March 20, 2015

ALCATEL-LUCENT CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2014

CONSOLIDATED INCOME STATEMENTS

(In millions of euros except per share data)	**Notes**	**2014**	**2013**[1]	**2012**[1]
Revenues	(5) & (6)	13,178	13,813	13,764
Cost of sales		(8,770)	(9,491)	(9,753)
Gross profit		**4,408**	**4,322**	**4,011**
Administrative and selling expenses		(1,621)	(1,862)	(2,161)
Research and development costs		(2,215)	(2,268)	(2,330)
Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities, impairment of assets and post-retirement benefit plan amendments	(5)	**572**	**192**	**(480)**
Restructuring costs	(25)	(574)	(518)	(479)
Litigations		7	(2)	2
Gain/(loss) on disposal of consolidated entities		20	2	11
Impairment of assets	(11)	-	(548)	(894)
Post-retirement benefit plan amendments	(23)	112	135	204
Income (loss) from operating activities		**137**	**(739)**	**(1,636)**
Finance cost	(7)	(291)	(392)	(279)
Other financial income (loss)	(7)	(211)	(318)	(394)
Share in net income (losses) of associates & joint ventures		15	7	5
Income (loss) before income tax and discontinued operations		**(350)**	**(1,442)**	**(2,304)**
Income tax (expense) benefit	(8)	316	173	(423)
Income (loss) from continuing operations		**(34)**	**(1,269)**	**(2,727)**
Income (loss) from discontinued operations	(9)	(49)	(25)	639
NET INCOME (LOSS)		**(83)**	**(1,294)**	**(2,088)**
Attributable to:				
• **Equity owners of the parent**		**(118)**	**(1,304)**	**(2,011)**
• Non-controlling interests		35	10	(77)
Earnings (loss) per share (in euros) [2]	(10)			
• Basic earnings (loss) per share				
—from continuing operations		(0.02)	(0.53)	(1.11)
—from discontinued operations		(0.02)	(0.01)	0.27
—attributable to the equity owners of the parent		(0.04)	(0.54)	(0.84)
• Diluted earnings (loss) per share:				
—from continuing operations		(0.02)	(0.53)	(1.11)
—from discontinued operations		(0.02)	(0.01)	0.22
—attributable to the equity owners of the parent		(0.04)	(0.54)	(0.84)

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) As a result of the 2013 capital increase made by Alcatel-Lucent through an offering of preferential subscription rights to existing shareholders, the calculation of basic and diluted earnings per share has been adjusted retrospectively. Number of outstanding ordinary shares has been adjusted to reflect the proportionate change in the number of shares.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of euros)	Notes	2014	2013	2012
Net income (loss) for the year		**(83)**	**(1,294)**	**(2,088)**
Items to be subsequently reclassified to Income Statement		**510**	**(221)**	**(4)**
Financial assets available for sale	(15)	8	11	16
Cumulative translation adjustments		503	(232)	(34)
Cash flow hedging	(26b/iii)	(1)	-	14
Tax on items recognized directly in equity	(8)	-	-	-
Items that will not be subsequently reclassified to Income Statement		**(1,568)**	**1,411**	**71**
Actuarial gains (losses) and adjustments arising from asset ceiling limitation and IFRIC 14	(23c)	(1,822)	1,667	172
Tax on items recognized directly in equity	(8)	254	(256)	(101)
Total other comprehensive income (loss) for the year		**(1,058)**	**1,190**	**67**
Total comprehensive income (loss) for the year		**(1,141)**	**(104)**	**(2,021)**
Attributable to:				
• **Equity owners of the parent**		**(1,256)**	**(99)**	**(1,933)**
• Non-controlling interests		115	(5)	(88)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of euros) ASSETS	Notes	December 31, 2014	December 31, 2013	December 31, 2012
Non-current assets:				
Goodwill	(11)	3,181	3,156	3,820
Intangible assets, net	(12)	1,011	1,001	1,175
Goodwill and intangible assets, net		**4,192**	**4,157**	**4,995**
Property, plant and equipment, net	(13)	1,132	1,075	1,133
Investments in associates & joint ventures	(14)	51	35	29
Other non-current financial assets, net	(15)	406	322	341
Deferred tax assets	(8)	1,516	1,000	985
Prepaid pension costs	(23)	2,636	3,150	2,797
Other non-current assets	(21)	429	413	428
Total non-current assets		**10,362**	**10,152**	**10,708**
Current assets:				
Inventories and work in progress, net	(17) & (18)	1,971	1,935	1,940
Trade receivables and other receivables, net	(17) & (19)	2,528	2,482	2,860
Advances and progress payments	(17)	43	46	53
Other current assets	(21)	877	751	726
Current income taxes		64	33	118
Marketable securities, net	(15) & (24)	1,672	2,259	1,528
Cash and cash equivalents	(16) & (24)	3,878	4,096	3,401
Current assets before assets held for sale		**11,033**	**11,602**	**10,626**
Assets held for sale and assets included in disposal groups held for sale	(9)	65	142	20
Total current assets		**11,098**	**11,744**	**10,646**
TOTAL ASSETS		**21,460**	**21,896**	**21,354**

