) and progress billings are determined on a contract-by-contract basis. If the amount is positive, it is included as an asset under "amount due from customers on construction contracts". If the amount is negative, it is included as a liability under "amount due to customers on construction contracts".

In the absence of a specific guidance in IAS 18 "Revenue", software revenue recognition rules, as prescribed by the SOP 97-2 of the American Institute of Certified Public Accountants, or "AICPA" are applied for revenues generated from licensing, selling or otherwise marketing software solutions when the software is sold on a standalone basis. When the software is embedded with the Group's hardware and the software is considered more than incidental, guidance given in the AICPA's SOP 97-2 is generally applied with limited exceptions, such as determining fair value using methods other than vendor-specific objective evidence (VSOE) of fair value, if deferring revenue related to the delivered elements due to the impossibility of determining VSOE of an undelivered element is not considered as IFRS compliant (i.e. IFRSs do not require VSOE of fair value). If VSOE of fair value or fair value of an undelivered element cannot be determined or any undelivered element is essential to the functionality of the delivered element, revenue is deferred until either such criteria are met or the last element is delivered, or revenue is deferred and recognized ratably over the service period if the last undelivered element is a service.

For arrangements to sell services only, revenue from training or consulting services is recognized when the services are performed. Maintenance service revenue, including post-contract customer support, is deferred and recognized ratably over the contracted service period. Revenue from other services is generally recognized at the time of performance.

For product sales made through retailers and distributors, assuming all other revenue recognition criteria have been met, revenue is recognized upon shipment to the distribution channel, if such sales are not contingent on the distributor selling the product to third parties and the distribution contracts contain no right of return. Otherwise, revenue is recognized when the reseller or distributor sells the product to the end user.

Product rebates or quantity discounts are deducted from revenues, even in the case of promotional activities giving rise to free products.

Revenue in general is measured at the fair value of the consideration received or to be received. Where a deferred payment has a significant impact on the calculation of fair value, it is accounted for by discounting future payments.

The assessment of the ability to collect is critical in determining whether revenue or expense should be recognized. As part of the revenue recognition process, the Group assesses whether it is probable that economic benefits associated with the transaction will flow to the Group. If the Group is uncertain as to whether economic benefits will flow to the Group, revenue is deferred and recognized on a cash basis. However, if uncertainty arises about the ability to collect an amount already included in revenue, the amount in respect of which recovery has ceased to be probable is recognized as an expense in “cost of sales”.

p/ Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments and income (loss) from operating activities

Alcatel-Lucent has considered it relevant to the understanding of the company’s financial performance to present on the face of the income statement a subtotal inside the income (loss) from operating activities.

This subtotal, named “Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments”, excludes those elements that are difficult to predict due to their nature, frequency and/or materiality.

Those elements can be divided in two categories:

- Elements that are both very infrequent and material, such as a major impairment of an asset, a disposal of investments, the settlement of litigation having a material impact or a major amendment of a pension or other post-retirement plan.
- Elements that are by nature unpredictable in their amount and/or in their frequency, if they are material. Alcatel-Lucent considers that materiality must be assessed not only by comparing the amount concerned with the income (loss) from operating activities of the period, but also in terms of changes in the item from one period to another. For example, restructuring charges have shown significant changes from one period to another.

Income (loss) from operating activities includes gross margin, administrative and selling expenses and research and development costs (see note 1f) and, in particular, pension costs (except for the financial component, see note 1k), employee profit sharing, fair value changes of derivative instruments related to commercial bids, valuation allowances on receivables (including the two categories of vendor financing as described in note 1v) and capital gains (losses) from the disposal of intangible assets and property, plant and equipment, and all other operating expenses or income regardless of their predictive value in terms of nature, frequency and/or materiality.

Income (loss) from operating activities is calculated before financial income (loss), which includes the financial component of retirement expenses, financing costs and capital gains (losses) from disposal of financial assets (shares in a non-consolidated company or company consolidated under the equity method and other non-current financial assets, net), and before reduction of goodwill related to realized unrecognized income tax loss carry forwards, share in net income (losses) of equity affiliates and income (loss) from discontinued operations.

q/ Finance costs and other financial income (loss)

Finance costs include interest charges and interest income relating to net consolidated debt, which consists of bonds, the liability component of compound financial instruments such as OCEANE and other convertible bonds, other long-term debt (including lease-financing liabilities), all cash and similar items (cash, cash equivalents and marketable securities) and the changes in fair values of marketable securities accounted for at fair value through the income statement.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalized as part of the cost of that asset.

When tax law requires interest to be paid (received) on an underpayment (overpayment) of income taxes, this interest is accounted for in the "other financial income (loss)" line item in the consolidated income statement.

r/ Structure of consolidated statement of financial position

Most of the Group's activities in the various business segments have long-term operating cycles. As a result, the consolidated statement of financial position combines current assets (including other inventories and work in progress and trade receivables and other receivables) and current liabilities (including other provisions, customers' deposits and advances, trade payables and other payables) without distinction between the amounts due within one year and those due after one year.

s/ Financial instruments and derecognition of financial assets

Financial instruments

The Group uses financial instruments to manage and reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and commodities.

The accounting policies applied to currency hedge-related instruments are detailed in note 1e.

Financial instruments for interest rate hedges are subject to fair value hedge accounting. Financial liabilities hedged using interest rate swaps are measured at the fair value of the obligation linked to interest rate movements. Fair value changes are recorded in the income statement for the year and are offset by equivalent changes in the interest rate swaps for the effective part of the hedge.

Derecognition of financial assets

A financial asset as defined under IAS 32 “Financial Instruments: Disclosure and Presentation” is totally derecognized (removed from the statement of financial position) when, for instance, the Group expects no further cash flow to be generated by it and transfers substantially all risks and rewards attached to it.

In the case of trade receivables, a transfer without recourse in case of payment default by the debtor is regarded as a transfer of substantially all risks and rewards of ownership, thus making such receivables eligible for derecognition, on the basis that risk of late payment is considered marginal. A more restrictive interpretation of the concept of “substantial transfer of risks and rewards” could put into question the accounting treatment that has been adopted. The amount of receivables sold without recourse is given in note 13.

t/ Cash and cash equivalents

In accordance with IAS 7 “Statement of Cash Flow”, cash and cash equivalents in the consolidated statements of cash flows include cash (cash funds) and cash equivalents (term deposits and short-term investments that are very liquid and readily convertible to known amounts of cash and are only subject to negligible risks of changes in value). Cash and cash equivalents in the statement of cash flows do not include investments in listed securities, investments with an initial maturity date exceeding three months and without an early exit clause, or bank accounts restricted in use, other than restrictions due to regulations applied in a specific country (exchange controls) or sector of activities.

Bank overdrafts are considered as financing and are also excluded from cash and cash equivalents.

Cash and cash equivalents in the consolidated statements of financial position correspond to the cash and cash equivalents defined above.

u/ Marketable securities

Marketable securities are quoted market funds with original maturities exceeding three months and/or with underlying assets such as listed shares. In accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, marketable securities are valued at their fair value. No securities are classified as “held-to-maturity”. For securities designated as financial assets at fair value through profit or loss, changes in fair value are recorded in the income statement (in finance costs). For available-for-sale securities, changes in fair value are recorded in equity, or in the income statement (other financial income (loss)), if there is objective evidence of a more than temporary decline in the fair value, or in connection with a disposal of such securities.

v/ Customer financing

The Group undertakes two types of customer financing:

- financing relating to the operating cycle and directly linked to actual contracts;
- longer-term financing (beyond the operating cycle) through customer loans, minority investments or other forms of financing.

Both categories of financing are accounted for in "Other current or non-current assets, net".

Changes in these two categories of assets are included in cash flows from operating activities in the consolidated statement of cash flows.

Furthermore, the Group may give guarantees to banks in connection with customer financing. These are included in commitments that are not in the statement of financial position.

w/ Stock options

In accordance with the requirements of IFRS 2 "Share-based Payment", stock options granted to employees are included in the financial statements using the following principles: the stock option's fair value, which is considered to be a reflection of the fair value of the services provided by the employee in exchange for the option, is determined on the grant date. It is accounted for in additional paid-in capital (credit) at grant date, with a counterpart in deferred compensation (debit) (also included in additional paid-in capital). During the vesting period, deferred compensation is amortized in the income statement.

Stock option fair value is calculated at grant date (i.e. date of approval of the plan by the Board of Directors) using the Cox-Ross-Rubinstein binomial model. This model permits consideration of the option's characteristics, such as exercise price and expiry date, market data at the time of issuance, the interest rate on risk-free securities, share price, expected volatility at grant date and expected dividends, and behavioral factors of the beneficiary, such as expected early exercise. It is considered that a beneficiary will exercise his/her option once the potential gain becomes higher than 50% of the exercise price.

Only options issued after November 7, 2002 and not fully vested at January 1, 2005 and those issued after January 1, 2005 are accounted for according to IFRS 2.

The impact of applying IFRS 2 on net income (loss) is accounted for in "cost of sales", "research and development costs" or "administrative and selling expenses" depending on the functions of the beneficiaries.

Outstanding stock options at the acquisition date of a company acquired by Alcatel-Lucent in a business combination are usually converted into options to purchase Alcatel-Lucent shares using the same exchange ratio as for the acquired shares of the target company. In accordance with IFRS 3 "Business Combinations" and IFRS 2 "Share-based Payment" requirements, the fair value of stock options acquired at the time of acquisition is accounted for in the caption "additional paid-in capital". Unvested options at the acquisition date are accounted for at their fair value as deferred compensation in equity (included in additional paid-in capital). The sum of these two amounts (fair value of outstanding stock options less deferred compensation), equivalent to the fair value of vested options, is taken into account in the cost of the business combination.

Only acquisitions made after January 1, 2004 and for which unvested stock options as of December 31, 2004 existed at the acquisition date are accounted for as described above.

x/ Assets held for sale and discontinued operations

A non-current asset or disposal group (group of assets or a cash generating unit) to be sold is considered as held for sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for sale and its sale must be highly probable. These assets or disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a separate major line of business or geographical area of operations for the Group that is either being sold or is being held for sale. The net income (loss) and statement of cash flow elements relating to such discontinued operations are presented in specific captions in the consolidated financial statements for all periods presented.

y/ 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 condensed interim consolidated financial statements in accordance with IFRSs requires that the Group make a certain number of estimates and assumptions that are considered realistic and reasonable. In the context of the current global economic environment, the degree of volatility and subsequent lack of visibility is still particularly high as of June 30, 2009. It should also be noted that the preparation of interim financial reports requires a greater use of estimates than annual reports. 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)

	June 30, 2009	June 30, 2008	December 31, 2008
Valuation allowance for inventories and work in progress on construction contracts	(554)	(582)	(654)
	Six months period ended June 30, 2009	**Six months period ended June 30, 2008**	**2008**
Impact of write-downs in income (loss) before income tax, related reduction of goodwill and discontinued operations	(61)	(158)	(285)

b/ Impairment of customer receivables

An impairment loss is recorded for customer receivables if the present value of the future receipts is below the nominal value. The amount of the impairment loss reflects both the customers' ability to honor their debts and the age of the debts in question. A higher default rate than estimated or the deterioration of Alcatel-Lucent major customers' creditworthiness could have an adverse impact on Alcatel-Lucent future results.

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Accumulated impairment losses on customer receivables	(206)	(224)	(207)
	Six months period ended June 30, 2009	**Six months period ended June 30, 2008**	**2008**
Impact of impairment losses in income (loss) before income tax, related reduction of goodwill and discontinued operations	(17)	(13)	(17)

c/ Capitalized development costs, other intangible assets and goodwill

Capitalized development costs

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Capitalized development costs, net	560	642	578

The criteria for capitalizing development costs are set out in note 1f. Once capitalized, these costs are amortized over the estimated 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 € 16 million on capitalized development costs has been accounted for during the first six months 2009.

Impairment losses for capitalized development costs of € 135 million were accounted for in the fourth quarter of 2008 mainly related to a change in our WiMAX strategy, by focusing on supporting fixed and nomadic broadband access applications for providers. This impairment is presented on the specific line item “Impairment of assets” in the income statement.

No impairment loss was accounted for during the first six months 2008.

Other intangible assets and goodwill

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Goodwill, net	4,202	6,204	4,215
Intangible assets, net (1)	2,385	3,800	2,567
Total	**6,587**	**10,004**	**6,782**

(1) Including capitalized development costs.

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, 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 has been accounted for during the first six months 2009.

Impairment losses of € 4,545 million were accounted for in 2008 (of which an impairment loss of € 810 million, related to CDMA was accounted for as of June 30, 2008) mainly related to CDMA (€ 2,533 million), Optics (€ 1,019 million), Multicore (€ 300 million) and Applications (€ 339 million) business divisions, which are considered to be our groups of Cash Generating Units (“CGU”) at which level impairment tests of goodwill are performed.

The Recoverable Value of each business division is based upon a five years discounted cash flow approach plus a discounted residual value, corresponding to the weighted average of the following three approaches:

- capitalization to perpetuity of the normalized cash flows of year 5 (Gordon Shapiro approach) – weighted 50%,
- application of a Sales Multiple (Enterprise Value-“EV”/Sales) – weighted 25%,
- application of an Operating Profit Multiple (Enterprise Value-“EV”/Earning Before Interest, Tax, Depreciation and Amortization-“EBITDA”) –weighted 25%.

