3934955

Alcatel IP Networks Limited

Report and Financial Statements

31 December 2009

Directors
Patrick Clark (resigned (18 June 2010)
Liaqat Sadiq
Mark Smallwood
Kristian Grimes (appointed 18 June 2010)

Secretary
Liaqat Sadiq (appointed 12 January 2010)
BLG (Professional Services) Ltd (resigned 12 January 2010)

Auditors
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
Berkshire RG1 1YE

Bankers
Natwest Bank
Chalfont St Peter Branch
65 St Peter's Court
High Street
Chalfont St Peter
Buckinghamshire SL9 3RB

Registered Office
Christchurch way
Greenwich
London
SE10 0AG

Directors' report

The directors present their report and financial statements for the year ended 31 December 2009

Results and dividends

The profit for the year after taxation amounted to £1,062,540 (2008 – £772,095) The directors paid a final dividend of £2,200,000 (2008 – £nil)

Principal activities and review of the business

The company's principal activity during the year was the development of networking hardware and systems for members of the Alcatel-Lucent group The Company's key financial and other performance indicators during the year were as follows

	2009	2008	Change
Turnover	£7,370k	£6,813k	8 2 %
Operating profit	£665k	£424k	56 8 %
Operating profit %	9 0 %	6 2 %	N/A
Equity shareholder's funds	£1,117k	£2,245k	(50 2)%
Current assets as ratio of current liabilities	1 2	1 5	0 3
Average number of employees	13	11	18 2 %

The company improved its turnover by 8 2% to £7,370k and due to increased activity also increased its headcount by 2 to 13 staff The key liquidity ratio shown above shows a deterioration but this is due to the dividend of £2,200k paid during the year and the company's liquidity at the year end is a very healthy 1 2 Finally, shareholder's funds improved in the year by £1,071k excluding adjustment for payment of dividend

Principal risks and uncertainties

The company's principal financial instruments comprise cash, cash equivalents and group loans Other financial assets and liabilities, such as trade creditors and group balances, arise directly from the company's operating activities The main risk associated with the company's financial assets and liabilities is liquidity risk

The company aims to mitigate liquidity risk by managing cash generated by its operations Capital expenditure is carefully controlled through authorisation limits and investment appraisals Flexibility is maintained by short-term borrowing or lending within the Alcatel Lucent Group

Future developments

The Company carries out development of networking hardware and systems and directors expect the general level of activity to continue over the next 12 months

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its exposure to liquidity and cash flow risks are described above

The Company has, in the opinion of the directors, sufficient financial resources to manage its financial risks successfully for the foreseeable future, being 12 months from the date of approval of the financial stateents Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Directors' report

Registered Number: 03934955

Directors

The directors who served the company during the year and to the date of this report were as follows

Liaqat Sadiq	
Mark Smallwood	
Rudi Strubbe	(resigned on 12 January 2010)
Patrick Clark	(appointed on 12 January 2010)
Kristian Grimes	(appointed 18 June 2010)

Directors' liabilities

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

Disclosure of information to the 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

In accordance with s 485 of the companies Act 2006, a resolution to reappoint Ernst & Young LLP as the company's auditors will be put to the members at the Annual General Meeting

By order of the Board

Ali Sadiq
Secretary
29 September 2010

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's report

to the members of Alcatel IP Networks Limited

We have audited the financial statements of Alcatel IP Networks Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 17 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 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 (APB'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

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 2009 and of its profit 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 auditor's report

to the members of Alcatel IP Networks 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

David Brown (Senior statutory auditor)
for and on behalf of Ernst & Young LLP (Statutory Auditor)
Reading
Date

Profit and loss account

for the year ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	7,369,520	6,812,627
Cost of sales		6,667,051	6,195,148
Gross profit		702,469	617,479
Administrative expenses		37,841	193,310
Operating profit	3	664,628	424,169
Bank interest receivable		537	12,677
Profit on ordinary activities before taxation		665,165	436,846
Tax on profit on ordinary activities	6	397,375	335,249
Retained profit for the financial year		1,062,540	772,095

Statement of total recognised gains and losses

for the year ended 31 December 2009

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £1,062,540 in the year ended 31 December 2009 (2008 – profit of £772,095)

