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Alcatel-Lucent Telecom Limited

Report and Financial Statements

31 December 2010

Directors
T Ahmed
L A Sadiq
G Loria
J Anderson
L Dimes
J Gerrese
A Vosskamp

Secretary
L A Sadiq

Auditors
Ernst & Young LLP
The Paragon
Counterslip
Bristol BS1 6BX

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Solicitors
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2010

Results and dividends

The loss for the year, before taxation, was £100,420,000 (2009 – loss of £102,183,000) The directors do not propose to pay a dividend (2009 – £nil)

Principal activities and review of the business

The principal activities of the company are the sale, distribution and maintenance of communications equipment primarily manufactured by members of the Alcatel-Lucent S A group of companies, as well as related products

The key financial performance indicators during the year were as follows

	2010	*2009*	*Change*
	£000	*£000*	*%*
Turnover	310,868	292,738	+6%
Operating loss	(94,448)	(99,287)	-5%
Loss after tax	(100,423)	(99,856)	+1%
Shareholders' funds	20,685	(5,343)	+486%

The authorised, called up and fully paid share capital of Alcatel-Lucent Telecom Limited has been increased from £553,711,268 to £673,711,268 by the creation of a further 120,000,000 ordinary shares of £1 each on 29 September 2010 The shares have been subscribed for cash

The directors expect the general level of business to continue over the next 12 months

Research and development

The company's strategy is to develop the quality of its services to ensure the firm meets the needs of its customers

Alcatel-Lucent Telecom Limited brings its leading position in fixed and mobile broadband networks, applications and services, to help its partners and customers build a user centric broadband world

Future developments

The company will continue with its principal activities of selling, distributing and maintaining communications equipment

The Alcatel-Lucent group's strategy is to develop the design and quality of its product range to ensure it meets customer needs Alcatel-Lucent Telecom Limited will continue to provide communications solutions to telecommunication carriers, internet service providers and enterprises for delivery of voice, data and video applications to their customers or employees

Events since the balance sheet date

There have been no significant events affecting the company since the year-end

Directors' report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the company are competitive, cash flow, price, credit and liquidity risks

Competitive risks

The company operates in a very competitive industry and a continually evolving environment

In the event that any of Alcatel-Lucent Telecom Limited's high volume or high value customers' underlying businesses was adversely affected, or that they were to terminate existing business relationships for any reason, this could have an adverse impact on this company's profitability

In order to minimise competitive risks, the company places great emphasis on developing new solutions to meet ever-changing customer requirements

Exposure to cash flow, price, credit and liquidity risks

Alcatel-Lucent Telecom Limited faces exposure to cash flow, price, credit and liquidity risks

The company uses forward foreign currency contracts to reduce exposure to cash flow risks associated with the variability of foreign exchange rates

Company policies are aimed at minimising losses due to exposure to price, credit and liquidity risks

Going concern

Assurance of financial support is given by a letter of support from the company's parent for 12 months from the date of signing these financial statements The directors are of the opinion the parent entity will continue to provide financial support for the foreseeable future in the same way as it has done since 1998 On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis

Directors

The directors who served during the year were as follows

T Ahmed	
L A Sadiq	
G Loria	(appointed 29 March 2010)
J Anderson	(appointed 29 March 2010)
L Jemmett	(appointed 29 March 2010, resigned 20 May 2011)
T Keller	(appointed 29 March 2010, resigned 30 September 2010)
K Grimes	(appointed 18 June 2010, resigned 30 September 2010)
J Gerrese	(appointed 30 September 2010)
A Vosskamp	(appointed 30 September 2010)
P Clark	(resigned 18 June 2010)

Directors' qualifying third party indemnity provision

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Political and charitable contributions

No political or charitable contributions were made during the year

Directors' report (continued)

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identified with that of other employees

Employee involvement

The company places considerable value on the involvement of the employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company This is achieved through formal and informal meetings Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting in accordance with section 485 of the Companies Act 2006

On behalf of the Board

J Anderson
Director

16 September 2011

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of Alcatel-Lucent Telecom Limited

We have audited the financial statements of Alcatel-Lucent Telecom Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of Alcatel-Lucent Telecom Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Paul Mapleston (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