(In millions of euros) EQUITY AND LIABILITIES	Notes	December 31, 2014	December 31, 2013	December 31, 2012
Equity:				
Capital stock		141	140	4,653
Additional paid-in capital		20,869	20,855	16,593
Less treasury stock at cost		(1,084)	(1,428)	(1,567)
Accumulated deficit, fair value and other reserves		(17,633)	(14,588)	(15,159)
Other items recognized directly in equity		52	45	-
Cumulative translation adjustments		(366)	(787)	(571)
Net income (loss) - attributable to the equity owners of the parent		(118)	(1,304)	(2,011)
Equity attributable to equity owners of the parent		**1,861**	**2,933**	**1,938**
Non-controlling interests	(14d)	833	730	745
Total equity	(22)	**2,694**	**3,663**	**2,683**
Non-current liabilities:				
Pensions, retirement indemnities and other post-retirement benefits	(23)	5,163	3,854	5,338
Convertible bonds and other bonds, long-term	(24)	4,696	4,711	3,727
Other long-term debt	(24)	179	211	227
Deferred tax liabilities	(8)	872	990	889
Other non-current liabilities	(21)	175	188	177
Total non-current liabilities		**11,085**	**9,954**	**10,358**
Current liabilities:				
Provisions	(25)	1,364	1,416	1,649
Current portion of long-term debt and short-term debt	(24)	402	1,240	851
Customers' deposits and advances	(17) & (19)	810	681	718
Trade payables and other payables	(17)	3,571	3,518	3,726
Current income tax liabilities		73	93	145
Other current liabilities	(21)	1,429	1,237	1,204
Current liabilities before liabilities related to disposal groups held for sale		**7,649**	**8,185**	**8,293**
Liabilities related to disposal groups held for sale	(9)	32	94	20
Total current liabilities		**7,681**	**8,279**	**8,313**
TOTAL EQUITY AND LIABILITIES		**21,460**	**21,896**	**21,354**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of euros)	Notes	Q4 2014	2014	2013[1]	2012[1]
Cash flows from operating activities					
Net income (loss) - attributable to the equity owners of the parent		271	(118)	(1,304)	(2,011)
Non-controlling interests		19	35	10	(77)
Adjustments	(27)	(9)	692	1,479	2,028
Net cash provided (used) by operating activities before changes in working capital, interest and taxes	**(27)**	**281**	**609**	**185**	**(60)**
Net change in current assets and liabilities (excluding financing):					
Inventories and work in progress	(17)	205	(72)	(216)	(126)
Trade receivables and other receivables	(17)	17	18	138	534
Advances and progress payments	(17)	13	4	5	10
Trade payables and other payables	(17)	3	(167)	25	(186)
Customers' deposits and advances	(17)	(4)	88	(19)	93
Other current assets and liabilities		(43)	(35)	34	(153)
Cash provided (used) by operating activities before interest and taxes		**472**	**445**	**152**	**112**
Interest received		14	65	66	72
Interest paid		(27)	(290)	(362)	(274)
Taxes (paid)/received		(18)	(93)	(77)	(54)
Net cash provided (used) by operating activities		**441**	**127**	**(221)**	**(144)**
Cash flows from investing activities:					
Proceeds from disposal of tangible and intangible assets		4	92	36	13
Capital expenditures		(178)	(556)	(463)	(524)
Decrease (increase) in loans and other non-current financial assets		1	19	19	21
Cash expenditures for obtaining control of consolidated companies or equity affiliates	(27)	(14)	(14)	-	4
Cash proceeds/(outgoings) from losing control of consolidated companies	(27)	40	84	-	(5)
Cash proceeds from sale of previously consolidated and non-consolidated companies		-	(7)	3	26
Cash proceeds from sale (cash expenditure for acquisition) of marketable securities		40	617	(723)	(574)
Net cash provided (used) by investing activities		**(107)**	**235**	**(1,128)**	**(1,039)**
Cash flows from financing activities:					
Issuance/(repayment) of short-term debt		85	117	(643)	(60)
Issuance of long-term debt		0	1,143	4,087	18
Repayment/repurchase of long-term debt		(50)	(2,575)	(2,062)	(127)
Cash proceeds (expenditures) related to changes in ownership interests in consolidated companies without loss of control		-	-	-	84
Net effect of exchange rate changes on inter-unit borrowings		(8)	(86)	9	(12)
Capital increase [2]		1	30	965	122
Dividends paid		(1)	(12)	(6)	(37)
Net cash provided (used) by financing activities		**27**	**(1,383)**	**2,350**	**(12)**
Cash provided (used) by operating activities of discontinued operations	(9)	(3)	34	65	(71)
Cash provided (used) by investing activities of discontinued operations	(9)	143	71	(64)	1,066
Cash provided (used) by financing activities of discontinued operations	(9)	-	65	(15)	36
Net effect of exchange rate changes		222	633	(292)	23
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**723**	**(218)**	**695**	**(141)**
Cash and cash equivalents at beginning of period / year		**3,155**	**4,096**	**3,401**	**3,533**
Cash and cash equivalents at beginning of period / year classified as assets held for sale		**-**	**-**	**-**	**9**
Cash and cash equivalents at end of period / year [3]		**3,878**	**3,878**	**4,096**	**3,400**
Cash and cash equivalents at end of period / year classified as assets held for sale		**-**	**-**	**-**	**1**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) Of which €15 million, €16 million and €0 million related to stock options exercised during 2014, 2013 and 2012 respectively (see Note 22c).