The recoverable values of our goodwill and intangible assets, as determined for the 2009 annual impairment test performed by the Group in Q2 2009, are based on key assumptions which could have a significant impact on the consolidated financial statements. These key assumptions include among others the following elements:

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

The discount rate used for the annual impairment tests of 2009 and 2008 was the Group’s weighted average cost of capital (“WACC”) of 11% and 10% respectively. For the additional impairment test performed during the fourth quarter 2008, the rate used was 12%. These discount rates are after-tax rates applied to after-tax cash flows. The use of such rates results in recoverable values that are identical to those that would be obtained by using, as required by IAS 36, pre-tax rates applied to pre-tax cash flows. Given the absence of comparable “pure player” listed companies for each group of Cash Generating Units, we do not believe that the assessment of a specific WACC for each product or market is feasible. A single discount rate has therefore been used on the basis that risks specific to certain products or markets have been reflected in determining the cash flows.

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have decreased or increased the 2009 recoverable values of goodwill and intangibles by € 373 millions and € 406 million, respectively. An increase of 0.5% in the discount rate would have been without any impact on impairment losses as of June 30, 2009.

As indicated in note 1g, in addition to the annual goodwill impairment tests, 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.

d/ Impairment of property, plant and equipment

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

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

No impairment loss on property, plant and equipment has been accounted for during the first six months of 2009.

The planned closing of certain facilities, additional reductions in personnel and unfavorable market conditions have been considered impairment triggering events in prior years. Impairment losses of € 34 million were recorded on property, plant and equipment in 2008.

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 cost of sales either when revenue is recognized (provision for customer warranties) or, for construction contracts, when revenue and expenses are recognized by reference to the stage of completion of the contract activity. Costs and penalties ultimately paid can differ considerably from the amounts initially reserved and could therefore have a significant impact on future results.

(In millions of euros)

Product sales reserves	June 30, 2009	June 30, 2008	December 31, 2008
Related to construction contracts [(1)]	168	143	186
Related to other contracts [(2)]	515	549	575
Total	**683**	**692**	**761**

(1) See note 13, included in the amounts due to/from customers on construction contracts
(2) See note 16.

For further information on the impact on the income statement of changes in these provisions, see notes 13 and 16.

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	June 30, 2009	June 30, 2008	December 31, 2008
Related to the United States (including Lucent)	182 (1)	458 (1)	339 (2)
Related to France	495 (1)	612 (1)	339 (2)
Related to other tax jurisdictions	180	167	174
Total	**857**	**1,237**	**852**

(1) Following the performance of the 2009 and 2008 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, 2007 and December 31, 2008.

(2) Following the performance by the Group of an additional impairment test of goodwill during the fourth quarter 2008, a reassessment of deferred taxes resulted in the reduction of deferred tax assets recorded in the United States and in France compared to the situation as of June 30, 2008.

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. 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 June 30, 2009 are € 820 million (€ 1,413 million as of June 30, 2008 and € 957 million as of December 31, 2008).

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 Alcatel-Lucent'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

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 this assumption would have a material impact on Alcatel-Lucent's results or equity.

	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Weighted average expected rates of return on plan assets	6.79%	7.05%	7.04%
Weighted average discount rates used to determine the pension and post-retirement obligations	6.44%	6.11%	6.44%

The net effect of pension and post-retirement costs included in Alcatel-Lucent income (loss) before tax, related reduction of goodwill and discontinued operations, was a € 72 million decrease in pre-tax income during the first six months 2009 (€ 246 million increase in pre-tax income during 2008 and a € 131 million increase in pre-tax income during the first six months 2008). Included in the € 246 million increase in 2008 was € 65 million booked as a result of certain changes to management retiree healthcare benefit plans (refer to note 18). Included in the € 628 million increase in 2007 was € 258 million booked as a result of certain changes to management retiree healthcare benefit plans.

The weighted average expected rates of return on pension and post-retirement plan assets used to determine Alcatel-Lucent pension and post-retirement credits are established at the beginning of each fiscal year. The decrease in the weighted average expected rates of return on pension and post-retirement plan assets between 2008 and 2009 is mainly due to adjustments in expected future returns based on studies performed by Alcatel-Lucent external investment advisors. Even if the actual financial markets are very volatile, this assumption is required to be a long-term expected rate of return rather than a prediction of the immediate next period performance and is not reviewed every quarter. In addition, these rates that are used to determine the pension expense or income are applied on the opening fair value. For Alcatel-Lucent's U.S. plans, the pension expense or income is updated every quarter. Therefore, the 2009 second quarter expected return on plan assets (accounted for in financial income) for Alcatel-Lucent's U.S. plans is based on March 31, 2009 plan asset fair values, whereas the expected return on plan assets for non U.S. Alcatel-Lucent's plans is based on the fair values of plan assets at December 31, 2008. The interest cost associated with the plan liabilities is also impacted by the change in discount rates used to value the plan liabilities. The Group recognized a US$ 71 million decrease between the 2009 first quarter and the 2009 second quarter of the net pension credit accounted for in "other financial income (loss)" (expected return on plan assets for Alcatel-Lucent's U.S. plans due to the decline of the plan asset fair values and expected change of the interest cost in relation with the decrease of the liability). On U.S. plans, the Group expects a US$ 65 million increase of the net pension credit to be accounted for in financial result between the 2009 second quarter and the 2009 third quarter.

Plans assets are invested in many different asset categories (such as cash, equities, bonds, real estate, private equity, etc…). In the quarterly update of plan asset fair values, approximately 80% are based on closing date fair values and 20% have a one to three month delay as the fair value of private equity, venture capital, real estate and absolute return investments are not available in a short period. This is standard practice in the investment management industry. Assuming that the June 30, 2009 actual fair value of private equity, venture capital, real estate and absolute return investments were 10% lower than the ones retained for accounting purposes as of June 30, 2009, this would result in a negative impact in equity of roughly € 210 million for the Management Pension Plan.

For the purposes of recognizing the net pension and post-retirement credit, the discount rates are determined at the beginning of each quarterly period (for significant plans). For the purposes of determining the plan obligations, these rates are determined at the end of each period. Alcatel-Lucent is using a discount rate of 6.44% during fiscal 2009. The change in the discount rate in 2008 was due to increasing long-term interest rates. The discount rates also are somewhat volatile because they are set based upon the prevailing rates as of the measurement date. The discount rate used to determine the post-retirement benefit costs is slightly lower due to a shorter expected duration of post-retirement plan obligations as compared to pension plan obligations. A lower discount rate increases the plan obligations and the Alcatel-Lucent net pension and post-retirement credit and profitability, whereas a higher discount rate reduces the plan obligations and the Alcatel-Lucent net pension and post-retirement credit and profitability.

The expected rate of return on pension and post-retirement plan assets and the discount rate were determined in accordance with consistent methodologies.

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

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

Beginning with 2009, the company participated in a Medicare Private Fee For Service (PFFS) plan for Medicare eligible management retirees in the US. Medicare payments to PFFS plans are somewhat higher than its payments to individuals. The company expected the additional Medicare payments to the PFFS plan to decline by 90% over a 10-year period. However, the decrease for 2010 will be larger than anticipated. The Group expects to reflect this effect during the 2009 third quarter when negotiations on this are contemplated to be finished.

Lucent's collective bargaining agreements were ratified during December 2004 and address retiree health care benefits, among other items. Lucent agreed to continue to subsidize these benefits up to the established cap level consistent with current actuarial assumptions. Except for costs attributable to an implementation period that ended on February 1, 2005, costs that are in excess of this capped level are being borne by the retirees in the form of premiums and plan design changes. Lucent also agreed to establish a US$ 400 million trust that is being funded by Lucent over eight years and managed jointly by trustees appointed by Lucent and the unions. This trust is currently being funded by Section 420 transfers from the over funded Occupational Pension Plan. The trust is being used to mitigate the cost impact on retirees of premiums or plan design changes. The agreements also acknowledge that retiree health care benefits will no longer be a required subject of bargaining between Lucent and the unions.

The amount of prepaid pension costs that can be recognized in our financial statements is limited to the sum of (i) the cumulative unrecognized net actuarial losses and past service cost, (ii) the present value of any available refunds from the plan, and (iii) any reduction in future contributions to the plan. As Lucent currently has the ability and intent to use eligible excess pension assets applicable to formerly represented retirees to fund certain retiree healthcare benefits for such retirees, such use has been considered as a reimbursement from the pension plan. The funded status of the formerly represented retiree health care obligation of € 1,607 million as of June 30, 2009 (€ 1,479 million as of December 31, 2008 and € 1,515 million as of March 31, 2009), the present value of Medicare Part D subsidies of approximately € 262 million as of June 30, 2009 (as this amount is currently netted in the retiree health care obligation - € 272 million as of December 31, 2008 and € 261 million as of March 31, 2009) and the present value of future service costs of € 46 million as of June 30, 2009 (€ 61 million as of December 31, 2008 and € 41 million as of March 31, 2009) have been considered in determining the asset ceiling limitation for Lucent's pension plans as of June 30, 2009.

The impact of expected future economic benefits on the pension plan asset ceiling is a complex matter. Based on latest estimates, as of the January 1, 2009 valuation date, there were approximately € 1.8 billion of pension plan assets that would be eligible for "collectively bargained" transfers to fund retiree health care costs for Lucent's formerly represented retirees (alternatively, € 2.1 billion would be available for "multi-year" transfers, which also require the plan to remain 120% funded during the transfer period). This amount is sufficient to address the obligation arising from the healthcare being provided to Lucent's formerly represented retirees and as a result the Group should be able to utilize pension plan assets for Section 420 "collectively bargained" or "multi-year" transfers to fund all its health care obligations for Lucent's formerly represented retirees. Changes in plan asset values, funding levels or new legislation could result in significant changes in the asset ceiling that will impact our equity and could impact the ultimate amount of plan assets eligible for Section 420 transfers.

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

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

h/ Revenue recognition

As indicated in note 1o, revenue is measured at the fair value of the consideration received or to be received when the company 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. During the fourth quarter of 2007, as a result of cost overruns and major technical problems that we experienced in implementing a large W-CDMA contract, we determined that we could no longer estimate with sufficient reliability the final revenue and associated costs of such contract. As a result, we expensed all the contract costs incurred to that date, but we only recognized revenues to the extent that the contract costs incurred were recoverable. Consequently, revenues of € 72 million and cost of sales of € 298 million were recognized in 2007 in connection with this construction contract. The negative impact on income (loss) before income tax, related reduction of goodwill and discontinued operations of changing from the percentage of completion method to this basis of accounting was € 98 million for 2007. No change in the accounting treatment occurred in 2008 and during the first six months of 2009. If and when reliable estimates become available, revenue and costs associated with the construction contract will then be recognized respectively by reference to the stage of completion of the contract activity at the statement of financial position date. Future results of operations may therefore be impacted.

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

Some of the Group's products include software that is embedded in the hardware at delivery. In those cases, where indications are that software is more than incidental, such as where the transaction includes software upgrades or enhancements, more prescriptive software revenue recognition rules are applied to determine the amount and timing of revenue recognition. As products with embedded software are continually evolving, as well as the features and functionality of the product driven by software components that are becoming more critical to their operation and success in the market, the Group is continually assessing the applicability of some of the guidance of SOP 97-2 including whether software is more than incidental. Several factors are considered in making this determination including (i) whether the software is a significant focus of the marketing effort or is sold separately, (ii) whether updates, upgrades and other support services are provided on the software component and (iii) whether the cost to develop the software component of the product is significant in relation to the costs to develop the product as a whole. The determination of whether the evolution of our products and marketing efforts should result in the application of some of SOP 97-2 guidance requires the use of significant professional judgment. Further, the Group believes that reasonable people evaluating similar facts and circumstances may come to different conclusions regarding the most appropriate accounting model to apply in this environment. Our future results of operations may be significantly impacted, particularly due to the timing of revenue recognition, if we change our assessment as to whether software is incidental, particularly if VSOE or similar fair value cannot be obtained with respect to one or more of the undelivered elements.

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

Alcatel-Lucent had 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 are insured and will give right to an indemnity claim, the amount of which is currently being assessed by our insurers. This indemnity will be accounted for as other revenue once virtually certain and reliable estimates are available, which could take up to one to two years to determine. A revenue of € 16 million was accounted for during the first six months 2009 related to the indemnification of damaged assets.

i/ Purchase price allocation of a business combination

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

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

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

j/ Accounting treatment of convertible bonds with optional redemption periods/dates before contractual maturity

Some of our convertible bonds have optional redemption periods/dates before their contractual maturity as described in note 15. All the convertible bonds issues by Alcatel-Lucent were accounted for in accordance with IAS 32 requirements (paragraphs 28 to 32) as described above in note 1-m. Classification of the liability and equity component of a convertible instrument is not revised as a result of a change in the likelihood that a conversion will be exercised. On the other hand, 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.

As described in notes 6, 15 and 17, 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 later on for all convertible debentures with optional redemption periods/dates. The potential impact on the financial result is a loss corresponding to the difference between the present value of revised estimated cash flows and the carrying amount derived from the split accounting as described in note 1-m. All convertible debentures issued by Lucent and described in note 15 are in this situation. A proxy of the potential negative impact in the financial result is the carrying amount of the equity component, as disclosed in notes 15 and 17.

Regarding Lucent’s 2.875% Series A convertible debenture, if all or part of the bond holders do not ask for redemption in the coming optional redemption date (i.e. on June 15, 2010), the estimated cash flows related to the remaining debt will then be revised accordingly, if new estimates are considered as reliable, with corresponding potential positive impact on the financial result. The initial accounting treatment could then be resumed.

Note 3 Changes in consolidated companies

The main changes in consolidated companies for the first six months of 2009 were as follows.