Date 16 September 2011

Profit and loss account

for the year ended 31 December 2010

	Notes	*2010* *£000*	*2009* *£000*
Turnover	3	310,868	292,738
Cost of sales		(324,698)	(303,159)
Gross Loss		(13,830)	(10,421)
Operating expenses		(80,618)	(88,866)
Operating loss	4	(94,448)	(99,287)
(Costs)/income from fundamental restructuring of continuing operations		(1,288)	2,692
Operating loss before finance charges		(95,736)	(96,595)
Interest receivable and similar income	7	83	17
Interest payable and similar charges	8	(2,357)	(2,521)
Other finance costs		(2,410)	(3,084)
Loss on ordinary activities before taxation		(100,420)	(102,183)
Tax	9	(3)	2,327
Loss for the financial year	18	(100,423)	(99,856)

All results arose from continuing operations in both years

Statement of total recognised gains and losses

for the year ended 31 December 2010

	2010	*2009*
	£000	*£000*
Loss for the year	(100,423)	(99,856)
Actuarial gain/(loss) on pension commitments	5,821	(43,997)
Total recognised loss since last annual report	(94,602)	(143,853)

Balance sheet
at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Intangible assets	10	18,558	20,414
Tangible assets	11	8,319	8,123
Investments	12	5	79,000
		26,882	107,537
Current assets			
Stocks	13	29,211	31,412
Debtors – amounts falling due within one year	14	161,087	113,217
– amounts falling due after more than one year	14	–	–
Cash at bank and in hand		1,619	6,566
		191,917	151,195
Creditors: amounts falling due within one year	15	(160,385)	(195,474)
Net current assets/(liabilities)		31,532	(44,279)
Total assets less current liabilities		58,414	63,258
Provisions for liabilities	16	(30,001)	(26,233)
Net assets excluding pension deficit		28,413	37,025
Pension deficit	20	(7,728)	(42,368)
Net assets/(liabilities)		20,685	(5,343)
Capital and reserves			
Called up share capital	17	673,711	553,711
Share premium account	18	47,289	47,289
Capital contribution account	18	4,487	3,857
Profit and loss account	18	(704,802)	(610,200)
Shareholders' funds	18	20,685	(5,343)

Approved by the board

J Anderson

J Anderson
Director
16 September 2011

Notes to the financial statements

at 31 December 2010

1. Going concern

Assurance of financial support is given by a letter of support from the company's parent for 12 months from the date of signing these financial statements The directors are of the opinion the parent entity will continue to provide financial support for the foreseeable future in the same way as it has done since 1998 On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis The financial statements do not include any adjustments that would result should continuing finance cease to be made available

2. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Group financial statements

Group financial statements have not been prepared as the company has taken advantage of the relief available under section 400 of the Companies Act 2006, as the results of the company and its subsidiary undertakings are included within the group financial statements of Alcatel-Lucent S A These financial statements therefore present information about the company as an individual undertaking and not about its group

Statement of cash flows

The group financial statements of Alcatel-Lucent S A , the company's ultimate parent undertaking, are publicly available and therefore the company is exempt under the provisions of Financial Reporting Standard No 1 (revised) from presenting its own statement of cash flows

Turnover

Turnover is derived from the sale of hardware, software and associated maintenance, and the provision of professional services

Revenue from the sale of hardware is typically recognised upon delivery Where installation is required then revenue is recognised upon customer acceptance Revenue from the provision of software is recognised when persuasive evidence of an arrangement exists, acceptance has been received and delivery has occurred Revenue from professional services is recognised as the service is performed Income from maintenance fees is recognised rateably on a time basis over the term of the agreement

Intangible assets

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which has been estimated as twenty years Provision is made for any impairment

Intangible assets acquired separately from a business are capitalised at cost Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition Intangible assets excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred

Intangible assets are amortised on a straight-line basis over their estimated useful lives up to a maximum of 20 years The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Tangible fixed assets

Fixed assets are shown at original historical cost net of accumulated depreciation and provision for impairment

Depreciation is provided on all fixed assets, other than freehold land, to write off the cost of the asset, less estimated residual value, on a straight-line basis over its estimated useful life, as follows

Freehold buildings	–	35 years
Leasehold improvements	–	10 years or lease term
Plant and equipment	–	3 to 5 years

Investments

Fixed asset investments are shown at cost less provision for impairment

Stocks and work in progress

Work in progress and finished goods stock is valued at the lower of cost, based on standard pricing, and net realisable value, based on estimated normal selling price less further costs expected to be incurred to completion and disposal Provision is made for obsolete, slow-moving or defective items where appropriate