(3) Includes €1,019 million of cash and cash equivalents held in countries subject to exchange control restrictions as of December 31, 2014 (€756 million as of December 31, 2013 and €949 million as of December 31, 2012).

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of euros except number of shares)	Number of shares [1]	Capital stock	Additional paid-in capital	Accumulated deficit and other reserves	Other items recognized directly in equity	Treasury stock	Cumulative translation adjustments	Net income (loss)	Total attributable to the owners of the parent	Non-controlling interests	TOTAL
Balance at January 1, 2012 after appropriation	**2,267,163,384**	**4,651**	**15,354**	**(14,052)**	**4**	**(1,567)**	**(546)**	**-**	**3,844**	**747**	**4,591**
Changes in equity for 2012											
Total comprehensive income (loss) for 2012[2]				**73**	**30**		**(25)**	**(2,011)**	**(1,933)**	**(88)**	**(2,021)**
Capital increases	1,180,498	2	(2)						-	122	122
Share-based payments				26					26		26
Treasury stock	39,722			1					1		1
Dividends									-	(36)	(36)
Other adjustments									-		-
Appropriation				(2,011)				2,011	-		-
Balance at December 31, 2012 after appropriation	**2,268,383,604**	**4,653**	**15,352**	**(15,963)**	**34**	**(1,567)**	**(571)**	**-**	**1,938**	**745**	**2,683**
Changes in equity for 2013											
Total comprehensive income (loss) for 2013[2]				**1,410**	**11**		**(216)**	**(1,304)**	**(99)**	**(5)**	**(104)**
Capital reduction		(4,542)	4,542						-		-
Capital increase	455,568,488	23	903						926		926
Conversion of OCEANE 2015	15,658,262	1	47	(1)					47		47
Other capital changes	10,763,621	5	11						16		16
Share-based payments				19					19		19
Treasury stock	6,285,811			(116)		139			23		23
Dividends									-	(10)	(10)
Equity component of OCEANE 2018 issued in 2013, net of tax				66					66		66
Other adjustments				(3)					(3)		(3)
Appropriation				(1,304)				1,304	-		-
Balance at December 31, 2013 after appropriation	**2,756,659,786**	**140**	**20,855**	**(15,892)**	**45**	**(1,428)**	**(787)**	**-**	**2,933**	**730**	**3,663**
Changes in equity for 2014											
Total comprehensive income (loss) for 2014[2]				(1,566)	7		421	(118)	(1,256)	115	(1,141)
Other capital changes[3]	11,878,073	1	14						15		15
Share-based payments				16					16		16
Treasury stock	11,774,084			(314)		344			30		30
Equity component of OCEANE 2019 and 2020 issued in 2014, net of tax				121					121		121
Dividends									-	(12)	(12)
Other adjustments				2					2	-	2
Balance at December 31, 2014 before appropriation	**2,780,311,943**	**141**	**20,869**	**(17,633)**	**52**	**(1,084)**	**(366)**	**(118)**	**1,861**	**833**	**2,694**
Proposed appropriation[4]				(118)				118	**-**		**-**
Balance at December 31, 2014 after appropriation	**2,780,311,943**	**141**	**20,869**	**(17,751)**	**52**	**(1,084)**	**(366)**	**-**	**1,861**	**833**	**2,694**

(1) See Note 22.