- On April 30, 2009, Bharti Airtel and Alcatel-Lucent announced that they have formed 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 is being formed which will be fully consolidated by Alcatel-Lucent before the end of the year.
- 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 the financial result. This capital gain takes into account the € 191 million corresponding to the remaining part of the capital gain that was accounted for on our different assets disposed of or contributed to Thales in the past, and which was eliminated as an intra-group transaction.
- Regarding the disposal of the Space Business to Thales that occurred in 2006, the amount of € 670 million concerning the selling price was considered a preliminary payment of the selling price (as an external expert will establish the definitive price in 2009). The definitive amount of the selling price was determined during the second quarter of 2009. The definitive earn-out income before related external advisors’ fees amounted to € 130 million, accounted for in the income from discontinued operations.

The main changes in consolidated companies for 2008 were as follows:

- On December 19, 2008, Alcatel-Lucent and Dassault Aviation announced that they had signed the definitive agreement regarding the acquisition by Dassault Aviation of our shares in Thales, namely 41,262,481 shares based on a price of € 38 per share, representing a total value of € 1.57 billion. The closing of the transaction, subject to regulatory and administrative approvals (mainly relative to antitrust), was foreseen for spring 2009. The carrying value of our shares was reclassified as "assets held for sale" as of December 31, 2008. As the fair value less costs to sell was higher than the carrying value as of December 31, 2008, such carrying value was not adjusted. The amount of the capital gain that was to be accounted for in the financial result, after the disposal of our shares had been completed, was to depend on the definitive amount of Thales' equity as of December 31, 2008, which was not known when our 2008 consolidated financial statements were closed. The carrying value of our shares and the share in net income of equity affiliates related to Thales were based upon the available estimates that Thales management provided at the date of publication. The remaining part of the capital gain that was accounted for on our different assets disposed of or contributed to Thales in the past, and which was eliminated as an intra-group transaction, was accounted for in our financial result, as part of the capital gain on the disposal of Thales shares, in Q2 2009, representing a positive impact of € 191 million.

  - On May 12, 2008, Alcatel-Lucent and Reliance Communications announced the formation of a global joint venture to offer managed network services to telecom operators. The first project of this joint venture is to provide managed services for Reliance Communications CDMA and GSM networks in India. Alcatel-Lucent controls operationally the joint venture and fully consolidates it.

  - On June 17, 2008, Alcatel-Lucent announced that it had entered into a definitive agreement to acquire Motive, Inc, a leading provider of service management software for broadband and mobile data services, through a cash tender offer for all outstanding Motive shares at a price of USD2.23 per share, representing a value of approximately US$67.8 million. Based upon the preliminary purchase price allocation, goodwill for this acquisition amounted to € 58 million as of December 31, 2008.

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Note 4 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.

The tables below present information for the operating segments described hereunder. They take into account the new organization announced in the fourth quarter 2008 and comprise four operating segments: Applications Software, Carrier, Services and Enterprise. This new organization was effective January 1, 2009.

The information reported for each operating segment item 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, 2009, the four business segments are:

- The Carrier segment has been streamlined to encompass only four business divisions: IP, Optics, Wireless and Wireline.
- The Applications Software segment is a new operating segment that consolidates the various software businesses that were previously spread throughout the company, and is designed to increase our focus on and support for our software applications business. This new Applications Software segment is an integral part of our new strategic focus on new services and applications that combine the trusted capabilities of the network with the creative services delivered over the internet. This segment consists of the Applications Software business division that had previously been part of the former Carrier business group, the Genesys contact center software business that had previously been part of the Enterprise business group, and the Operations Support Systems and Business Support Systems (OSS/BSS) software businesses that had previously been part of the Services business group.
- The Enterprise segment remains focused on small, medium and large enterprises and is unchanged compared to the former Enterprise business group apart from the exclusion of Genesys now reported under the Applications Software segment.
- The Services segment is focused on managed services, professional services, and network integration. It no longer includes OSS/BSS (operations support systems/business support systems) software activities that are now part of the Applications Software segment.

The information presented below is restated to take into account the new organization described above. Additionally, the presentation of certain other information, such as the difference between the employee bonus accrual and the initially budgeted amount is modified to be presented within each operating segment, whereas it used to be presented in the "Other & Eliminations" column in the former segment information.

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)

Q2 2009	Carrier	Applications Software	Enterprise	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	2,383	259	251	870	3,763	142	3,905
Revenues from transactions with other operating segments	1	1	7	3	12		
Revenues from operating segments	**2,384**	**260**	**258**	**873**	**3,775**		
Segment operating income (loss)	**(136)**	**(25)**	**(6)**	**87**	**(80)**	**18**	**(62)**

(In millions of euros)

Q2 2008	Carrier	Applications Software	Enterprise	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	2,655	242	300	806	4,003	98	4,101
Revenues from transactions with other operating segments	4	10	6	3	23		
Revenues from operating segments	**2,659**	**252**	**306**	**809**	**4,026**		
Segment operating income (loss)	**83**	**(18)**	**24**	**64**	**153**	**(60)**	**93**

(In millions of euros)

Six months period ended June 30, 2009	Carrier	Applications Software	Enterprise	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	4,598	496	487	1,664	7,245	258	7,503
Revenues from transactions with other operating segments	5	19	16	6	46		
Revenues from operating segments	**4,603**	**515**	**503**	**1,670**	**7,291**		
Segment operating income (loss)	**(290)**	**(51)**	**(42)**	**23**	**(359)**	**43**	**(316)**

(In millions of euros)

Six months period ended June 30, 2008	Carrier	Applications Software	Enterprise	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	5,230	460	592	1,464	7,746	219	7,965
Revenues from transactions with other operating segments	10	17	11	6	44		
Revenues from operating segments	**5,240**	**477**	**603**	**1,470**	**7,790**		
Segment operating income (loss)	**81**	**(42)**	**35**	**66**	**140**	**(11)**	**129**

(In millions of euros)

2008	Carrier	Applications Software	Enterprise	Services	Total reportable segments	Other and unallocated amounts	Total
Revenues from external customers	10,957	1,008	1,200	3,339	16,504	480	16,984
Revenues from transactions with other operating segments	23	37	23	14	97		
Revenues from operating segments	**10,990**	**1,045**	**1,223**	**3,353**	**16,601**		
Segment operating income (loss)	**251**	**(49)**	**84**	**234**	**520**	**(54)**	**466**

b/ Reconciliation to consolidated financial statements

(In millions of euros)

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Revenues from reportable segments	**3,775**	**4,026**	**7,291**	**7,790**	**16,601**
Revenues from Other segment	142	98	258	219	480
Intersegment eliminations	(12)	(23)	(46)	(44)	(97)
Total group revenues	**3,905**	**4,101**	**7,503**	**7,965**	**16,984**
Reportable segments operating income (loss)	(80)	153	(359)	140	520
Operating income (loss) from Other segment and unallocated amounts	18	(60)	43	(11)	(54)
Segment operating income (loss)	**(62)**	**93**	**(316)**	**129**	**466**
PPA adjustments (excluding restructuring costs and impairment of assets)	(68)	(114)	(140)	(256) (1)	(522)
Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments	**(130)**	**(21)**	**(456)**	**(127)**	**(56)**
Restructuring costs	(123)	(265)	(201)	(387)	(562)
Impairment of assets	-	(810)	-	(810)	(4,725)
Post-retirement benefit plan amendments	1	(18)	(1)	(18)	47
Gain/(loss) on disposal of consolidated entities	-	-	-	(1)	(7)
Income (loss) from operating activities	**(252)**	**(1,114)**	**(658)**	**(1,343)**	**(5,303)**

(1) Including € 27 million of patents at net book value that were sold during the first six months of 2008. The net book value is based on fair value resulting from the purchase price allocation of the Lucent business combination. The capital gain included in the segment operating income amounted to € 61 million in 2008, of which € 31 million in the first six months.

c/ 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
Six months period ended June 30, 2009 - Revenues								
- by customer location	759	1,472	303	1,510	2,161	592	706	**7,503**
Six months period ended June 30, 2008 - Revenues								
- by customer location	642	1,685	427	1,457	2,403	672	679	**7,965**
2008 - Revenues								
- by customer location	1,419	3,537	944	3,192	4,812	1,538	1,542	**16,984**

Note 5 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 stocks and cash units

Compensation expense recognized for share-based payments in accordance with IFRS 2 is analyzed as follows:

(In millions of euros)

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Compensation expense for share-based payments	16	26	32	49	89
Presented in the income statement:					
- cost of sales	*5*	*6*	*9*	*12*	*20*
- administrative and selling expenses	*7*	*11*	*15*	*22*	*40*
- research and development costs	*4*	*7*	*9*	*13*	*25*
- restructuring costs	*0*	*2*	*(1)*	*2*	*4*
Of which equity settled	*16*	*24*	*32*	*47*	*88*
Of which cash settled	*0*	*2*	*0*	*2*	*1*

Only share-based payment plans established after November 7, 2002, and whose share-based payments that were not yet fully vested at January 1, 2005, were restated according to IFRS 2 "Share-based Payment". Those share-based payments that were fully vested at December 31, 2004 did not result in a charge due to the adoption of IFRSs in subsequent accounting periods.

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 payments 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.

Stock options

Fair value of options granted by historical Alcatel (prior to December 1, 2006) and by Alcatel-Lucent (after December 1, 2006)

The fair value of stock options is measured at granting date using the Cox-Ross-Rubinstein binomial model. This allows behavioral factors governing the exercise of stock options to be taken into consideration and to consider that all options will not be systematically exercised by the end of the exercise period. The expected volatility is determined as being the implied volatility at the grant date.

Assumptions for the plans representing more than 1,000,000 outstanding options related to historical Alcatel (before December 1, 2006) and Alcatel-Lucent (after December 1, 2006) are as follows:

- expected volatility: 40% for the March 2005 plan, 32% for the March 2006 plan, 33% for the March 2007 plan, 45% for the March 2008 plan and 64% for the March 2009 plans;
- risk-free rate: 3.50% for the March 2005 plan and March 2006 plan, 4% for the March 2007 plan, 3.90% for the March 2008 Plan and 3.00% for the March 2009 plans;
- distribution rate on future income: 0% in 2005, 1% for March 2006 plan and 0.8% for later years.

Based on these assumptions, the fair values of historical Alcatel options (before December 1, 2006) and Alcatel-Lucent options (after December 1, 2006) used in the calculation of compensation expense for share-based payments are as follows:

- March 2005 plan with an exercise price of € 10.00: fair value of € 3.72;
- March 2006 plan with an exercise price of € 11.70: fair value of € 3.77;
- March 2007 plan with an exercise price of € 9.10: fair value of € 3.04;
- March 2008 plan with an exercise price of € 3.80: fair value of € 1.50;
- March 2009 plan with an exercise price of € 2.00: fair value of € 0.49;
- March 2009 all employees plan with an exercise price of € 2.00: fair value of € 0.46;
- Other plans have fair values between € 0.69 and € 4.18 and a weighted average fair value of € 2.06.

Lucent stock-based awards:

The fair values were recalculated at November 30, 2006, the business combination date, with the following assumptions:

- expected volatility: 26.20% to 32.37% depending on the remaining life of the options;
- risk-free rate: 3.35% to 3.62% depending on the remaining life of the options;
- distribution rate on future income: 0.8%.

The estimated fair value of outstanding stock awards as of November 30, 2006 amounts to € 133 million, consisting of € 96 million for vested options and € 37 million for unvested options.

Characteristics of subscription stock option plans or stock purchase plans recognized in compliance with IFRS 2

Vesting conditions:

The following rules are applicable to all plans granted by historical Alcatel in 2005 and 2006 and by Alcatel-Lucent in 2007, 2008 and 2009 except for the March 2009 all employees plan and for options granted after May 2008 to Management Committee members:

- Vesting is gradual: options vest in successive portions over 4 years, for which 25% of the options are vested if the employee remains employed after 12 months and, for each month after the first year, 1/48 of the options are vested if the employee remains employed by the Group;
- Exercise period depends on country: in some countries, stock options can be exercised as soon as they are vested; in other countries, stock options cannot be exercised during a four-year vesting period. Whatever the beginning of the exercise period is, stock options terminate 8 years after the grant date.

Vesting conditions for the March 2009 all employees plan:

On March 18, 2009, our Board of Directors authorized the grant of 400 stock options to all of our employees, subject to compliance with the relevant laws of the countries where the beneficiaries work. The following rules are applicable:

- These options will vest, subject to the service conditions, in two successive tranches, at 50% per year over two years;
- Exercise period depends on country: in some countries, stock options can be exercised as soon as they vest; in other countries, stock options cannot be exercised during a four-year vesting period. Whatever the beginning of the exercise period is, stock options terminate 8 years after the grant date.

Vesting conditions for options granted after May 2008 to Management Committee members:

The following rules are applicable to all plans granted after May 2008 by Alcatel-Lucent to Management Committee members:

- Vesting is gradual: options vest linearly over 4 years (25% per year);
- Exercise period depends on country: in some countries, stock options can be exercised as soon as they vest; in other countries, stock options cannot be exercised during a four-year vesting period. Whatever the beginning of the exercise period is, stock options terminate 8 years after the grant date.
- Performance conditions for option grants applicable to members of our Management Committee: Options granted to members of our Management Committee are subject to the same conditions as those governing all other beneficiaries, as well as the following conditions. In compliance with the commitment made by our Board of Directors at the Annual Shareholders' Meeting held on May 30, 2008, 50% of options granted after this date to Management Committee members are also subject to an additional exercisability condition linked to the performance of Alcatel-Lucent shares. The share price of Alcatel-Lucent shares will be measured yearly in relation to a representative sample of 14 peer group companies that are solution and

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

Certain plans that existed at companies acquired in business combinations were converted into historical Alcatel or Alcatel-Lucent subscription stock option plans or stock purchase plans. For plans of companies acquired, the vesting conditions and the option lives of the original plans remain in place.