Spares stock is used by the company to meet obligations under service maintenance contracts and warranty agreements and is stated at cost, less provisions Provisions are made to reflect the ageing of the spares stock and for obsolete, slow-moving or defective items, where appropriate

Research and development

Research and development costs are written off as incurred

Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year-end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses Revenues derived from variations on contracts are recognised only when the customer has accepted them Full provision is made for losses on all contracts in the year in which they are first foreseen

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Deferred taxation (continued)

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Transactions denominated in foreign currencies are recorded in sterling at either the rate ruling at the dates of the transactions or, where appropriate, at the related forward exchange contract rates Gains or losses are reported in the profit and loss account to reflect changes in exchange rates subsequent to the date of the transaction

Monetary assets and liabilities, which are denominated in foreign currencies, are translated at the rates of exchange ruling at the year-end or, where appropriate, at the related forward exchange contract rates Resulting gains or losses are reported in the profit and loss account

Lease commitments

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term

Pensions

The company provides pension benefits based on final pensionable pay under three defined benefit schemes Trustees hold the assets of the schemes independently of the company

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit method This method attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the liabilities) and is based on actuarial advice Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if benefits have been vested When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss, which is recognised in the profit and loss account Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction

The interest on pension liabilities represents the change in present value of the scheme obligations relating to the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or expense

Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses in the period in which they occur

Notes to the financial statements

at 31 December 2010

2. Accounting policies (continued)

Pensions (continued)

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair-value of the plan assets out of which the obligations are to be settled directly Fair value of assets is based on market price information and in the case of quoted securities is the published mid-price The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable

Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined at a corporate level using an appropriate pricing model In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006

For awards granted before 7 November 2002, the group recognises only the intrinsic value or cost of these potential awards as an expense This is accrued over the performance period of each plan based on the intrinsic value of the equity settled awards

Notes to the financial statements

at 31 December 2010

3. Turnover and segmental information

The analysis of turnover by geographical location is as follows

	2010	*2009*
	£000	*£000*
United Kingdom	284,568	259,536
Continental Europe	20,528	31,830
North America	5,223	987
Other	549	385
	310,868	292,738

Turnover for the current year is attributable to the continuing activity of the sale, distribution and maintenance of communication services and equipment

4. Operating loss

This is stated after charging/(crediting)

		2010	*2009*
		£000	*£000*
Auditors' remuneration	– audit fees	132	132
	– other	30	45
Goodwill amortisation		1 856	1,855
Goodwill impairment		–	383
Depreciation – owned assets		2,263	2,340
Operating lease rentals	– plant and machinery	1,253	1,075
	– other	2,625	3,282
Management charges	– group allocation for research and development	(38,961)	(22,060)
	– other	2,819	3 697
Foreign exchange		483	(6,710)

The fees for other auditors' remuneration above of £30,000 relate to IT Risk and Assurance SAS 70 controls audits

Notes to the financial statements

at 31 December 2010

5. Directors' emoluments

	2010	*2009*
	£000	*£000*
Salaries and other emoluments	430	228
Pension contributions	48	29

The number of directors who were members of the pension schemes is as follows

	2010	*2009*
	No	*No*
Defined contribution (money purchase) schemes	3	1
Defined benefit schemes	2	1

	2010	*2009*
	No	*No*
Number of directors who received shares in respect of qualifying services	3	2
Number of directors who exercised share options	–	–

In respect of the highest paid director

	2010	*2009*
	£000	*£000*
Salaries and other emoluments	162	117
Pension contributions	11	19
Accrued pension at end of the year	–	145

The highest paid director did not exercise any share options during the year but is due to receive shares under a group long term incentive scheme

Notes to the financial statements

at 31 December 2010

6. Staff costs

	2010	2009
	£000	£000
Wages and salaries	94,498	97,971
Social security costs	9,720	9,998
Other pension costs	8,060	9,428
	112,278	117,397

Included in wages and salaries is a total expense of share-based payments of £630,000 (2009 – £725,000), which arises from transactions accounted for as equity-settled share-based payment transactions

The average monthly number of employees during the year, including executive directors, was made up as follows

	2010	2009
	No	No
Service and technical personnel	1,104	1,148
Sales and marketing	262	272
Administration	190	230
	1,556	1,650

7. Interest receivable and similar income

	2010	2009
	£000	£000
Bank interest	14	1
Interest receivable from other group companies	69	16
	83	17