(2) See consolidated statements of comprehensive income.

(3) 11,878,073 shares were issued mainly due to exercise of options and the vesting of performance shares (see Note 22).

(4) The appropriation is proposed by the Board of Directors and must be approved at the Shareholders' Meeting to be held on May 26, 2015 before being final.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alcatel-Lucent S.A. (Alcatel-Lucent) 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-Lucent was incorporated on June 18, 1898 and will be dissolved on June 30, 2086, unless its existence is extended or shortened by shareholder vote. During the second quarter 2014, Alcatel-Lucent moved its headquarters from 3, avenue Octave Gréard, 75007, Paris, France to 148/152 Route de la Reine, 92100 Boulogne-Billancourt, France. Alcatel-Lucent is listed principally on the Paris and New York stock exchanges.

The consolidated financial statements reflect the results and financial position of Alcatel-Lucent and its subsidiaries (the "Group") as well as its investments in associates ("equity affiliates") and joint ventures. They are presented in Euros rounded to the nearest million.

The Group develops and integrates technologies, applications and services to offer innovative global communications solutions.

On February 5, 2015, Alcatel-Lucent's Board of Directors authorized for issuance these consolidated financial statements at December 31, 2014. The consolidated financial statements will be final once approved at the Annual Shareholders' Meeting to be held on May 26, 2015.

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Due to the listing of Alcatel-Lucent's securities on the Euronext Paris and in accordance with the European Union's regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Group are prepared in accordance with IFRSs (International Financial Reporting Standards), as adopted by the European Union (EU), as of the date when our Board of Directors authorized these consolidated financial statements for issuance.

IFRSs can be found at: http://ec.europa.eu/finance/accounting/index_en.htm.

IFRSs include the standards approved by the International Accounting Standards Board ("IASB"), that is, International Accounting Standards ("IASs") and accounting interpretations issued by the IFRS Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

As of December 31, 2014, all IFRSs that the IASB had published and that are mandatory are the same as those endorsed by the EU and mandatory in the EU, with the exception of:

- IAS 39 "Financial Instruments: Recognition and Measurement" (revised December 2003), which the EU only partially adopted. The part not adopted by the EU has no impact on Alcatel-Lucent's financial statements.

As a result, the Group's consolidated financial statements comply with International Financial Reporting Standards as published by the IASB.