For former Lucent stock options, vesting rules remain unchanged. Stock options usually vest linearly over a 4-year period (25% per year) and can be exercised as soon as they vest.

Conditions of settlement:

All stock options granted by historical Alcatel, Lucent (prior to the business combination) or Alcatel-Lucent are exclusively settled in shares.

Number of options granted and changes in number of options

Stock option plans covered by IFRS 2 (excluding all Lucent plans) and the change in number of stock options generating compensation expense are:

(In number of options)

	2005 Plans		2006 Plans	
Exercise price	**€ 10.00**	**€ 8.80 to € 11.41**	**€ 11.70**	**€ 9.30 to € 12.00**
Exercise period				
From	10/03/06	03/01/06	08/03/07	15/05/07
	10/03/09	01/09/09	08/03/10	08/11/10
To	09/03/13	02/01/13	07/03/14	14/05/14
	09/03/13	31/08/13	07/03/14	07/11/14
Outstanding at December 31, 2004			**-**	**-**
Granted	16,756,690	848,250	-	-
Exercised	-	-	-	-
Forfeited	(707,210)	(26,200)	-	-
Expired	-	-	-	-
Outstanding at December 31, 2005	**16,049,480**	**822,050**	**-**	**-**
Granted	-	-	17,009,320	581,150
Exercised	(158,438)	(9,773)	-	-
Forfeited	(654,528)	(103,780)	(482,130)	(7,100)
Expired	-	-	-	-
Outstanding at December 31, 2006	**15,236,514**	**708,497**	**16,527,190**	**574,050**
Granted	-	-	-	-
Exercised	(133,932)	(6,611)	-	-
Forfeited	(1,080,029)	(83,407)	(1,272,052)	(72,968)
Expired	-	-	-	-
Outstanding at December 31, 2007	**14,022,553**	**618,479**	**15,255,138**	**501,082**
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(912,558)	(31,029)	(1,083,347)	(17,238)
Expired	-	-	-	-
Outstanding at December 31, 2008	**13,109,995**	**587,450**	**14,171,791**	**483,844**
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(582,117)	(38,638)	(409,611)	(6,155)
Expired	-	-	-	-
Outstanding at June 30, 2009	**12,527,878**	**548,812**	**13,762,180**	**477,689**
Of which could be exercised	12,527,878	542,536	11,480,677	336,754
Average share price at exercise during the period	-	-	-	-

(In number of options)

Exercise price	2007 Plans € 9.10	2007 Plans € 6.30 to € 10.0	2008 Plans € 3.80	2008 Plans € 2.00 to € 4.40	2009 Plans € 2.00	2009 Plans € 2.00	Total 2005 to 2009
Exercise period							
From	28/03/08	01/03/08	25/03/09	04/04/09	18/03/10	18/03/10	
	28/03/11	15/11/11	25/03/12	31/12/12	18/03/13	18/03/13	
To	27/03/15	28/02/15	24/03/16	03/04/16	17/03/17	17/03/17	
	27/03/15	14/11/15	24/03/16	30/12/16	17/03/17	17/03/17	
Outstanding at December 31, 2004	**-**	**-**	**-**	**-**	-	-	-
Granted	-	-	-	-	-	-	17,604,940
Exercised	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	(733,410)
Expired	-	-	-	-	-	-	-
Outstanding at December 31, 2005	**-**	**-**	**-**	**-**	**-**	**-**	**16,871,530**
Granted	-	-	-	-	-	-	17,590,470
Exercised	-	-	-	-	-	-	(168,211)
Forfeited	-	-	-	-	-	-	(1,247,538)
Expired	-	-	-	-	-	-	-
Outstanding at December 31, 2006	**-**	**-**	**-**	**-**	**-**	**-**	**33,046,251**
Granted	40,078,421	838,454					40,916,875
Exercised	-	-	-	-	-	-	(140,543)
Forfeited	(1,349,135)	(17,500)	-	-	-	-	(3,875,091)
Expired	-	-	-	-	-	-	-
Outstanding at December 31, 2007	**38,729,286**	**820,954**	**-**	**-**	**-**	**-**	**69,947,492**
Granted	-	-	47,987,716	3,326,100	-	-	51,313,816
Exercised	-	-	(5,000)	-	-	-	(5,000)
Forfeited	(3,822,248)	(139,790)	(2,543,315)	-	-	-	(8,549,525)
Expired	-	-	-	-	-	-	-
Outstanding at December 31, 2008	**34,907,038**	**681,164**	**45,439,401**	**3,326,100**	**-**	**-**	**112,706,783**
Granted	-	-	-	-	30,656,400	21,731,110	52,387,510
Exercised	-	-	-	-	-	-	-
Forfeited	(793,203)	(17,645)	(1,325,076)	(338,467)	(457,600)	-	(3,968,512)
Expired	-	-	-	-	-	-	-
Outstanding at June 30, 2009	**34,113,835**	**663,519**	**44,114,325**	**2,987,633**	**30,198,800**	**21,731,110**	**161,125,781**
Of which could be exercised	20,157,934	316,297	14,387,828	953,857	-	-	60,703,761
Average share price at exercise during the period	-	-	-	-	-	-	-

For former Lucent stock option plans covered by IFRS 2, the changes in number of stock options generating compensation expense are:

(In number of options)

Exercise price	Former Lucent plans € 9.35	€ 10.89	€ 0.28 to € 10.00	€ 10.01 to € 20.00	Total
Exercise period					
From	01/11/07	01/12/06	01/12/06	01/12/06	
To	31/10/13	30/11/12	03/12/06 03/05/14	01/12/06 01/02/14	
Outstanding at December 1, 2006	**6,088,483**	**4,569,566**	**283,121**	**606,827**	**11,547,997**
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Cancelled	(73,030)	(21,860)	-	(185)	(95,075)
Outstanding at December 31, 2006	**6,015,453**	**4,547,706**	**283,121**	**606,642**	**11,452,922**
Granted	-	-	-	-	-
Exercised	(11,636)	(9,724)	(95,532)	-	(116,892)
Cancelled	(1,195,101)	(418,321)	(59,667)	(350,903)	(2,023,992)
Outstanding at December 31, 2007	**4,808,716**	**4,119,661**	**127,922**	**255,739**	**9,312,038**
Granted	-	-	-	-	-
Exercised	-	-	(143)	-	(143)
Cancelled	(1,098,706)	(669,879)	(58,726)	(169,054)	(1,996,365)
Outstanding at December 31, 2008	**3,710,010**	**3,449,782**	**69,053**	**86,685**	**7,315,530**
Granted	-	-	-	-	-
Exercised	-	-	(4)	-	(4)
Cancelled	(164,671)	(278,928)	(43,249)	(48,846)	(535,694)
Outstanding at June 30, 2009	**3,545,339**	**3,170,854**	**25,800**	**37,839**	**6,779,832**
Of which could be exercised	1,953,407	2,509,255	25,643	34,810	4,523,115
Average share price at exercise during the period	-	-	1.53	-	1.53

Restricted Cash Units (RCUs)

The Board decided at its meeting held on April 4, 2008 to award up to 366,300 Restricted Cash Units (RCUs) to Patricia Russo if certain criteria were met over the two-year period following the Board's decision. They were cancelled when Patricia Russo left the Group. These restricted cash units had therefore no impact on the net result for the six months ended June 30, 2009.

Restricted Stock Units (RSUs) or Performance shares

Fair value of Performance shares granted by Alcatel-Lucent

The fair value of performance shares is measured at granting date as being the Alcatel-Lucent share price discounted by the assumed distribution rate on future income, set at 0.8% per year.

Based on this assumption, the fair values of Alcatel-Lucent performance shares used in the calculation of compensation expense for share-based payments are as follows:

- September 17, 2008 plan: fair value of € 3.05;
- October 29, 2008 plan: fair value of € 1.63;
- March 2009 plan: fair value of € 1.19;

Vesting conditions:

The following rules are applicable to all performance share plans granted by Alcatel-Lucent:

- Service condition: For a beneficiary who is an employee and/or Executive Officer of a company within the Group with its registered office in France, his/her performance shares will vest at the end of a two-year vesting period. Such performance shares will be available following the expiration of a two-year holding period. For a beneficiary who is an employee and/or Executive Officer of a company within the Group with its registered office outside of France, the vesting period is four years, with no additional holding period;
- Performance condition: Evaluation of the Group's performance must be based on the same criteria as those used for the Global Annual Incentive Plan. For each of the criteria, quantified targets will be fixed at the start of each year for the current fiscal year. At the end of the two or four-year vesting periods, so long as the beneficiary has been an employee of the Group for two years (with limited exceptions) the number of performance shares that will vest will depend on the achievement, based on an average, of the annual Group performance targets set by our Board for the two or four-year periods.

Conditions of settlement:

All performance shares granted by Alcatel-Lucent are exclusively settled in shares.

Number of performance shares granted and changes in number of performance shares

Performance shares covered by IFRS 2 and the change in number of performance shares generating compensation expense are:

(In number of performance shares)

Grant date	17/09/2008	29/10/2008	18/03/2009
Outstanding at December 31, 2007	**-**	**-**	**-**
Granted	100,000	250,000	-
Acquired	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2008	**100,000**	**250,000**	**-**
Granted	-	-	6,982,956
Acquired	-	-	-
Forfeited	-	-	-
Outstanding at June 30, 2009	**100,000**	**250,000**	**6,982,956**

Note 6 Financial income (loss)

(In millions of euros)

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Finance costs	**(58)**	**(50)**	**(120)**	**(98)**	**(212)**
Dividends	1	3	1	3	4
Provisions for financial risks	2	2	-	2	2
Impairment of financial assets	-	1	-	1	(3)
Net exchange gain (loss)	28	8	10	(13)	18
Financial component of pension and post-retirement benefit costs	(21)	100	14	204	349
Actual and potential capital gain/(loss) on financial assets (shares of equity affiliates or non-consolidated securities and financial receivables) and marketable securities (1)	266	1	268	19	26
Other (2)	(183)	(15)	(151)	(23)	(30)
Other financial income (loss)	**93**	**100**	**142**	**193**	**366**
Total financial income (loss)	**35**	**50**	**22**	**95**	**154**

(1) Q2 2009: of which a capital gain of € 255 million related to the disposal of Thales shares in May 2009.

(2) 2009: of which a gain of € 50 million in Q1 2009 related to the partial repurchase of Lucent's 7.75% bond due March 2017 (see Note 17) and in Q2 2009 a loss of € 175 million related to change of estimated future cash flows related to Lucent's convertible debenture 2.875 % Series A (see notes 15 and 17).
2008: of which a gain of € 30 million in Q4 2008 related to the partial repurchase of Lucent's 7.75% bond' due March 2017 and a gain of € 1 million related to the partial repurchase of Alcatel's 4.375% bond due February 2009 (see Note 17).

Note 7 Discontinued operations, assets held for sale and liabilities related to disposal groups held for sale

Discontinued operations for the first six months of 2009 and 2008 are as follows:

- for the first six months of 2009: adjustment of the selling price related to the disposal of the Space activity to Thales that was sold in 2007.
- In 2008: adjustments on initial capital gain (loss) on discontinued operations that were sold or contributed in previous periods.

Other assets held for sale concern real estate property or businesses sales in progress at June 30, 2009 and real estate property sales in progress at June 30, 2008 and December 31, 2008.

Income statement of discontinued operations (In millions of euros)

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
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	-	129	-	33
Income (loss) from operations	**129**	**-**	**129**	**-**	**33**
Financial income (loss)	-	-	-	-	-
Other income (loss)	-	-	-	-	-
Income (loss) on discontinued operations	**129**	**-**	**129**	**-**	**33**

(1) The Q2 2009 impact is related to the earn-out on the contribution to Thales of our Space activities (for more detail see note 3 of the annual report 2008).

Statement of financial position (In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Goodwill	-	-	-
Other assets	-	-	-
Cash	-	-	-
Assets of disposal groups	-	-	-
Real estate properties and other assets held for sale	55	27	45
Stake in Thales (1)	-	-	1,303
Assets held for sale	**55**	**27**	**1,348**
Customer deposits and advances	-	-	-
Other liabilities	-	-	-
Liabilities related to disposal groups held for sale	-	-	-

(1) The change between December 31, 2008 and June 30, 2009 of the carrying value of our stake in Thales was due to the disposal of our shares that occurred in May 2009.

The cash flows of discontinued operations for Q2 2009, Q2 2008, the six month period ended June 30, 2008 and June 30, 2009 and year 2008 are as follows:

(In millions of euros)

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Net income (loss)	129	-	129	-	33
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	-	118	-	21
Net cash provided (used) by financing activities (c)	-	-	-	-	-
Total (a) + (b) + (c)	**118**	**-**	**118**	**-**	**21**

Note 8 Income tax

Analysis of income tax (expense) income

(In millions of euros)

	Q2 2009	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Current income tax (expense) income	**5**	**(11)**	**(53)**	**(99)**
Deferred taxes related to the purchase price allocation for the Lucent transaction (1)	31	62	112	740
Recognition of deferred tax asset initially unrecognized at closing date of the Lucent transaction	-	-	-	-
Deferred tax (charge) related to the post-retirement benefit plan amendment (2)	-	-	-	(25)
Deferred taxes related to Lucent's post-retirement benefit plans	(2)	(9)	(35)	(293)
Deferred taxes related to the Lucent convertible debenture 2.875 % Series A (3)	68	68		
Other deferred income tax (charge) benefit, net (4)	(15)	(17)	(93)	(476)
Deferred income tax (charge) benefit, net	**82**	**104**	**(16)**	**(54)**
Income tax (expense) income	**87**	**93**	**(69)**	**(153)**

(1) Related to the reversal of deferred tax liabilities accounted for in the purchase price allocation of Lucent.
(2) Related to the post-retirement plan amendments described in note 18.
(3) Reversal of deferred tax liabilities related to the Lucent convertible debenture 2.875 % series A (see notes 6, 15 & 17).
(4) 2008 impacts are mainly due to the re-assessment of the recoverability of deferred tax assets recognized in connection with the additional impairment tests of goodwill performed in Q4 2008.