8. Interest payable and similar charges

	2010	2009
	£000	£000
Bank interest and charges	311	548
Interest payable to other group companies	287	717
Unwinding of discount on restructuring provision	1,759	1,256
	2,357	2,521

Notes to the financial statements

at 31 December 2010

9. Tax

(a) Tax on loss on ordinary activities

The tax charge/(credit) is made up as follows

	2010 £000	2009 £000
Current tax		
UK corporation tax on the loss for the year	–	–
Adjustments in respect of previous periods	3	(2,327)
Tax on loss on ordinary activities (note 9(b))	3	(2,327)

(b) Factors affecting tax loss for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 – 28%) The differences are explained below

	2010 £000	2009 £000
Loss on ordinary activities before tax	(100,420)	(102,183)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 – 28%)	(28,118)	(28,611)
Effects of		
Expenses not deductible for tax purposes	2,473	(7,555)
Unutilised trading losses carried forward	30,360	26,145
Adjustments in respect of previous periods	3	(2,327)
Other timing differences	(9,637)	4,569
Inpatriates costs not charged	6,712	5,600
Impairment on intangible fixed assets	–	107
R&D tax credit	(2,520)	(1,400)
Depreciation in excess of capital allowances	730	1,145
Current tax for the year (note 9(a))	3	(2,327)

(c) Deferred tax

An unrecognised deferred tax asset of £125,000,000 exists at 31 December 2010 (2009 – £143,000,000) The deferred tax asset is not recognised due to the uncertainty of the profitability of the company in the foreseeable future The asset is comprised as follows

	2010 £000	2009 £000
Fixed asset timing differences	15,000	15,000
Losses	107,500	116,000
Provision and other temporary differences	2,500	12,000
Total unrecognised deferred tax asset	125,000	143,000

Notes to the financial statements

at 31 December 2010

9. Tax (continued)

Announcements were made during and after the year end by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the company The change in the corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010, whereas further reductions to 26% from 1 April 2011 and 1% thereafter to 23% on 1 April 2014 have been announced but were not substantively enacted at the balance sheet date Had the financial effect of the change in tax rate been recognised there would have been a reduction in the balance of unrecognised deferred tax assets of £125,000,000 to £106,000,000

10. Intangible fixed assets

	Goodwill
	£000
Cost	
At 1 January 2010	115,001
Additions	–
Disposals	(4,698)
At 31 December 2010	110,303
Amortisation	
At 1 January 2010	94,587
Impaired during the year	–
Charge for the year	1,856
Disposals	(4,698)
At 31 December 2010	91,745
Net book value	
At 31 December 2010	18,558
At 1 January 2010	20,414

Goodwill of £110,303,000 has arisen on the acquisition of the entire share capital of Alcatel Networks Limited and Alcatel Networks Services Limited for consideration of £79,000,000 This is being amortised evenly over the directors' estimate of its useful life of 20 years

The disposals in the year relate to goodwill that arose on the acquisition of Tamblin Limited and Lucent Technologies Network Services Limited which has previously been fully impaired

Notes to the financial statements

at 31 December 2010

12. Investments

	Subsidiary undertakings £000
Cost	
At 1 January 2010	79,000
Additions	5
At 31 December 2010	79,005
Amounts provided	
At 1 January 2010	-
Provided in the year	79,000
At 31 December 2010	79,000
Net book value at 31 December 2010	5
Net book value at 1 January 2010	79,000

The investment of £79,000,000 in Alcatel Networks Limited and Alcatel Networks Services Limited was fully impaired in 2010

The additions for the year relates to Gateshead Technology Innovation Limited, a Joint Venture which was entered into in 2008 but had not previously been recognised

As at 31st December 2010, the company had ordinary share investments in the following subsidiary undertakings

	Country of incorporation	*Principal activity*	*Holding*
Alcatel Networks Limited	United Kingdom	Dormant company	100%
Alcatel Networks Services Limited*	United Kingdom	Dormant company	100%
Alcatel Pension Trustees Limited	United Kingdom	Support Alcatel-Lucent pensions	99%
Gateshead Technology Innovation Limited	United Kingdom	Distribution and sale of communication services	50%