Prior to January 1, 2014, the IASB published the following amendment and improvements to IFRSs:

- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" (issued November 2013) that is mandatory for annual periods beginning on or after July 1, 2014, and that the EU has endorsed. This amendment has no impact on Alcatel-Lucent's financial statements; and
- Annual improvements to IFRSs (2010-2012) (issued December 2013) and Annual improvements to IFRSs (2011-2013) issued December 2013 that are mandatory generally for annual periods beginning on or after July 1, 2014, and that the EU has endorsed. These improvements have either no impact on Alcatel-Lucent's financial statements or are already being applied.

In Q1 2014, the IASB published the following IFRS that is only applicable with effect from January 1, 2016, that the EU has not yet endorsed, and that, once effective, will have no impact on the Group's financial statements:

- IFRS 14 "Regulatory Deferral Accounts" (issued January 2014).

In Q2 2014, the IASB published the following IFRS that is only applicable with effect from January 1, 2017, that the EU has not yet endorsed, and that, once effective, may have an impact on the amount and timing of the Group's reported revenues and costs; the extent of the impact is not yet known or reasonably estimable at this stage:

- IFRS 15 "Revenue from Contracts with Customers" (issued May 2014).

In Q2 2014, the IASB published two amendments to existing IFRSs that are only applicable with effect from January 1, 2016, that the EU has not yet endorsed, and that, once effective, are not expected to have any material impact on the Group's financial statements:

- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" (issued May 2014); and
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (issued May 2014).

With regard to the Amendment to IAS 38, the Group currently amortizes capitalized software development costs at the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product and (b) the straight-line method over the remaining estimated economic life of the software or the product they are incorporated within. However, under the Amendment, there is a rebuttable presumption that an amortization method that is based on revenue generated by an activity that includes the use of an intangible asset is inappropriate. As it would appear that method (a) will not be compliant with IAS 38 as of the amendment's effective date, we are investigating the appropriate amortization method to be adopted as from January 1, 2016. We do not think that changing the amortization method will be material to the Group's financial statements.

In Q3 2014, the IASB published the following IFRS that is only applicable with effect from January 1, 2018, that the EU has not yet endorsed, and that, once effective, may have an impact on the amount and timing of the Group's reported assets, liabilities and income; the extent of the impact is not yet known or reasonably estimable at this stage:

- IFRS 9 "Financial Instruments" (issued July 2014).

In Q3 2014, the IASB published three amendments to existing IFRSs that are only applicable with effect from January 1, 2016, that the EU has not yet endorsed, and that, once effective, are not expected to have any impact on the Group's financial statements:

- Amendments to IAS 27 "Equity Method in Separate Financial Statements" (issued August 2014);
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (issued September 2014); and
- Annual improvements to IFRSs (2012-2014) (issued September 2014).

In Q4 2014, the IASB published two amendments to existing IFRSs that are only applicable with effect from January 1, 2016, that the EU has not yet endorsed, and that, once effective, are not expected to have any impact on the Group's financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" (issued December 2014); and
- Amendments to IAS 1 "Disclosure Initiative" (issued December 2014).

The accounting policies and measurement principles adopted for the consolidated financial statements as of and for the year ended December 31, 2014 are the same as those used in the audited consolidated financial statements as of and for the year ended December 31, 2013 included in our annual report on Form 20-F for fiscal year 2013 (the "2013 audited consolidated financial statements"), with the exception of the adoption in Q1 2014 of IFRIC Interpretation 21 "Levies", the adoption of which was immaterial to the Group's consolidated financial statements. The EU endorsed this interpretation in June 2014.

a/ Basis of preparation

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

b/ Consolidation methods and changes in ownership interests

Companies over which the Group has control are fully consolidated.

Companies over which the Group has joint control are either accounted for as a joint operation or as a joint venture, in accordance with IFRS 11 "Joint Arrangements". When the Group is a joint operator, the individual assets, liabilities and corresponding revenues and expenses arising from the arrangement are accounted for. Investments in joint ventures are accounted for using the equity method.

In accordance with IAS 28 "Investments in Associates and Joint Ventures", companies over which the Group has significant influence (investments in "associates" or equity affiliates) are accounted for under the equity method. Significant influence is presumed when the Group's interest in the voting rights is 20% or more.