Note 9 Earnings per share

a/ Number of shares comprising the capital stock

Number of shares	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Number of ordinary shares issued (share capital)	2,318,043,149	2,317,465,163	2,318,041,761
Treasury shares	(58,348,429)	(58,344,478)	(58,385,990)
Number of shares in circulation	**2,259,694,720**	**2,259,120,685**	**2,259,655,771**
Weighting effect of share issues for stock options exercised	(270)	(14,422)	(514,960)
Weighting effect of treasury shares	(19,490)	(18,794)	34,159
Weighting effect of share issues in respect of business combinations	-	-	-
Number of shares used for calculating basic earnings per share	**2,259,674,960**	**2,259,087,469**	**2,259,174,970**

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.

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)	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Net income (loss) - basic	14	(1,102)	(388)	(1,283)	(5,215)
Adjustment for dilutive securities on net income:					
Interest expense related to convertible securities	-	-	-	-	-
Net income (loss) - diluted	**14**	**(1,102)**	**(388)**	**(1,283)**	**(5,215)**

Number of shares	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Weighted average number of shares - basic	2,259,685,681	2,259,091,206	2,259,674,960	2,259,087,469	2,259,174,970
Dilutive effects:					
- Equity plans (stock options, RSU)	7,637,709	-	-	-	-
- Alcatel-Lucent's convertible bonds (OCEANE) issued on June 12, 2003	-	-	-	-	-
- 7.75% convertible securities	-	-	-	-	-
- 2.875% Series A convertible securities	-	-	-	-	-
- 2.875% Series B convertible securities	-	-	-	-	-
Weighted average number of shares - diluted	**2,267,323,390**	**2,259,091,206**	**2,259,674,960**	**2,259,087,469**	**2,259,174,970**

Earnings per share, attributable to the owners of the parent (in euros)	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Basic	€ 0.01	€ (0.49)	€ (0.17)	€ (0.57)	€ (2.31)
Diluted	€ 0.01	€ (0.49)	€ (0.17)	€ (0.57)	€ (2.31)

Ordinary shares:

Ordinary shares owned by consolidated subsidiaries of the Group	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Number of Alcatel-Lucent ordinary shares (weighted average number)	58,357,412	58,346,776	58,367,919	58,363,272	58,351,831
Number of Alcatel-Lucent share equivalents	-	-	-	-	-

Shares subject to future issuance:

	June 30, 2009	June 30, 2008	December 31, 2008
Number of stock options not exercised	237,521,855	232,565,803	221,247,918

The following table summarizes the number of potential ordinary shares that were excluded from the diluted per share calculation, because the effect of including theses potential shares was anti-dilutive:

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Equity plans (stock options, RSU)	-	1,316,458	7,621,264	1,312,339	1,660,424
Alcatel-Lucent's convertible bonds (OCEANE) issued on June 12, 2003	63,192,019	63,192,019	63,192,019	63,192,019	63,192,019
7.75% convertible securities	37,557,287	44,463,051	37,557,287	44,463,052	44,463,051
2.875% Series A convertible securities	321,733,890	117,628,896	374,692,326	123,081,407	152,333,655
2.875% Series B convertible securities	377,715,587	138,096,323	439,888,791	144,497,572	178,839,711

Note 10 Impairment test of goodwill

Specific impairment test as of January 1, 2009 in connection with the new organization

Due to the new organization of our reporting structure effective from January 1, 2009 onwards (see note 4), an additional impairment test was performed as of January 1, 2009, on the goodwill relating to the Business Divisions which changed. The remaining goodwill as of December 31, 2008 was reallocated to the new Business Divisions using a relative value approach similar to the one used when an entity disposes of an operation within a Business Division. No impairment loss was accounted for in connection with this impairment test.

Annual impairment test of goodwill

The 2009 annual impairment tests of goodwill (performed in Q2 2009) did not result in any impairment loss.

In those groups of cash generating units ("CGU" – please refer to note 1g) in which there is significant goodwill, the data and assumptions used for the goodwill impairment tests were as follows:

2009 Test	Net carrying amount of goodwill	Difference between recoverable amount and the carrying amount of the net assets	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 are between 0% and +2,5% depending on the CGU.

Impairment losses recognized in the income statement

(In millions of euros)

Six months ended June 30, 2009	Carrier	Applications Software	Enterprise	Services	Other	Total Group
Impairment losses for goodwill	-	-	-	-		**-**
Impairment losses for intangible assets	-	-	(16)(1)	-	-	**(16)**
Impairment losses for property, plant and equipment						
Impairment losses for shares in equity affiliates	-	-	-	-	-	**-**
Impairment losses for financial assets						
TOTAL - NET	**-**	**-**	**(16)**	**-**	**-**	**(16)**
of which reversal of impairment loss	-	-	-	-	-	**-**

(1) Accounted for in restructuring costs.

(In millions of euros)

Six months ended June 30, 2008	Carrier	Applications Software	Enterprise	Services	Other	Total Group
Impairment losses for goodwill	(810)(1)	-	-	-	-	**(810)**
Impairment losses for intangible assets	-	-	-	-	-	**-**
Impairment losses for property, plant and equipment	-	-	-	-	-	**-**
Impairment losses for shares in equity affiliates	-	-	-	-	(1)	**(1)**
Impairment losses for financial assets	-	-	-	-	1	**1**
TOTAL - NET	**(810)**	**-**	**-**	**-**	**-**	**(810)**
of which reversal of impairment loss	-	-	-	-	2	***2***

(1) Accounted for in a specific line item ("impairment of assets") of the income statement.

(In millions of euros)

2008	Carrier	Applications Software	Enterprise	Services	Other	Total Group
Impairment losses for goodwill	(3,272) (1)	-	-	-	-	(3,272)
Impairment losses for capitalized development costs (2) (3)	(135) (1)	-	-	-	-	(135)
Impairment losses for other intangible assets	(1,276) (1)	-	-	-	-	(1,276)
Impairment losses for property, plant and equipment	(39) (1)	-	-	-	-	(39)
Impairment losses for shares in equity affiliates	-	-	-	-	(1)	(1)
Impairment losses for financial assets (4)	(11)	-	-	-	(3)	(14)
Total - Net	**(4,733)**	**-**	**-**	**-**	**(4)**	**(4,737)**
of which reversal of impairment loss	*3*	-	-	-	*2*	*5*

(1) Of which (4,725) accounted for in a specific line item ("impairment of assets") in the income statement and the remainder is accounted for in Income (loss) from operating activities before restructuring costs, impairment of assets, gain (loss) on disposal of consolidated entities and post-retirement benefit plan amendments.
(2) Mainly related to the WiMAX technology following the decision announced on December 12, 2008 to limit our WiMAX efforts to supporting fixed and nomadic broadband access applications and to stop the WiMAX full Mobility developments. These impairment losses are presented on the specific line item of the income statement "Impairment of assets".
(3) Refer to Note 2c.
(4) As disclosed in note 11 and excluding impairment losses on receivables.

Note 11 Financial assets

(In millions of euros)

	June 30, 2009			June 30, 2008			2008		
	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 (3)	347	222	**569**	552	245	**797**	585	253	838
Financial assets at fair value through profit or loss		803	**803**		905	**905**		653	653
Financial assets at amortized cost	105		**105**	125		**125**	111		111
Total	**452**	**1,025**	**1,477**	**677**	**1,150**	**1,827**	**696**	**906**	**1,602**

(1) Of which € 77 million matures within one year as of June 30, 2009 (€ 276 million as of June 30, 2008 and € 301 million as of December 31, 2008).
Of which € 43 million of financial assets at amortized cost represented a loan to one of Alcatel-Lucent's joint ventures as of June 30, 2009 (€ 39 million as of June 30, 2008 and € 42 million as of December 31, 2008).
(2) Of which € 1,025 million is current as of June 30, 2009 (€ 1,150 million as of June 30, 2008 and € 906 million as of December 31, 2008).
(3) Of which a decrease of € 252 million (US$ 328 million), including € 223 million of reclassification against general risks reserves (see note 16), during the first quarter related to the restricted cash on the Winstar litigation that was settled during the first quarter of 2009, representing a net positive impact in our cash provided by operating activities of € 24 million.

Note 12 Other assets and liabilities

(In millions of euros)

Other assets	June 30, 2009	June 30, 2008	December 31, 2008
Other current assets	1,404	1,179	1,395
Other non-current assets	502	552	650
Total	**1,906**	**1,731**	**2,045**
Of which:			
Currency derivatives	202	274	185
Interest-rate derivatives - hedging	37	6	72
Interest-rate derivatives – other	405	361	379
Commodities derivatives	-	-	-
Other tax receivables	594	537	662
Other current and non-current assets	667	553	747

(In millions of euros)

Other liabilities	June 30, 2009	June 30, 2008	December 31, 2008
Other current liabilities	1,987	1,960	2,293
Other non-current liabilities	397	486	443
Total	**2,384**	**2,446**	**2,736**
Of which:			
Currency derivatives	133	223	339
Interest-rate derivatives - hedging	1	26	1
Interest-rate derivatives – other	408	360	381
Commodities derivatives	1	-	7
Other tax payables	306	269	331
Accrued wages and social charges	899	942	968
Other current and non-current liabilities	636	626	709

Note 13 Operating working capital

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Inventories and work in progress, net	2,198	2,353	2,196
Trade receivables and related accounts, net	3,424	3,772	4,330
Advances and progress payments	106	137	99
Customers' deposits and advances	(593)	(972)	(929)
Trade payables and related accounts	(4,017)	(4,151)	(4,571)
Amounts due from customers on construction contracts	499	640	495
Amounts due to customers on construction contracts	(186)	(271)	(188)
Operating working capital, net	**1,431**	**1,508**	**1,432**

(In millions of euros)

	December 31, 2008	Cash flow	Change in consolidated companies	Translation adjustments and other	June 30, 2009
Inventories and work in progress [(1)]	3,044	92	-	(145)	**2,991**
Trade receivables and related accounts [(1)]	4,900	(521)	-	(411)	**3,968**
Advances and progress payments	99	6	-	1	**106**
Customers' deposits and advances [(1)]	(993)	(70)	-	374	**(689)**
Trade payables and related accounts	(4,571)	533	(6)	27	**(4,017)**
Operating working capital, gross	**2,479**	**40**	**(6)**	**(154)**	**2,359**
Product sales reserves – construction contracts [(1)]	(186)		-	18	**(168)**
Cumulated valuation allowances	(861)		-	101	**(760)**
Operating working capital, net	**1,432**	**40**	**(6)**	**(35)**	**1,431**

(1) Including amounts relating to construction contracts presented in the statement of financial position caption "amounts due from/to customers on construction contracts".

Receivables sold without recourse

Balances

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Outstanding amounts of receivables sold without recourse [(1)]	562	651	830

(1) Without recourse in case of payment default by the debtor. See accounting policies in note 1s.

Changes in receivables sold without recourse

(In millions of euros)

	Six months period ended June 30, 2009	Six months period ended June 30, 2008	December 31, 2008
Impact on cash flows from operating activities	(268)	(226)	(47)

Note 14 Share in net assets of equity affiliates and joint ventures

a/ Share in net assets of equity affiliates

	Percentage owned			Value (In millions of euros)		
	June 30, 2009	June 30, 2008	December 31, 2008	June 30, 2009	June 30, 2008	December 31, 2008
Thales (1)	-	20.80%	-	-	1,296	-
2Wire	26.70%	26.70%	26.70%	28	49	39
Other (less than € 50 million)	-	-	-	69	68	74
Share in net assets of equity affiliates				**97**	**1,413**	**113**

(1) Although historical Alcatel owned only 9.5% in Thales before the increase of our ownership resulting from the contribution of our railway transport systems business and our critical integration systems business that occurred during the first quarter of 2007, we were nevertheless the largest private shareholder of this group, with three seats on Thales' Board of Directors and therefore had a significant influence on this company. Our stake in Thales was accordingly accounted for using the equity method in 2006. Following the contribution of our railway transport systems and our critical integration systems business to Thales on January 5, 2007, Alcatel-Lucent's stake in Thales increased to 20.95% (20.90% in voting rights). Subsequently, due to various capital increases that occurred in 2007, our stake at June 30, 2008 was 20.80% (21.05% in voting rights).
Following the definitive agreement announced as of December 19, 2008 to sell our stake in Thales to Dassault Aviation, our shares were reclassified at this date from net assets in equity affiliates to assets held for sale. Our stake was disposed of in May 2009.
The Group's share of net income (loss) of equity affiliates accounted for in 2008 was based on Thales' results for 2008 adjusted for the purchase price allocation entries.