* held indirectly through other subsidiary undertakings

Notes to the financial statements

at 31 December 2010

11. Tangible fixed assets

	Freehold land and buildings £000	Leasehold improve-ments £000	Plant and machinery £000	Total £000
Cost				
At 1 January 2010	3,378	3,035	18,548	24,961
Additions	331	208	2,353	2,892
Disposals	-	(1,562)	(36)	(1,598)
At 31 December 2010	3,709	1,681	20,865	26,255
Depreciation				
At 1 January 2010	730	1,201	14,907	16,838
Charge for the year	90	511	1,662	2,263
Disposals	-	(1,129)	(36)	(1,165)
At 31 December 2010	820	583	16,533	17,936
Net book value				
At 31 December 2010	2,889	1,098	4,332	8,319
At 1 January 2010	2,648	1,834	3,641	8,123

Freehold land amounting to £112,000 (2009 – £112,000) has not been depreciated

Notes to the financial statements

at 31 December 2010

16. Provisions for liabilities

	2010	*2009*
	£000	*£000*
Provision for restructuring	–	293
Provision for claims	16,782	10,710
Vacant property provision	13,219	15,230
	30,001	26,233

The movements in provisions are as follows

	Restructuring	*Claims*	*Vacant property provision*	*2010 Total*	*2009 Total*
	£000	*£000*	*£000*	*£000*	*£000*
At 1 January 2010	293	10,710	15,230	26,233	20,800
Charged to profit and loss account	1,520	12,417	1,288	15,225	15,613
Discounting to PV adjustment	–	–	1,759	1,759	1,256
Utilised during the year	(1,813)	(6,345)	(5,058)	(13,216)	(11,436)
At 31 December 2010	–	16,782	13,219	30,001	26,233

Restructuring

This related to a provision for redundancy costs incurred within the year

Claims

These relate to provisions for liquidated damages and contract losses to be utilised within the next two years

Vacant property provisions

This represents an onerous lease provision against vacated properties The leases expire within the next 9 years

17. Issued share capital

Allotted, called up and fully paid	*No*	*2010* *£000*	*No*	*2009* *£000*
Ordinary shares of £1 each	673,711,268	673,711	553,711,268	553,711

Notes to the financial statements

at 31 December 2010

13. Stocks

	2010 £000	2009 £000
Costs to date less provisions for losses	40,896	35,505
Less applicable payments on account	(20,231)	(19,604)
Long-term contract balances	20,665	15,901
Spares	2,338	12,737
Finished goods	6,208	2,774
	29,211	31,412

There is no material difference between the balance sheet value of stocks and their replacement cost

14. Debtors

	2010 £000	2009 £000
Amounts falling due within one year		
Trade debtors	46,887	37,761
Other debtors	251	186
Corporation tax	–	3,083
Amounts owed by group undertakings	106,712	58,677
Prepayments and accrued income	1,969	2,787
Amounts recoverable on long-term contracts	5,268	10,723
	161,087	113,217
Amounts falling due after more than one year		
Corporation tax	–	–
	161,087	113,217

15. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	27,846	47,873
Amounts owed to other group undertakings	93,681	119,209
Social security and other taxes	–	90
Other creditors	6,377	2,890
Accruals and deferred income	32,481	25,412
	160,385	195,474

There were no outstanding amounts in respect of the defined contribution scheme payable at the balance sheet dates

Notes to the financial statements

at 31 December 2010

20. Pensions (continued)

With effect from 1 April 2007, as part of the acquisition of Lucent Technologies Networks Systems Limited, the Lucent Technologies Retirement Benefit Plan was incorporated into the books of Alcatel-Lucent Telecom Limited

With effect from 1 January 2008, the Alcad scheme was incorporated into the books of Alcatel-Lucent Telecom Limited This had no effect on the overall deficit

The total contributions to the defined benefit plans in the next year are expected to be £34,295,000 (2010 – £34,287,000)

Year ended 31 December 2010

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
The assets and liabilities of the scheme were				
Equity securities	67,207	56,019	–	123,226
Debt securities	103,375	91,209	10,469	205,053
Real Estate	11,576	3,472	–	15,048
Cash and short term investments	8,715	7,101	584	16,400
Total market value of assets	190,873	157,801	11,053	359,727
Present value of scheme liabilities	(187,480)	(168,922)	(9,396)	(365,798)
Total deficit in the scheme	3 393	(11,121)	1,657	(6,071)
Effect of surplus cap	–	–	(1,657)	(1,657)
Net pension asset/(liability)	3,393	(11,121)	–	(7,728)