In accordance with IFRS 10 "Consolidated Financial Statements", structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicates that it is controlled by the Group. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Any changes in Alcatel-Lucent's ownership interest in a subsidiary that do not result in loss of control are accounted for within equity. When Alcatel-Lucent loses control of a subsidiary, the assets (including any goodwill) and liabilities, related equity components, and the carrying amount of any non-controlling interests of the former subsidiary are derecognized. Any gain or loss and any amounts previously recognized in other comprehensive income in relation to that subsidiary are recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

c/ Business combinations

Business combinations are accounted for in accordance with the purchase method required by IFRS 3. Once control is obtained over a target, its assets and liabilities are measured at their fair value at the acquisition date in accordance with IFRS requirements. Under IFRS 3 (revised), when control over the target is obtained, the non-controlling interest may be valued either at fair value or at its share of the target's identifiable net assets. The Group has not yet measured any non-controlling interests in a target in which the Group acquired control at fair value, because all business combinations recorded to date occurred before the effective date of January 1, 2010 for IFRS 3 (revised). Under the previous version of IFRS 3, non-controlling interests were always valued at their proportion of the net fair values of the identifiable net assets of the target. Accordingly, the Group has measured all non-controlling interests at their share of a target's identifiable net assets. Any excess between cost of the business combination and the Group's interest in the fair value of the net assets acquired 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 from the acquisition date. Transaction costs attributable to the acquisition are expensed as incurred, except for the costs of issuing debt or equity instruments in connection with the business combination, which are included in the carrying value of the instrument.

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

The accounting treatment of stock options of companies acquired in the context of a business combination is described in Note 1r 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 euro are translated into euros at the closing exchange rate (spot exchange rate at the statement of financial position date), and the income statements, statements of comprehensive income and statements of cash flows 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.

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)".

Foreign currency denominated non-monetary assets and liabilities recognized at historical cost are translated using the exchange rate prevailing as of the transaction date. Foreign currency denominated non-monetary assets and liabilities recognized at fair value are translated using the exchange rate prevailing as of the date the fair value is determined.

Exchange gains or losses on foreign currency financial instruments that represent an economic hedge of a net investment in a subsidiary whose functional currency is not the euro are reported as translation adjustments in equity under the caption "Cumulative translation adjustments" until the disposal of the investment.

f/ Research and development expenses and 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 is demonstrated,
  - 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 one 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 lives 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, and
- in case of external use: according to prospects for sale, rental or other forms of distribution.

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

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

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

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

With regard to business combinations, a portion of the purchase price is allocated to in-process research and development projects that may be significant. As part of the process of analyzing these business combinations, Alcatel-Lucent may decide 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, all inputs that represent the assumptions that a market participant would use when pricing the asset.

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 Note 1g.

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, at least annually.

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

Goodwill

The goodwill arising from a business combination is equal to the difference between the sum of the consideration paid, the value of any non-controlling interest that remains outstanding after the business combination and, where applicable, the acquisition-date fair value of the acquirer's previously-held equity interest in the target, minus the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. This goodwill is recognized in assets in the Consolidated Statement of Financial Position.

Goodwill is tested for impairment at least annually, and beginning in 2012, such test is carried out during the fourth quarter of the year. The impairment test methodology is based on a comparison between the recoverable amounts of each of the Group's cash generating units (CGU) (considered as a Product Division or groups of Product Divisions at which level the impairment test is performed) and the CGU's net asset carrying amounts (including goodwill). All goodwill is allocated to CGUs. Within Alcatel-Lucent's reporting structure, Product Divisions are two levels below our three reportable segments (Core Networking, Access and Other). 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 CGU occur (see Note 2c and Note 11). Goodwill impairment losses cannot be reversed.

Equity affiliate goodwill is included with the related investment in associate. The requirements of IAS 39 are applied to determine whether any impairment loss must be recognized with respect to the net investment in associates. 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 CGUs to which goodwill was allocated, a new impairment test is performed on the goodwill for which the underlying CGU has changed. Such reallocations were made on January 1, 2013 using a relative value approach similar to the one used when an entity disposes of an operation within a CGU.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. They are recorded at cost less accumulated amortization and any accumulated impairment losses. They are recognized if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably.