Alcatel-Lucent's share in the market capitalization of listed equity affiliates is as follows:

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31,2008
Thales	-	1,494	-

b/ Change in share of net assets of equity affiliates

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31,2008
Carrying amount at the beginning of the period	113	**1,352**	**1,352**
Change in perimeter of equity affiliates	-	(16)	(18)
Share of net income (loss)	(6)	56	96
Net effect of exchange rate changes	-	(45)	4
Reclassification to assets held for sale (Thales shares)	-	-	(1,303)
Other changes	(10)	66	(18)
Carrying amount at the end of the period	**97**	**1,413**	**113**

Note 15 Compound financial instruments

(In millions of euros)

	OCEANE		
	June 30, 2009	June 30, 2008	December 31, 2008
Statement of financial position			
Equity component	42	69	56
Equity	***42***	***69***	***56***
Convertible bonds – due after one year	1,016	953	1,002
Convertible bonds – due within one year and interest paid and payable	24	24	49
Financial debt	***1,040***	***977***	***1,051***
Income statement			
Finance costs relating to gross debt	(30)	(37)	(74)

(In millions of euros)

	7.75% Lucent			2.875% A, Lucent			2.875% B, Lucent		
	June 30, 2009	June 30, 2008	December 31, 2008	June 30, 2009	June 30, 2008	December 31, 2008	June 30, 2009	June 30, 2008	December 31, 2008
Statement of financial position									
Equity component	93	108	109	20(1)	187	208	263	244	272
Equity	***93***	***108***	***109***	***20***	***187***	***208***	***263***	***244***	***272***
Convertible bonds – due after one year	586	615	654	-	301	345	384	337	386
Convertible bonds – due within one year and interest paid and payable	3	4	3	512(1)	1	1	1	1	1
Financial debt	***589***	***619***	***657***	***512***	***302***	***346***	***385***	***338***	***387***
Income statement									
Finance costs relating to gross debt	(30)	(31)	(64)	(15)	(10)	(22)	(14)	(12)	(24)

(1) See comments below.

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	$750,000,000	$880,500,000
Conversion ratio	59.7015	65.1465
Conversion price	$16.75	$15.35
Redemption periods at the option of the issuer:		
Provisional redemption periods	June 20, 2008 through June 19, 2010	June 20, 2009 through June 19, 2013
Optional redemption periods	After June 19, 2010	After June 19, 2013
Redemption dates at the option of the holder	June 15, 2010, 2015 and 2020	June 15, 2013 and 2019
Maturity dates	June 15, 2023	June 15, 2025

We re-assessed during our Q2 2009 closing the reliability of the future estimated cash flows related to Lucent's 2.875 % Series A convertible debenture and, based upon the remaining period until the next optional redemption date (i.e. June 15, 2010), the current and recent share price and other market data, we considered as a reliable estimate that bond holders will ask for redemption during the optional redemption. It was therefore decided to change the estimated future cash flows associated to this convertible debenture and to amend the accounting presentation accordingly in accordance with IAS 39 requirements. This change in estimates represented an "other financial loss" of US$ 233 million (€ 175 million-see Note 6) and a corresponding increase of the carrying value of this financial debt compared to December 31, 2008 (see Note 17).

7.75% Convertible Securities (Liability to Subsidiary Trust Issuing Preferred Securities)

Lucent may redeem the debentures, in whole or in part, for cash at premiums ranging from 103.88% beginning March 20, 2007, to 100.00% on March 20, 2012 and thereafter. To the extent Lucent redeems debentures, the Trust is required to redeem a corresponding amount of trust preferred securities. Lucent has irrevocably and unconditionally guaranteed, on a subordinated basis, the payments due on the trust preferred securities to the extent Lucent makes payments on the debentures to the Trust.

Conversion ratio	40.3306
Conversion price	$24.80
Redemption period at Lucent option	After March 19, 2007
Maturity date	March 15, 2017

Some of these bonds were repurchased during the fourth quarter of 2008 and during the first quarter 2009 (see note 17).

Note 16 Provisions

a/ Balance at closing

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Provisions for product sales	515	549	575
Provisions for restructuring	457	753	595
Provisions for litigation	141	359	392
Other provisions	869	884	862
Total (1)	**1,982**	**2,545**	**2,424**
(1) Of which: portion expected to be used within one year	*1,128*	*1,570*	*1,630*
portion expected to be used after one year	*854*	*975*	*794*

b/ Change during the six month period ended June 30, 2009

(In millions of euros)

	December 31, 2008	Appropriation	Utilization	Reversals	Change in consolidated companies	Other	June 30, 2009
Provisions for product sales (1)	575	182	(173)	(54)	-	(15)	515
Provisions for restructuring	595	179	(282)	(18)	-	(17)	457
Provisions for litigation (2)	392	15	(22)	(33)	-	(211)	141
Other provisions	862	55	(20)	(35)	1	6	869
Total	**2,424**	**431**	**(497)**	**(140)**	**1**	**(237)**	**1,982**
Effect on the income statement:							
- Income (loss) from operating activities before restructuring, impairment of assets, capital gain on disposal of consolidated entities and post-retirement benefit plan amendments		(231)		110			(121)
- restructuring costs		(176)		18			(158)
- post-retirement benefit plan amendments (3)		(1)		-			(1)
- other financial income (loss)		(13)		-			(13)
- income taxes		(9)		12			3
- income (loss) from discontinued operations and gain/(loss) on disposal of consolidated shares		(1)		-			(1)
Total		**(431)**		**140**			**(291)**

(1) Excluding provisions for product sales on construction contracts which are accounted for in amounts due to/from customers on construction contracts (see note 13).
(2) Of which an appropriation of € 1 million (interest accrued), a reversal for non-occurrence of risk of € 15 million and a reclassification against restricted cash for an amount of € 223 million (see note 11) related to the settlement of the Winstar litigation that occurred during the first quarter 2009 (see note 21).
(3) Accounted for on a specific line item "Post-retirement benefit plan amendments" in the income statement. The appropriation of € 1 million as of June 30, 2009 related to the litigation disclosed in note 21 (Lucent's employment and benefits related cases) that concerns a previous healthcare plan amendment has been posted in this specific line item.

At period-end, contingent liabilities exist with regards to ongoing tax disputes and outstanding litigations related to the Foreign Corrupt Practices Act (FCPA) as disclosed in Note 21h. 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 has been reserved as of June 30, 2009.

c/ Analysis of restructuring provisions

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Opening balance	**595**	**698**	**698**
Utilization during period	(282)	(302)	(588)
Charge during the period (1)	161	391	533
Effect of acquisition (disposal) of consolidated subsidiaries	-	-	-
Cumulative translation adjustments and other changes	(17)	(34)	(48)
Closing balance	**457**	**753**	**595**

(1) For the first six months of 2009, total restructuring costs were € 201 million, representing € 45 million of costs, a valuation allowances or write-offs of assets of € 43 million and € 113 million of new restructuring plans and adjustments to previous plans. In addition, a finance cost of € 3 million, related to the reversal of the discount element included in provisions, was recorded in other financial income (loss).

For the six months ended June 30, 2008, total restructuring costs were € 387 million, representing an asset impairment loss of € 15 million, other monetary costs of € 5 million and € 367 million of new restructuring plans and adjustments to previous plans. In addition, a finance cost of € 4 million, related to the reversal of the discount element included in provisions, was recorded in other financial income (loss).

For 2008, total restructuring costs were € 562 million, representing € 38 million of costs, a valuation allowance of assets of € 35 million and € 489 million of new restructuring plans and adjustments to previous plans. In addition, a finance cost of € 6 million, related to the reversal of the discount element included in certain restructuring provisions, was recorded in other financial income (loss).

New restructuring plans were announced in July 2009 in different European countries. In accordance with IAS 37 requirements, no reserve related to these new plans was accounted for as of June 30, 2009. The corresponding reserves will be accounted for when the IAS 37 provision recognition criteria apply.

d/ Restructuring costs

(In millions of euros)

	Q2 2009	Q2 2008	Six months period ended June 30, 2009	Six months period ended June 30, 2008	2008
Social costs	(69)	(243)	(113)	(367)	(489)
Valuation allowances or write-offs of assets	(28)	(12)	(43)	(15)	(35)
Other monetary costs	(26)	(10)	(45)	(5)	(38)
Total restructuring costs	**(123)**	**(265)**	**(201)**	**(387)**	**(562)**

Note 17 Financial debt

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Marketable securities – short term, net	1,025	1,150	906
Cash and cash equivalents	3,216	3,259	3,687
Cash, cash equivalents and marketable securities	**4,241**	**4,409**	**4,593**
(Convertible and other bonds – long-term portion)	(3,525)	(3,583)	(3,931)
(Other long-term debt)	(63)	(66)	(67)
(Current portion of long-term debt and short term debt)	(698)	(1,194)	(1,097)
(Financial debt, gross)	**(4,286)**	**(4,843)**	**(5,095)**
Derivative interest rate instruments – other current and non-current assets	37	6	72
Derivative interest rate instruments – other current and non-current liabilities	(1)	(26)	(1)
Loan to joint venturer – financial asset	37	39	42
Cash (financial debt), net	**28**	**(415)**	**(389)**

a/ Bonds

Balances at December 31, 2008 and at June 30, 2009:

(In millions of euros)

Remaining amounts to be reimbursed	December 31, 2008	Currency translation impact	Other changes during the first six months of 2009	June 30, 2009
Issued by Alcatel:				
- 4.375% - € 777 m due February 2009 (1)	777	-	(777)	-
- Oceane 4.75% - € 1,022 m (5) due January 2011 (1)	1,022	-	-	1,022
- 6.375% - € 462 m (5) due April 2014 (1)	462	-	-	462
Issued by Lucent:				
- 7.75% - US$ 931 m (5) due March 2017 (2)	768	(7)	(77)	684
- 2.875% - US$ 750 m (5) Series A due June 2023 (2) (3) (4)	555	(8)	(15)	532
- 2.875% - US$ 881 m (5) Series B due June 2025 (2) (3)	661	(10)	-	651
- 6.50% - US$ 300 m(5) due January 2028	194	(3)	-	191
- 6.45% - US$ 1,360 m (5) due March 2029	879	(13)	-	866
Sub-total	**5,318**	**(41)**	**(869)**	**4,408**
Equity component of Oceane issued by Alcatel	(56)		13	(43)
Equity component of Lucent's convertible bond 2.875% - US$750 m Series A (4)	(208)	(8)	196	(20)
Equity component of other convertible bonds issued by Lucent	(382)	5	20	(357)
Fair value of interest rate instruments relating to bonds and expenses included in the calculation of the effective interest rate	35	-	13	48
Carrying amount of bonds	**4,707**	**(44)**	**(627)**	**4,036**

(1) Benefit from a full and unconditional subordinated guaranty from Lucent Technologies Inc.
(2) See note 15 for details on Put and Call options.
(3) Benefit from a full and unconditional subordinated guaranty from Alcatel-Lucent.
(4) Due to the change of estimated cash flows related to the 2.875 % US$ 750 m Series A debenture, the carrying value of this bond was increased for an amount of US$ 233 million with a corresponding "other financial loss" as disclosed in Note 6. Refer to additional comments in Notes 2-j and 15.
(5) Face amounts outstanding as at June 30, 2009.

Changes during the six month period ended June 30, 2009:

- *Repurchases* (redemption before maturity date):

Lucent convertible bond 7.75% US$ due March 2017 was subject to partial buy-back and cancellation in Q1 2009, using cash for an amount of US$ 28 million, corresponding to a nominal value of US$ 99 million.

Nominal value repurchased :
Lucent convertible bond 7.75% US$ due March 2017: US$ 99,000,000

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 equity.
A gain of € 50 million related to these repurchases was recorded in other financial income (loss) in Q1 2009 (see Note 6).

- Repayments

Alcatel-Lucent's 4.375% EUR bond due February 2009 was repaid in February 2009 for a nominal value of € 777 million.

Changes in 2008:

- *Repurchases* (redemption before maturity date):

Certain bonds were subject to buy-back and cancellation in 2008, using cash for an amount of € 27 million and US$ 23 million, corresponding to a nominal value of € 28 million and US$ 72 million, detailed as follows:

Nominal value repurchased :

Lucent convertible bond 7.75% US$ due March 2017:	US$ 72,229,000
Alcatel-Lucent 4.375% EUR bond due February 2009:	€ 27,801,000

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 equity.

For straight bonds, the difference between the repurchased amount and the nominal value is included in financial income (loss) in other financial income (loss), net.

The gains related to these repurchases were respectively € 1 million and € 30 million for the Alcatel-Lucent 4.375% bond and the Lucent 7.75% bond representing a total gain of € 31 million in other financial income (loss), net (see Note 6).

- Repayments

Lucent's 5.50% US$ bond was repaid in November 2008 for a nominal value of € 137 million.

b/ Analysis by maturity date and type of rate

(In millions of euros)

	June 30, 2009	December 31, 2008	June 30, 2008
Current portion of long-term debt	512	776	923
Short-term debt	186	322	271
Financial debt due within one year (1)	**698**	**1,098**	**1,194**
Of which: - within 3 months	*117*	*992*	
- between 3 and 6 months	*21*	*86*	
- between 6 and 9 months	*33*	*10*	
- above 9 months (1)	*527*	*10*	
from July 1, 2010 to December 31, 2010	3		
2010 (1)		357	
from July 1, 2009 to December 31, 2010 (1)			313
2011 (2)	1,054	1,039	990
2012	10	6	6
2013	388	392	340
2014 and thereafter	2,133	2,203	2,000
Financial debt due after one year (3)	**3,588**	**3,997**	**3,649**
Total	**4,286**	**5,095**	**4,843**

(1) Of which € 512 million related to the 2023 Lucent convertible debenture 2.875 % series A, due to the existence of a put option exercisable as of June 15, 2010 (€ 345 million as of December 31, 2008 and € 301 million as of June 30, 2008).
(2) Of which € 1,016 million related to the Oceane 4.75 % due January 2011, as of June 30, 2009 (€ 1,002 million as of December 31, 2008 and € 953 million as of June 30, 2008).
(3) The convertible securities may be retired earlier based on early redemption or buy back options. See note 15. 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 90% of the total gross debt as of June 30, 2009, compared to 56% at the end of 2008.

c/ Credit rating

At July 29, 2009, Alcatel-Lucent credit ratings were as follows:

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

At July 29, 2009, Lucent's credit ratings were as follows:

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

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

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

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

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

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

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

Standard & Poor's: on March 3, 2009, Standard & Poor's lowered to B+ from BB- its long-term corporate credit ratings and senior unsecured ratings on Alcatel-Lucent and on Lucent. The ratings on the trust preferred notes of Lucent Technologies Capital Trust were lowered to CCC+. The B short-term rating on Alcatel-Lucent was affirmed. The B 1 rating on Lucent was withdrawn. The outlook is negative.