Year ended 31 December 2009

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
The assets and liabilities of the scheme were				
Equity securities	59,477	53 867	–	113,344
Debt securities	84 349	49,120	9,625	143,094
Real Estate	9 745	3,057	–	12,802
Cash and short term investments	12,522	19,139	881	32,542
Total market value of assets	166,093	125,183	10,506	301,782
Present value of scheme liabilities	(182,005)	(151,639)	(9,580)	(343,224)
Total deficit in the scheme	(15,912)	(26,456)	926	(41,442)
Effect of surplus cap	–	–	(926)	(926)
Net pension liability	(15,912)	(26 456)	–	(42,368)

Notes to the financial statements

at 31 December 2010

18. Reconciliation of shareholders' funds and movements on reserves

	Capital contribution £000	*Share capital £000*	*Share premium £000*	*Profit loss and account £000*	*Total shareholders' funds £000*
At 1 January 2009	3,132	388,711	47,289	(466,347)	(27,215)
Recapitalisation	–	165,000	–	–	165,000
Loss for the year	–	–	–	(99,856)	(99,856)
Actuarial loss recognised in statement of total recognised gains and losses	–	–	–	(43,997)	(43,997)
Share-based payment	725	–	–	–	725
At 1 January 2010	3,857	553,711	47,289	(610,200)	(5,343)
Recapitalisation	–	120,000	–	–	120,000
Loss for the year	–	–	–	(100,423)	(100,423)
Actuarial gain recognised in statement of total recognised gains and losses	–	–	–	5,821	5,821
Share-based payment	630	–	–	–	630
At 31 December 2010	4,487	673,711	47,289	(704,802)	20,685

19. Events since the balance sheet date

In August 2011, Alcatel Networks Limited (a subsidiary of Alcatel-Lucent Telecom Limited) decided to forgive an amount of £79,000,000 receivable from Alcatel-Lucent Telecom Limited, which has been recognised as an adjusting post balance sheet event in the Alcatel Networks Limited financial statements as at 31 December 2010

The Directors consider this to be an adjusting post balance sheet event for Alcatel-Lucent Telecom Limited and have written off the £79,000,000 payable to Alcatel Networks Limited As described in Note 12, the £79,000,000 investment in Alcatel Networks Limited has also been fully impaired as a result

20. Pensions

The company provides pension benefits based on final pensionable pay under three defined benefit schemes Trustees hold the assets of the schemes independently of the company

The pension cost relating to the schemes is assessed in accordance with the advice of independent qualified actuaries and employer's contributions to the schemes are paid as recommended by the actuaries Employees' normal contributions are paid to the schemes

In July 2010, the UK Government announced changes to the inflation index used for statutory increases (both for pensions in payment and pensions in deferment) to apply to private sector pension schemes This has resulted in an actuarial gain of £4 8 million during the period in respect of the Alcatel Pension Scheme

Firstly, the company participates in the Alcatel Pension Scheme The scheme has five sections covering Alcatel-Lucent companies in the UK The Telecom section of the scheme to which the company contributes was closed to new entrants with effect from 1 July 2001 The assets of the scheme are held in a separate fund, administered by a corporate trustee (Alcatel Pension Trustees Limited), and the scheme does not invest in the company

Notes to the financial statements

at 31 December 2010

20. Pensions (continued)

Year ended 31 December 2009

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
Analysis of the amount charged to operating loss				
Current service cost	964	1,764	–	2,728
Total operating charge	964	1,764	–	2,728
Analysis of the amount related to other finance income				
Expected return on pension scheme assets	7,113	5,930	365	13,408
Interest on pension scheme liabilities	(9,104)	(6,835)	(553)	(16,492)
Net return	(1,991)	(905)	(188)	(3,084)

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
Actual return less expected return on pension scheme assets	3,681	7,844	104	11,629
Experience (losses)/gains arising on the scheme liabilities	(510)	(11,481)	155	(11,836)
Changes in assumption underlying the present value of the scheme liabilities	(23,111)	(20,108)	(315)	(43,534)
Adjustment due to surplus cap	–	–	(256)	(256)
Net loss recognised	(19,940)	(23,745)	(312)	(43,997)

Notes to the financial statements

at 31 December 2010

20 Pensions (continued)

Year ended 31 December 2010

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
Analysis of the amount charged to operating loss				
Current service cost	1,492	2,414	–	3,906
Total operating charge	1,492	2,414	–	3,906
Analysis of the amount related to other finance income				
Expected return on pension scheme assets	9,462	7,388	430	17,280
Interest on pension scheme liabilities	(10,380)	(8,783)	(527)	(19,690)
Net return	(918)	(1,395)	(97)	(2,410)