Balance sheet
at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible fixed assets	8	29,405	4,884
Current assets			
Debtors	9	5,819,115	6,998,095
Cash at bank and in hand		53,132	112,588
		5,872,247	7,110,683
Creditors: amounts falling due within one year	10	4,773,259	4,863,494
Net current assets		1,098,988	2,247,189
Total assets less current liabilities		1,128,393	2,252,073
Provisions for liabilities and charges	11	11,509	6,759
Net assets		1,116,884	2,245,314
Capital and reserves			
Called up share capital	12	1	1
Profit and loss account	13	1,116,883	2,245,313
Equity shareholders' funds	13	1,116,884	2,245,314

Approved by the Board

Director L. SADIQ

29 September 2010

Notes to the financial statements

at 31 December 2009

1. Accounting policies

Basıs of preparatıon

The financıal statements are prepared under the hıstorıcal cost conventıon and ın accordance wıth applıcable accountıng standards

Statement of cash flows

Under FRS 1, statement of cash flows, the company ıs exempt from the requırement to prepare a statement of cash flows on the grounds that a parent undertakıng ıncludes the company ın ıts own publıshed group financıal statements

Related party transactıons

The company ıs a wholly owned subsıdıary of Alcatel-Lucent USA Inc, a company ıncorporated ın Amerıca These financıal statements are ıncluded ın the consolıdated financıal statements of the ultımate parent company, Alcatel Lucent, a company ıncorporated ın France, whıch are publıcly avaılable Accordıngly, the company has taken advantage of the exemptıon ın FRS 8 from dısclosıng transactıons wıth members of the Alcatel Lucent group

Fıxed assets

All fixed assets are ınıtıally recorded at cost

Depreciatıon

Depreciatıon ıs provıded on all tangıble fixed assets, at rates calculated to wrıte off the cost or valuatıon, less estımated resıdual value based on prıces prevaılıng at the date of acquısıtıon or revaluatıon, of each asset evenly over ıts expected useful lıfe, as follows

Furnıture and fittıngs	–	20% – 50% per annum
Computer equıpment	–	50% per annum

Deferred taxatıon

Deferred taxatıon ıs recognısed ın respect of all tımıng dıfferences that have orıgınated but not reversed at the balance sheet date where transactıons or events have occurred at that date that wıll result ın an oblıgatıon to pay more, or rıght to pay less or to receıve more, tax, wıth the followıng exceptıons

- Deferred tax assets are recognısed only to the extent that the dırectors consıder that ıt ıs more lıkely than not that there wıll be suıtable taxable profits from whıch the future reversal of the underlyıng tımıng dıfferences can be deducted

Deferred tax ıs measured on an undıscounted basıs at the tax rates that are expected to apply ın the perıods ın whıch tımıng dıfferences reverse, based on tax rates and laws enacted or substantıvely enacted at the balance sheet date

Foreıgn currencıes

Transactıons ın foreıgn currencıes are recorded at the rate rulıng at the date of the transactıon

Monetary assets and lıabılıtıes denomınated ın foreıgn currencıes are retranslated at the rate of exchange rulıng at the balance sheet date

All dıfferences are taken to the profit and loss account

Operatıng lease agreements

Rentals payable under operatıng leases are charged ın the profit and loss account on a straıght lıne basıs over the lease term

Notes to the financial statements

at 31 December 2009

1. Accounting policies (continued)

Research and development expenditure

Research and development expenditure is written off as incurred

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the company and the revenue can be reliably measured Revenue is measured on a cost plus basis, i e , cost plus 7% in accordance with the group transfer pricing policy

Pension costs

The company operates a defined contribution pension scheme Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

Share-based payment

The company has applied the requirements of FRS 20 (IFRS 2) 'Share-based Payment' In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005

The company issues equity-settled share-based payments to certain employees Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

Stock option fair value is calculated at grant date (i e date of approval of the plan by the Alcatel-Lucent 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 behavioural 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

2. Turnover

Turnover, which is stated net of value added tax, represents amounts recharged to a group company

Turnover is attributable to one continuing activity, the development of networking hardware and systems for members of the Alcatel-Lucent group

An analysis of turnover by geographical market is given below

	2009	*2008*
	£	*£*
Rest of the World	7,369,520	6,812,627

Notes to the financial statements

at 31 December 2009

3. Operating profit

This is stated after charging

	2009 £	2008 £
Auditors' remuneration – audit of the financial statements	10,000	10,000
Depreciation of owned fixed assets	13,173	34,390
Operating lease rentals – plant and machinery	20,950	20,183
– land and buildings	63,877	54,810
Research and development expenditure written off	6,667,051	6,165,241

4. Directors' emoluments

	2009 £	2008 £
Emoluments	902,137	587,786
Company contributions paid to money purchase pension schemes	8,887	8,888
	No	*No*
Members of money purchase pension schemes	1	1