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

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

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

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

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

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

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

Rating clauses affecting Alcatel-Lucent and Lucent debt at June 30, 2009

Alcatel-Lucent's short-term debt rating allows a limited access to the French commercial paper market for short periods of time.
Alcatel-Lucent's and Lucent's outstanding bonds do not contain clauses that could trigger an accelerated repayment in the event of a lowering of their respective credit ratings.

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). This facility replaced the undrawn € 1.0 billion syndicated facility, maturing in June 2009. On March 21, 2008, € 837 million of availability under the facility was extended until April 5, 2013.

The availability of this syndicated credit facility of € 1.4 billion is not dependent upon Alcatel-Lucent's credit ratings. Alcatel-Lucent's ability to draw on this facility is conditioned upon its compliance with a financial covenant linked to the capacity of Alcatel-Lucent to generate sufficient cash to repay its net debt and compliance is tested quarterly when we release our consolidated financial statements. Since the € 1.4 billion facility was established, Alcatel 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 the financial statements for the six months period ended June 30, 2009.

e/ Liquidity risk on the financial debt

The Group considers that its available cash, cash equivalents and marketable securities, and the available syndicated bank credit facility (refer to Note 17d) are sufficient to cover its operating expenses and capital expenditures and its debt requirements for the next twelve months.

See note 20 Contractual obligations and disclosures related to off balance sheet commitments.

Note 18 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) 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.

97% of Alcatel-Lucent's total benefit obligations and 98% of Alcatel-Lucent's plan asset fair values were remeasured as of June 30, 2009. 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 remeasured. The impact of not remeasuring 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 decreases in interest rates and differences between actual and expected plan asset performance and benefit payments. Actuarial losses of € (493) million (of which € (492) million related to pensions and € (1) million related to post-retirement benefits) resulted from lower actual plan asset returns than expected and actuarial losses of € (376) million (of which € (350) million related to pensions and € (26) 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 € 50 million resulted from higher actual plan asset returns than expected. No actuarial gains or losses arose from plan obligations. 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 June 30, 2009 have been updated and are as follows:

Discount rate	**June 30, 2009**	**June 30, 2008**	**December 31, 2008**
US - Pension	6.07%	6.68%	6.22%
US - Post-retirement health care and other	5.64%	6.39%	6.16%
US - Post-retirement life	6.18%	6.74%	6.16%
Euro – Pension	5.25%	5.40%	5.25%
UK - Pension	6.00%	6.30%	6.00%

The change in the unrecognized surplus of plan assets (asset ceiling) and in the IFRIC14 effect during the six months period ended June 30, 2009 represented an amount of € 462 million related only to pensions (€ (203) million at June 30, 2008).

Change in pension and post-retirement net asset (liability) recognized:

(In millions of euros)

	June 30, 2009			June 30, 2008			December 31, 2008		
	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	**70**	**(2,579)**	**(2,509)**	**1,910**	**(2,885)**	**(975)**	**1,910**	**(2,885)**	**(975)**
Operational charge	(62)	(2)	(64)	(62)	(3)	(65)	(121)	(6)	(127)
Financial income (1)	102	(88)	14	282	(78)	204	516	(167)	349
Curtailment (2)	(21)	(1)	(22)	(6)	(2)	(8)	(37)	(4)	(41)
Non represented healthcare plan amendment (3)	-	-	-	-	-	-	-	65	65
Total recognized in profits (losses)	**19**	**(91)**	**(72)**	**214**	**(83)**	**131**	**358**	**(112)**	**246**
Actuarial gains and (losses) for the period	(793)	(27)	(820)	(194)	85	(109)	(3,798)	44	(3,754)
Asset ceiling limitation and IFRIC14 effect	462	-	462	(203)	-	(203)	1,789	-	1,789
Total recognized in Statement of comprehensive income (4)	**(331)**	**(27)**	**(358)**	**(397)**	**85**	**(312)**	**(2,009)**	**44**	**(1,965)**
Contributions and benefits paid	84	38	122	64	166	230	158	71	229
420 transfer	-	-	-	-	-	-	(444)	444	-
Change in consolidated companies	-	-	-	-	-	-	-	-	-
Other (reclassifications and exchange rate changes)	(9)	40	31	(152)	187	35	97	(141)	(44)
Net asset (liability) recognized at the end of the period	**(167)**	**(2,619)**	**(2,786)**	**1,639**	**(2,530)**	**(891)**	**70**	**(2,579)**	**(2,509)**
Of which:									
- Prepaid pension costs	2,485	-	2,485	3,129	-	3,129	2,298	-	2,298
- Pension, retirement indemnities and post-retirement benefits liability	(2,652)	(2,619)	(5,271)	(1,490)	(2,530)	(4,020)	(2,228)	(2,579)	(4,807)

(1) This income is due to the expected return on plan assets that is higher than the interest cost.
(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 the one disclosed in the Statement of comprehensive income on page 5, due to the amounts related to discontinued activities, which are excluded in the above table.

Funded status

(In millions of euros)

	June 30, 2009	June 30, 2008	December 31, 2008
Benefit obligation	(25,272)	(22,565)	(25,498)
Fair value of plan assets	24,110	25,413	25,069
Funded status	(1,162)	2,848	**(429)**
Unrecognized prior service cost and surplus (due to application of asset ceiling)	(1,624)	(3,686)	(2,080)
Net amount recognized	**(2,786)**	**(838)**	**(2,509)**

2008 U.S. management healthcare plan amendment

On July 30, 2008, certain changes to Lucent's management retiree healthcare benefits were approved by the board of Directors of Lucent Technologies Inc and announced to retirees between August and the beginning of October. Among other, effective January 1, 2009, postretirement medical benefits for Medicare eligible Management participants will be 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. These changes imply a € 148 million benefit obligation decrease for the management retiree healthcare plan. € 83 million of this decrease, which related to Management employees who retired before March 1, 1990, was considered as a change of actuarial assumptions and was recognized in the statement of comprehensive income. € 65 million of this decrease, which related to Management employees who retired on or after March 1, 1990 that are subject to defined caps, was considered as a plan amendment and was recognized in the 2008 income statement in the specific line item "Post-retirement benefit plan amendments".

(In millions of euros)

	Before amendment	Amendment effect for pre March 1, 1990 retirees (1)	Amendment effect for post March 1, 1990 retirees (2)	After amendment
Projected benefit obligation	(529)	83	65	(381)
Deferred taxes		(33)	(25)	
Net impact after deferred taxes		**50**	**40**	

(1) Recognized in the statements of comprehensive income.
(2) Recognized in the income statement.

In addition to the € 65 million income recognized in the specific line item "Post-retirement benefit plan amendments", a € 18 million expense related to the Raetsch case litigation disclosed in note 21 was recognized in 2008, representing a net income of € 47 million. In 2009, a € 2 million additional expense has been recognized in the specific line item "Post-retirement benefit plan amendments" concerning the Raetsch case.

Note 19 Net cash provided (used) by operating activities before changes in working capital, interest and taxes

(In millions of euros)

	Q2 2009	Q1 2009	Six months period ended June 30, 2009	Six months period ended June 30, 2008	December 31, 2008
Net income (loss) attributable to the owners of the parent	**14**	**(402)**	**(388)**	**(1,283)**	**(5,215)**
Minority interests	**(12)**	**(20)**	**(32)**	**22**	**42**
Adjustments:					
- Depreciation and amortization of tangible and intangible assets	240	256	496	595	1,241
Of which impact of capitalized development costs	*66*	*71*	*137*	*149*	*308*
- Impairment of assets	-	-	-	810	4,725
- Post-retirement benefit plan amendment	(1)	2	1	18	(47)
- Changes in pension and other post-retirement benefit obligations, net	(22)	(51)	(73)	(370)	(452)
- Provisions, other impairment losses and fair value changes	(57)	(164)	(221)	96	102
- Repurchase of bonds and change of estimates related to Lucent convertible debenture 2.87% Series A (1)	175	(50)	125	-	(31)
- Net (gain) loss on disposal of assets	(271)	1	(270)	(47)	(74)
- Share in net income (losses) of equity affiliates (net of dividends received)	(2)	9	7	(13)	(55)
- (Income) loss from discontinued operations	(129)	-	(129)	-	(33)
- Finance costs	58	62	120	97	212
- Share-based payments	15	17	32	47	85
- Taxes and related reduction of goodwill	(87)	(6)	(93)	69	153
Sub-total of adjustments	**(81)**	**76**	**(5)**	**1,302**	**5,826**
Net cash provided (used) by operating activities before changes in working capital, interest and income taxes	**(79)**	**(346)**	**(425)**	**41**	**653**

(1) See notes 6, 15 and 17.

Note 20 Off balance sheet commitments

a/ Contractual obligations

The following table presents minimum payments the Group will have to make in the future under contracts and firm commitments as of June 30, 2009. Amounts related to financial debt and capital lease obligations are fully reflected in the consolidated balance sheet.

(In millions of euros)

Contractual cash obligations	Maturity date				Total
	Less than one year	2010-2011	2012-2013	2014 and after	
Financial debt (excluding capital leases)	698	1,057	398	2,133	**4,286**
Capital lease obligations	-	-	-	-	**-**
Equity component of convertible bonds	20	43	264	93	**420**
Sub-total - included in balance sheet	**718**	**1,100**	**662**	**2,226**	**4,706**
Financial expenses on financial debt (1)	94	304	239	910	**1,547**
Operating leases	225	435	268	317	**1,245**
Commitments to purchase fixed assets	44	-	-	-	**44**
Unconditional purchase obligations (2)	173	14	-	-	**187**
Sub total - Commitments	**536**	**753**	**507**	**1,227**	**3,023**
Total - Contractual obligations	**1,254**	**1,853**	**1,169**	**3,453**	**7,729**

(1) To compute finance costs on financial debt, all put dates have been considered as redemption dates. For debentures with calls but no puts, call dates have not been considered as redemption dates. Further details on put and call dates are given in note 15. If debentures are not redeemed at the put dates, this will represent an additional finance cost of approximately € 408 million (of which € 24 million would be incurred in 2010-2011 and the remaining part in 2012 or later).

(2) Other firm commitments result mainly from purchase obligations related to multi-year equipment supply contracts linked to the sale of businesses to third parties.

b/ Off balance sheet commitments

Off balance sheet commitments of the Group were primarily as follows:

- certain guarantees given to the Group's customers for contract execution (performance bonds and guarantees on advances received that were issued by Alcatel to financial institutions);
- guarantee relating to the maximum intra-day bank overdraft allowed for Group subsidiaries under the Group's cash pooling agreement with certain banks;
- guarantees given under securitization programs or on sale of receivables (see description below).

Alcatel-Lucent does not rely on special purpose entities to deconsolidate these risks.

Commitments given in the normal course of business of the Group are as follows:

(In millions of euros)

	June 30, 2009	June 30, 2008	2008
Guarantees given on contracts made by entities within the Group and by non-consolidated subsidiaries	1,069	1,237	1,232
Discounted receivables with recourse	1	2	5
Other contingent commitments	645	767	770
Sub-total - Contingent commitments	**1,715**	**2,006**	**2,007**
Secured borrowings (1)	21	24	24
Cash pooling guarantee	531	478	473
Total - Continuing activities	**2,267**	**2,508**	**2,504**
Commitments of discontinued activities (2)	-	50	-
Total - including discontinued activities	**2,267**	**2,558**	**2,504**

(1) Excluding the subordinated guaranties described hereafter on bonds.

(2) Commitments related to businesses sold or contributed to Thales in 2007. Commitments that were still in the process of being transferred to Thales as of December 31, 2007, were counter-guaranteed by Thales (Thales agreed to indemnify Alcatel-Lucent for and against any payment that any Alcatel-Lucent entity is required to make pursuant to any obligation under any guarantees related to the businesses sold or contributed to Thales).

Cash pooling guarantee

Cash pooling guarantee is a guarantee granted to the banks operating the Group's cash pooling. This guarantee covers the risk involved in any overdrawn position that could remain outstanding after the many daily transfers between Alcatel's Central Treasury accounts and those of its subsidiaries. As of June 30, 2009, this guarantee amounted to € 0.5 billion (€ 0.5 billion as of June 30, 2008 and € 0.5 billion as of December 31, 2008).

Subordinated guaranties provided to some Alcatel-Lucent and Lucent Technologies Inc. ("Lucent") public bonds

Alcatel-Lucent guaranty of Lucent Technologies Inc. 2.875% Series A & B Convertibles
On December 29, 2006, Alcatel-Lucent provided its full and unconditional guaranty to Lucent's 2.875% Series A Convertible Senior Debentures due 2023 and to Lucent's 2.875% Series B Convertible Senior Debenture due 2025. These guaranties were delivered in the frame of a joint solicitation of consent from the holders of such debentures and are unsecured and subordinated to Alcatel-Lucent's senior debt.