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
Actual return less expected return on pension scheme assets	8,361	7,424	437	16,222
Experience gain/(losses) arising on the scheme liabilities	4,845	(660)	(100)	4,085
Changes in assumption underlying the present value of the scheme liabilities	(4,990)	(8,756)	(9)	(13,755)
Adjustment due to surplus cap	–	–	(731)	(731)
Net gain/(loss) recognised	8,216	(1,992)	(403)	5,821

Notes to the financial statements

at 31 December 2010

20. Pensions (continued)

	Alcatel 2009 %	*Lucent* 2009 %	*Alcad* 2009 %
Main assumptions			
Rate of salary increase	5 00	5 00	5 00
Rate of increase of pensions in payment	3 50	3 50	3 50
Rate of increase of pensions in deferment	3 50	3 50	3 50
Discount rate	5 75	5 75	5 75
Expected rates of return on scheme assets			
Equities	7 50	7 50	7 50
Corporate Bonds	5 80	5 80	5 80
Government Bonds	4 50	4 50	4 50
Properties	7 50	7 50	7 50
Cash and short term investments	0 50	0 50	0 50
Inflation assumptions	3 50	3 50	3 50

Alcatel	*2010* £000	*2009* £000	*2008* £000	*2007* £000	*2006* £000
Fair value of scheme assets	190,873	166,093	147,378	146,066	130,324
Present value of defined benefit obligation	(187,480)	(182,005)	(154,184)	(172,434)	(139,095)
Surplus/(Deficit) in scheme	3,393	(15,912)	(6,806)	(26,368)	(8,771)
Experience adjustments arising on plan liabilities	4,845	(510)	2,948	(8,728)	3,551
Experience adjustments arising on plan assets	8,361	3,681	(13,064)	5,558	3,024

Lucent	*2010* £000	*2009* £000	*2008* £000
Fair value of scheme assets	157,801	125,183	100,378
Present value of defined benefit obligation	(168 922)	(151,639)	(114,619)
Deficit in scheme	(11,121)	(26,456)	(14,241)
Experience adjustments arising on plan liabilities	(660)	(11,481)	(183)
Experience adjustments arising on plan assets	7,424	7,844	(24,387)

Notes to the financial statements

at 31 December 2010

20. Pensions (continued)

Changes in the present value of the defined benefit obligations are analysed as follows

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
As at 1 January 2010	182,005	151,639	9,580	343,224
Current service cost	1,492	2,414	–	3,906
Interest cost	10,380	8,783	527	19,690
Contributions by scheme participants	588	734	–	1,322
Benefits paid	(7,130)	(4,064)	(820)	(12,014)
Actuarial losses	145	9,416	109	9,670
As at 31 December 2010	187,480	168,922	9,396	365,798

Changes in the fair value of plan assets are analysed as follows

	Alcatel	*Lucent*	*Alcad*	*Total*
	£000	*£000*	*£000*	*£000*
As at 1 January 2010	166.093	125,183	10,506	301,782
Expected return on plan assets	9,462	7,388	430	17,280
Employer contributions	13,499	21,136	500	35,135
Contributions by scheme participants	588	734	-	1,322
Benefits paid	(7,130)	(4,064)	(820)	(12,014)
Actuarial gains	8,361	7,424	437	16,222
As at 31 December 2010	190,873	157,801	11 053	359,727

The major assumptions used by the actuary were

	Alcatel	*Lucent*	*Alcad*
	2010	*2010*	*2010*
	%	*%*	*%*
Main assumptions			
Rate of salary increase	5 00	5 00	5 00
Rate of increase of pensions in payment	3 50	3 50	3 50
Discount rate	5 50	5 50	5 50
Expected rates of return on scheme assets			
Equities	7 00	7 00	7 00
Corporate Bonds	5 60	5 60	5 60
Government Bonds	4 00	4 00	4 00
Properties	7 00	7 00	7 00
Cash and short term investments	0 50	0 50	0 50
Inflation assumptions (RPI)	3 50	3 50	3 50
Inflation assumptions (CPI)	3 00	N/A	N/A

Notes to the financial statements

at 31 December 2010

21. Share-based payments (continued)

The weighted average fair value of options granted during the year was € 0 92 (2009 – €0 48) The range of exercise prices for options outstanding at the end of the year was €2 00–€13 20 (2009 – €2 00–€13 20)