All amounts are in respect of the highest paid director

5. Staff costs

	2009 £	2008 £
Wages and salaries	5,815,683	5,406,468
Social security costs	735,910	655,848
Other pension costs	90,130	88,735
	6,641,723	6,151,051

Included in wages and salaries is a total expense of share-based payments of £9,030(2008 – £21,000) of which £9,030 (2008 – £21,000) arises from transactions accounted for as equity-settled share-based payment transactions

Notes to the financial statements

at 31 December 2009

5. Staff costs (continued)

The average monthly number of employees during the year was as follows

	2009	*2008*
	No	*No*
Research and development	13	11

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2009	*2008*
	£	*£*
Current tax		
UK corporation tax on the profit for the year	(368,090)	(335,249)
Tax overprovided in previous years	(29,285)	–
Total current tax credit (note 6(b))	(397,375)	(335,249)

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 28% (2008 – 28 5%) The differences are explained below

	2009	*2008*
	£	*£*
Profit on ordinary activities before tax	665,165	436,846
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 – 28 5%)	186,246	124,502
Effects of		
Research and development tax relief	(560,585)	(476,000)
Expenses not deductible for tax purposes	2,561	6,448
Depreciation in excess of capital allowances	3,688	9,801
Adjustment in respect of previous years	(29,285)	–
Total current tax credit (note 6(a))	(397,375)	(335,249)

Notes to the financial statements

at 31 December 2009

6. Tax

(c) Deferred tax

The deferred taxation asset not recognised in the financial statements is as follows

	2009	*2008*
	£	£
Capital allowances in advance of depreciation	63,779	60,091
Tax losses available	64,412	65,562
	128,191	125,653

The deferred tax asset has not been recognised due to uncertainty over the availability of suitable future taxable profits

In his Budget of 22 June 2010, the Chancellor of the Exchequer announced Budget tax changes, which if enacted in the proposed manner, will have an effect on the company's future tax position As at 31 December 2009, the tax changes announced in the Budget had not been 'substantively enacted' and as such, in accordance with accounting standards, the changes have not been reflected in the company's financial statements as at 31 December 2009

The budget proposed a decrease in the rate of UK corporation tax from 28% to 24% by 1% each year, from April 2011 Each 1% reduction will be enacted annually The effect of the reduction in the tax rate to 24% would be to reduce the UK deferred tax asset to £3,036

The effect on the company of these proposed changes to the UK tax system will be reflected in the company's statutory accounts in future years, as appropriate, once the proposals have been substantively enacted

7. Dividends

	2009	*2008*
	£	£
Declared and paid during the year	2,200,000	–

Notes to the financial statements

at 31 December 2009

8. Tangible fixed assets

	Fixtures and fittings	*Computer equipment*	*Total*
	£	*£*	*£*
Cost			
At 1 January 2009	95,432	209,686	305,118
Additions	2,590	35,104	37,694
At 31 December 2009	98,022	244,790	342,812
Depreciation			
At 1 January 2009	91,396	208,838	300,234
Charge for the year	591	12,582	13,173
At 31 December 2009	95,756	217,651	313,407
Net book value			
At 31 December 2009	2,266	27,139	29,405
At 1 January 2009	4,036	848	4,884

9. Debtors

	2009	*2008*
	£	*£*
Amounts due from group undertakings	5,780,804	6,959,133
Other debtors	14,364	11,661
Prepayments and accrued income	23,947	27,301
	5,819,115	6,998,095

10. Creditors: amounts falling due within one year

	2009	*2008*
	£	*£*
Trade creditors	10,854	7,902
Other taxes and social security costs	43,238	37,712
Other creditors	1,132	–
Accruals and deferred income	4,718,035	4,817,880
	4,773,259	4,863,494

Notes to the financial statements
at 31 December 2009

11. Provisions for liabilities and charges

	Employers' National Insurance £
At 1 January 2009	6,759
Credited to the profit and loss account	4,750
At 31 December 2009	11,509

A number of the company's employees have been granted stock options over the shares of the company's ultimate parent company, Alcatel Lucent The company is liable to pay National Insurance, currently 12 8%, on the difference between the option exercise price and the market value of the related shares when the options are exercised

Accordingly, the company has made a provision of £11,509 in relation to the stock options The provisions are expected to be utilised over varying periods of up to 4 years, being the periods over which the options vest The total National Insurance liability on options granted is calculated and then that proportion relating to the period vested is recognised as a provision