Lucent. guaranty of Alcatel-Lucent public bonds
On March 27, 2007 Lucent provided its full and unconditional guaranty to the following Alcatel-Lucent public bonds:

- 4.375% EUR due February 2009
- OCEANE 4.75% due January 2011
- 6.375% EUR due April 2014

These guaranties are unsecured and subordinated to Lucent's senior debt.

Note 21 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 subsidiaries to various public officials in Costa Rica, two political parties in Costa Rica and representatives of ICE, the state-owned telephone company, in connection with the procurement by CIT of several contracts for network equipment and services from ICE. Upon learning of these allegations, Alcatel commenced an investigation into this matter.

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

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

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.

As further stated in item h below, Alcatel-Lucent has commenced settlement discussions with the DOJ and SEC on this matter.

In connection with the aforementioned allegations, on July 27, 2007, the Costa Rican Prosecutor's Office indicted eleven individuals, including the former president of Alcatel de Costa Rica, on charges of aggravated corruption, unlawful enrichment, simulation, fraud and others. Two of those individuals have since pled guilty. Shortly thereafter, the Costa Rican Attorney General's Office and ICE, acting as victims of this criminal case, each filed amended civil claims against the eleven criminal defendants, as well as five additional civil defendants (one individual and four corporations, including CIT) seeking compensation for damages in the amounts of U.S. $ 52 million (in the case of the Attorney General's Office) and U.S. $ 20 million (in the case of ICE). The Attorney General's claim supersedes two prior claims, of November 25, 2004 and August 31, 2006. On November 25, 2004, the Costa Rican Attorney General's Office commenced a civil lawsuit against CIT to seek pecuniary compensation for the damage caused by the alleged payments described above to the people and the Treasury of Costa Rica, and for the loss of prestige suffered by the Nation of Costa Rica (social damages). The ICE claim, which supersedes its prior claim of February 1, 2005, seeks pecuniary compensation for the damage caused by the alleged payments described above to ICE and its customers, for the harm to the reputation of ICE resulting from these events (moral damages), and for damages resulting from an alleged overpricing it was forced to pay under its contract with CIT. During preliminary court hearings held in San José during September 2008, ICE filed a report in which the damages allegedly caused by CIT are valued at U.S. $ 71.6 million. No formal notice of a revised civil claim has so far been received by CIT.

Alcatel-Lucent intends to defend these actions vigorously and deny any liability or wrongdoing with respect to these claims.

Additionally, in August 2007, ICE notified CIT of the commencement of an administrative proceeding to terminate the 2001 contract for CIT to install 400,000 GSM cellular telephone lines (the "400KL GSM Contract"), in connection with which ICE is claiming compensation of U.S. $ 59.8 million for damages and loss of income. By March 2008, CIT and ICE concluded negotiations of a draft settlement agreement for the implementation of a "Get Well Plan," in full and final settlement of the above-mentioned claim. This settlement agreement was not approved by ICE's Board of Directors that resolved, instead, to resume the aforementioned administrative proceedings to terminate the operations and maintenance portion of the 400KL GSM Contract, claim penalties and damages in the amount of U.S. $ 59.8 million and call the performance bond. CIT was notified of this ICE resolution on June 23, 2008. ICE has made additional damages claims and penalty assessments related to the 400KL GSM Contract that bring the overall exposure under the contract to U.S. $ 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 resolution mentioned above. ICE called the performance bond in August 2008, and on September 16, 2008 CIT was served notice of ICE's request for payment of the remainder amount of damages claimed, US$ 44.7 million. On September 17, 2008, the Costa Rican Supreme Court ruled on the appeal filed by CIT stating that: (i) the US$ 15.1 million performance bond amount is to be reimbursed to CIT and (ii) the US$ 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 US$ 15.1 million performance bond amount is to remain deposited in an escrow account held by the Court, until final resolution of the case. On October 8, 2008 CIT filed a claim against ICE requesting the court to overrule ICE's contractual resolution regarding the 400KL GSM Contract and claiming compensation for the damages caused to CIT. In January 2009, ICE filed its response to CIT's claim. At a Court hearing on March 25, 2009, ICE ruled out entering into settlement discussions with CIT. On April 20, 2009 CIT filed a petition to the Court to recover the $ 15.1 million performance bond amount and offered the replacement with a new bond that will guarantee the results of the final decision of the Court. The hearing scheduled for June 1, 2009 was suspended due to ICE's decision not to present to the Court the administrative file wherein ICE decided the contractual resolution of the 400KL GSM Contract. Alcatel-Lucent anticipates that a new hearing will be scheduled.

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

Alcatel-Lucent is unable to predict the outcome of these investigations and civil lawsuits and their effect on CIT's business. If the Costa Rican authorities conclude criminal violations have occurred, CIT may be banned from participating in government procurement contracts within Costa Rica for a certain period. Alcatel-Lucent expects to generate approximately € 3 million in revenue from Costa Rican contracts in 2009. Based on the amount of revenue expected from these contracts, Alcatel-Lucent does not believe a loss of business in Costa Rica would have a material adverse effect on the Alcatel-Lucent group as a whole. However, these events may have a negative impact on the reputation of Alcatel-Lucent in Latin America.

The Group has recognized a provision in connection with the various ongoing proceedings in Costa Rica when reliable estimates of the probable future outflow were available.

b/ Taiwan

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

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

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

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

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

As further stated in item h below, Alcatel-Lucent has commenced settlement discussions with the DOJ and SEC on this matter.

As a group, Alcatel-Lucent expects to generate approximately € 99 million of revenue from Taiwanese contracts in 2009, of which only a part is generated from governmental contracts. Based on the amount of revenue expected from these contracts, Alcatel-Lucent does not believe a loss of business in Taiwan would have a material adverse effect on the Alcatel-Lucent group as a whole.

c/ Kenya

The SEC and the DOJ have asked Alcatel-Lucent to look into payments made in 2000 by CIT to a consultant arising out of a supply contract between CIT and a privately-owned company in Kenya. Alcatel-Lucent understands that the French authorities are also conducting an investigation to ascertain whether inappropriate payments were received by foreign public officials in connection with such project. Alcatel-Lucent is cooperating with the U.S. and French authorities, has submitted to these authorities its findings regarding those payments and, as further stated in item h below, has commenced settlement discussions with the DOJ and SEC on this matter.

d/ Government investigations related to Lucent

China

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

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

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

e/ Lucent's employment and benefits related cases

In October 2005, a purported class action was filed by Peter A. Raetsch, Geraldine Raetsch and Curtis Shiflett, on behalf of themselves and all others similarly situated, in the U.S. District Court for the District of New Jersey. The plaintiffs in this case allege that Lucent failed to maintain health care benefits for retired management employees for each year from 2001 through 2006 as required by the Internal Revenue Code, the Employee Retirement Income Security Act, and the Lucent pension and medical plans. Upon motion by Lucent, the court remanded the claims to Lucent's claims review process. A Special Committee was appointed and reviewed the claims of the plaintiffs and Lucent filed a report with the Court on December 28, 2006. The Special Committee denied the plaintiffs' claims and the case has returned to the court, where limited discovery has been completed.

By Opinion and Order, each dated June 11, 2008, the court granted in part and denied in part 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.

Lucent believes it has meritorious defenses to the claims for each year and intends to continue to defend this case vigorously. However, as a result of the court's findings for 2003, Lucent established a provision for US$ 27 million during the second quarter of 2008. The amount was determined based on internal estimates from 2002 of the potential impact of the benefit plan changes for the 2003 plan year. At December 31, 2008, Lucent increased this provision to US$ 29.4 million based upon an initial review of actual claims data for the fiscal year ending September 30, 2003. Based upon further ongoing analysis of the claims data as this litigation has progressed, however, Lucent now believes that the impact of the 2003 benefit plan changes, during fiscal year ending September 30, 2003, is US$ 28 million. Lucent is currently unable to determine the actual impact of the related benefit plan changes for the 2003 plan year because, even if Lucent is finally determined to be liable, the method of determining damages to participants has not been determined. Although the plaintiffs have alleged damages in excess of the amount provided for by Lucent, Lucent believes that those amounts are without merit. Because of the court's directions with respect to years other than 2003, Lucent has not reflected any provision for plan years other than 2003.

In September 2004, the Equal Employment Opportunity Commission (EEOC) filed a purported class action lawsuit against Lucent, *EEOC v. Lucent Technologies Inc.*, which is pending in the U.S. District Court for the Northern District of California. The case alleges gender discrimination in connection with the provision of service credit to a class of present and former Lucent employees who were on maternity leave prior to 1980 and seeks the restoration of lost service credit prior to April 29, 1979, together with retroactive pension payment adjustments, corrections of service records, back pay and recovery of other damages and attorneys fees and costs. The case was stayed pending the disposition of another case raising similar issues, which was recently decided by the U.S. Supreme Court in favor of the employer. As a result of this development, the EEOC indicated that it will be withdrawing this lawsuit against Lucent. The closing papers have not yet been finalized.

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 and may lead to the filing of additional cases. Two purported class action lawsuits were prosecuted against Lucent in connection with the elimination of the death benefit from its U.S. management pension plan in early 2003. The elimination of this benefit reduced Lucent future pension obligations by US$ 400 million. The benefit was paid out of the pension plan assets to certain qualified surviving dependents, such as spouses or dependent children of management retirees. These cases alleged that Lucent wrongfully terminated this death benefit and requested that it be reinstated, along with other remedies. The two death benefit cases have now been dismissed by separate U.S. circuit courts of appeals (i.e., the Third Circuit and the Tenth Circuit).

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 US$ 357 million in damages for Microsoft's infringement of the "Day" patent. On June 19, 2008, the Court entered judgment on the verdict and also awarded prejudgment interest exceeding US$ 140 million. The total amount awarded Alcatel-Lucent relating to the Day patent exceeds US$ 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. 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. Only the appeal relating to the Day patent against Microsoft remains currently pending in the Court of Appeals for the Federal Circuit. Oral Argument was held at the Federal Circuit in Washington, D.C. on June 2, 2009 and a decision on this appeal is expected in the third or fourth quarter of this year.

In a parallel proceeding, Dell filed a reexamination of the Day patent with the United States Patent and Trademark Office ("Patent Office") in May of 2007 alleging that prior art existed that was not previously considered in the original examination and the Day patent should therefore be re-examined for patentability. On June 22, 2009, the Patent Office issued its latest advisory opinion rejecting the two claims at issue in the lawsuit in view of the prior art. This decision by the examiner does not mean there is an ultimate determination of invalidity by the Patent Office or moot the appeal in the Court case. Alcatel-Lucent intends to file a notice of appeal of the decision by the examiner to the Board of Patent Appeals and Interferences by July 26, 2009.

g/ Other Lucent litigation

Winstar

Lucent was a defendant in an adversary proceeding originally filed in U.S. Bankruptcy Court in Delaware by Winstar and Winstar Wireless, Inc. in connection with the bankruptcy of Winstar and various related entities. The trial for this matter concluded in June 2005. The trial pertained to breach of contract and other claims against Lucent, for which the trustee for Winstar was seeking compensatory damages of approximately US$ 60 million, as well as costs and expenses associated with litigation. The trustee was also seeking recovery of a payment Winstar made to Lucent in December 2000 of approximately US$ 190 million plus interest. The trustee also sought to invalidate Lucent's priority claim to an escrow account worth approximately U.S.$23 million On December 21, 2005, the judge rendered his decision and the verdict resulted in a judgment against Lucent for approximately US$ 244 million, plus statutory interest and other costs. As a result, Lucent has recognized a US$ 315 million provision (including related interest and other costs of approximately US$ 71 million) as of December 31, 2008. In addition, US$ 328 million of cash collateralized a letter of credit that was issued during the second quarter of fiscal year 2006 in connection with this matter. On April 26, 2007, the U.S. District Court for the District of Delaware affirmed the decision of the Bankruptcy Court. Lucent appealed this decision with the United States Court of Appeals. On February 3, 2009, the Court issued its opinion affirming the District Court's Order with a modification to the lower court's subordination of Lucent's security interest in the escrow account which has no financial consequence. On February 20, 2009, Lucent and the Trustee entered into a settlement agreement, which the Court approved on March 25, 2009. Pursuant to this settlement, the Trustee received US$ 320 million, consisting of the proceeds of the letter of credit and a portion of the escrow account. The balance of the escrow was released to Lucent and the excess restricted cash securing the letter of credit was released from such restriction. This settlement resolves this matter.

h/ Effect of the various investigations and procedures

Alcatel-Lucent reiterates that its policy is to conduct its business with transparency, and in compliance with all laws and regulations, both locally and internationally. Alcatel-Lucent will cooperate with all governmental authorities in connection with the investigation of any violation of those laws and regulations.

With specific reference to the Costa Rica, Kenya, and Taiwan matters discussed in items a, b and c above, Alcatel-Lucent has commenced settlement discussions with the DOJ and SEC on those matters as well as related issues in other countries. At this time, Alcatel-Lucent's settlement discussions with those agencies of the U.S. government are in preliminary stages, and there can be no assurance that such discussions will result in a final settlement of any or all of these issues. If there is a settlement, we do not know what it will ultimately provide in terms of a guilty plea or pleas, settlement of civil claims, injunctive relief, fines, penalties, or any other payments, or what effect the settlement may have on the company's reputation or other potential collateral consequences. As a result, Alcatel-Lucent has not recorded or accrued any provisions or material charges in connection with any possible fines, penalties, or other potential payments, since it does not possess adequate information to estimate such amounts.

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.

Note 22 Events after the statement of financial position date

There were no events that should be disclosed or adjusted that occurred between June 30, date of the statement of financial position and July 29, 2009, the date when the Board of Directors authorized the condensed consolidated financial statements for issue, except from the new restructuring plans announced in July 2009 (see note 16c).