The fair value of equity-settled share options granted is estimated as at the date of grant using a Cox-Ross-Rubinstein Binomial model This allows behavioural 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 but could be exercised earlier The expected volatility is determined as being the implied volatility at the grant date The following lists the inputs to the model used for the years ended 31 December 2010 and 31 December 2009

	2005 Plan	*2006 Plan*	*2007 Plan*	*2008 Plan*	*2009 Plan*	*2010 Plan*
Expected share price volatility	40 00%	32 00%	33 00%	45 00%	64 00%	45 00%
Risk free interest rate	3 50%	3 50%	4 00%	3 90%	3 00%	3 00%
Dividend yield	0 00%	1 00%	0 80%	0 80%	0 80%	0 80%

Alcatel-Lucent S A determines the risk-free interest rate that it uses in the Cox-Ross-Rubinstein Binomial option-pricing model based upon a constant European Treasury Security with a contractual life that approximates the expected term of the option award

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may also not be the actual outcome

22 Other financial commitments

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as set out below

		2010		*2009*
	Plant and machinery £000	*Land and buildings £000*	*Plant and machinery £000*	*Land and buildings £000*
Operating leases which expire				
Within one year	148	501	220	509
Within two to five years	852	2,532	575	3,730
In over five years	-	2,506	–	2,839
	1,000	5,539	795	7,078

23 Contingent liabilities

The company guarantees £3,979,000 (2009 – £3,977,000) in respect of duty deferment guarantees and performance bonds

Notes to the financial statements

at 31 December 2010

20. Pensions (contınued)

Alcad	*2010* *£000*	*2009* *£000*
Faır value of scheme assets	11,053	10,506
Present value of defined benefit oblıgatıon	(9,396)	(9,580)
Surplus ın scheme	1,657	926
Experıence adjustments arısıng on plan lıabılıtıes	(100)	155
Experıence adjustments arısıng on plan assets	437	104

21. Share-based payments

Alcatel-Lucent S A (the ultımate parent) operates several stock optıon plans Employees of Alcatel-Lucent Telecom Lımıted are offered by ınvıtatıon stock optıons ın these plans These plans are accounted for as an equıty-settled scheme Vestıng ıs gradual optıons vest ın successıve portıons over 4 years, for whıch 25% of the optıons are vested ıf the employee remaıns employed after 12 months and, for each month after the first year, 1/48th addıtıonal optıons are vested ıf the employee remaıns employed by the company Stock optıons can be exercısed as soon as they are vested

The expense recognısed for share-based payments ın respect of employee servıces receıved durıng the year to 31 December 2010 ıs £630,000 (2009 – £725,000) The grant of these optıons by the parent undertakıng ıs shown as a capıtal contrıbutıon (note 18)

The followıng table ıllustrates the number and weıghted average exercıse prıces (WAEP) of, and movements ın, share optıons durıng the year

	2010 *No*	*2010* *WAEP*	*2009* *No*	*2009* *WAEP*
Outstandıng as at 1 January	2,635,907	€5 22	1,921,103	€7 14
Granted durıng the year	829,520	€2 29	1,032,932	€2 06
Forfeıted durıng the year	(480,103)	€3 71	(198,160)	€5 84
Exercısed	–	–	–	–
Transfer and/or nomınatıon	35,445	€3 42	(119,968)	€7 73
Expıred durıng the year	–	–	–	–
	3,020,769	€4 64	2,635,907	€5 22
Exercısable at 31 December	1,626 377	€6 45	1,106,258	€8 07

Notes to the financial statements

at 31 December 2010

24. Derivatives

The company purchases forward foreign currency contracts to hedge currency exposure on firm future commitments The fair values of the derivatives held at the balance sheet date, determined by reference to their market values are as follows

	2010	*2009*
	£000	*£000*
Forward foreign currency contracts	60,874	43,797

25. Ultimate parent undertaking and controlling party

The company is a subsidiary undertaking of Alcatel-Lucent S A incorporated in France, which is also considered the controlling party by the virtue of its shareholding

The smallest and largest group of which Alcatel-Lucent Telecom Limited is a member and for which group financial statements are drawn up is that headed by Alcatel-Lucent S A

The group financial statements of this group are available to the public and may be obtained from the corporate offices at 3, avenue Octave Greard, 75007 Paris, France

As a wholly owned subsidiary of Alcatel-Lucent S A , in accordance with FRS 8 'Related party disclosures', the company is not required to disclose transactions with other members of the group