The amount of the National Insurance payable on the stock options will depend on the number of UK employees who remain with the company and when they exercise their options, the market price of the parent company's common shares at the time of exercise and the prevailing National Insurance rates at the time

12. Issued share capital

		2009		2008
Allotted, called up and fully paid	*No*	*£*	*No*	*£*
Ordinary shares of £1 each	1	1	1	1

Notes to the financial statements

at 31 December 2009

13. Reconciliation of shareholders' funds and movements on reserves

	Share capital £	*Profit and loss account* £	*Total share-holders' funds* £
At 1 January 2008	1	1,452,218	1,452,219
Share-based payment	–	21,000	21,000
Profit for the year	–	772,095	772,095
At 31 December 2008	1	2,245,313	2,245,314
Share-based payment	–	9,030	9,030
Profit for the year	–	1,062,540	1,062,540
Dividend paid	–	(2,200,000)	(2,200,000)
At 31 December 2009	1	1,116,883	1,116,884

14. Share-based payments

The employees of the company have been granted share options in the ultimate controlling company Alcatel Lucent, a company incorporated in France

All Employee Share Option Plan

For the usual stock options ("U"), vesting is gradual with options vesting in successive portions over four years, for which 25% of the options are vested if the employee remains after twelve months and, for each month after the first year, 1/48th of the options are vested if the employee remains employed by the Group Options can be exercised as soon as they are vested

2009 Exceptional Plan

For exceptional stock options ("E"), 50% of the options vest if the employee remains after twelve months and the remainder of 50% vest if the employee remains after 24 months

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2009 for usual, and exceptional stock options is £8,732 (2008 – £21,000) The portion of that expense arising from equity-settled share-based transactions is £8,732 (2008 – £21,000)

Notes to the financial statements

at 31 December 2009

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year

	2009 *No*	*2009* *WAEP* *€*	*2008* *No*	*2008* *WAEP* *€*
Outstanding at 1 January	374,316	8 23	363,216	8 27
Granted during the year	9,400	2 00	11,100	3 80
Outstanding at 31 December	383,716	7 92	374,316	8 08
Exercisable at 31 December	367,018	6 38	362,882	8 23

The weighted average contractual life for the share options outstanding at 31 December 2009 is 3 07 years (2008 – 3 01 years)

The range of exercise prices for options outstanding at the end of the year was €2 0- €13 20 (2008 – €3 80 - €13 20)

The fair value of the equity settled share options granted is estimated as at the date of grant using the Cox-Ross-Rubinstein binomial pricing model The following table lists the main inputs to the model used for the years ended 31 December 2009 and 31 December 2008

	2009	*2008*
Risk free interest rate (%)	3 0	3 9
Expected dividends (%)	0 8	0 8
Expected volatility (%)	64 0	45 0
Vesting period (years)	4(U)/2(E)	4
Exercise period (years)	4(U)/6(E)	4
Weighted average fair value of the granted options (€ per option)	0 49(U)/0 46(E)	1 50

The dividend yield reflects the assumption that future dividend yields would reflect the current dividend yield at the grant date The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome

In addition, a behavioural factor is retained It is considered that a beneficiary will exercise his/her option once the potential gain becomes higher than 50% of the exercise price

Restricted Stock Units

On March 18, 2009, four employees were granted 1,664 Restricted Stock Units The Restricted Stock Units will vest at the end of a four-year vesting period, with no additional holding period Furthermore,the number of Restricted Stock Units that will vest will depend on the achievement of the annual Group performance targets set by Board of Directors' for the four-year period Each instrument that will finally vest gives right to one Alcatel-Lucent share The total unrecognised stock-based compensation expense relating to non-vested restricted stock units was £298 as at 31 December 2009, (31 December 2008 – £nil) relating to 1,664 shares with a weighted average fair value of €1 19 per share

15. Pension commitments

The company operates a defined contribution pension scheme Contributions are charged to the profit and loss account as they become payable Outstanding contributions at 31 December 2009 were £nil (2008 – £nil)

Notes to the financial statements

at 31 December 2009

16. Other financial commitments

At 31 December 2009 the company had annual commitments under non-cancellable operating leases as set out below

	2009	*2008*
	Land and buildings	*Land and buildings*
Operating leases which expire		
In two to five years	55,000	55,005
	55,000	55,005

17. Ultimate parent undertaking and controlling party

The company is under the immediate control of Alcatel-Lucent USA Inc which holds 100% of the company's issued share capital Alcatel-Lucent USA Inc is incorporated in the USA and is part of a group headed by a company incorporated in France, Alcatel Lucent, the ultimate parent undertaking and controlling party