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 certain trade names, are generally amortized on a straight-line basis over their estimated useful lives (i.e. 3 to 10 years). Amortization is taken into account within cost of sales, research and development costs (acquired technology, in-process research and development (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 in a specific line item if very material (refer to Note 1n). IPR&D amortization begins once technical feasibility is reached. Certain trade names are considered to have indefinite useful lives and therefore are not amortized.

Capital gains/losses from disposals of intangible assets are accounted for in the corresponding cost line items in the income statement depending on where in the income statement the underlying asset would normally be expensed (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 expense 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 (as 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 in a specific line item if very material (see Note 1n).

In addition, capital gains/losses from disposals of property, plant and equipment are accounted for in the corresponding cost line items in the income statement depending on where in the income statement the underlying asset would normally be expensed (i.e. cost of sales, administrative and selling expenses, research and development costs or restructuring costs).

h/ Inventories and work in progress

In accordance with IAS 2 "Inventories", inventories and work in progress are valued at the lower of cost (including indirect production costs where applicable) or net realizable value. Cost is assigned by using generally the weighted average cost formula, or the first-in, first-out (FIFO) cost formula in certain cases.

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

i/ 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.

j/ 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 such 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. Changes in actuarial assumptions are recognized in equity in the statement of financial position.

The service cost is recognized in "income from operating activities" and the net interest on the defined benefit liability (asset) is recognized in "financial income (loss)". The impact of plan amendments is presented in a specific line item of the income statement if material (see Note 1n).

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 1s below.

k/ Provisions for restructuring and restructuring costs

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the recognition criteria for accounting for a restructuring reserve are (i) the company has an obligation towards a third party at the statement of financial position date, (ii) it is probable (more likely than not) that a liability (future outflow to settle the obligation) has been incurred, and (iii) this liability can be reasonably estimated.

To meet such criteria when reserving for restructuring actions, we consider that the appropriate level of management has to approve the restructuring plan and has to announce it by the date of the statement of financial position, specifically identifying the restructuring actions to be taken (for example, the number of employees concerned, their job classifications or functions and their locations). Before the statement of financial position date, detailed conditions of the plan have to be communicated to employees, in such a manner as to allow an employee to estimate reasonably the type and amount of benefits he/she will receive. Also, the related restructuring actions that are required to be completed must be estimated to be achievable in a relatively short (generally less than 1 year) timeframe without likelihood of change.

Restructuring 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)".

l/ Taxes

Current income tax

Current income tax assets and liabilities for the current period are established based upon the amount expected to be recovered from or paid to the taxation authorities and reflected in the statement of financial position. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity or in other comprehensive income is recognized respectively in equity or in other comprehensive income, and not in the income statement. Management periodically evaluates positions taken in the Group's tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred taxes

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, net income (loss), or other comprehensive income 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 whose values are higher than their book values.

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

Penalties recognized on tax claims are accounted for in the "income tax" line item in the income statement.

m/ Revenues

Revenues include net goods, equipment, and services sales from the Group's principal business activities and income due from licensing fees and from grants, net of value added taxes (VAT).

The majority of revenues from the sale of goods and equipment are recognized under IAS 18 "Revenues" 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 substantive acceptance of the goods, equipment, services or software, revenue is deferred until all the acceptance criteria have been met.

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 with respect to which recovery has ceased to be probable is recognized as an expense in "cost of sales".

Revenues from contracts that are 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 or by deferring the fair value associated with undelivered elements. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis, 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.

The remaining revenues are recognized from construction contracts under IAS 11 "Construction Contracts". 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 disclosed in Note 17 as an asset under "amount due from customers on construction contracts". If the amount is negative, it is disclosed in Note 17 as a liability under "amount due to customers on construction contracts".

When software is embedded in the Group's hardware and the software and hardware function together to deliver the product's essential functionality, the transaction is considered a hardware transaction and guidance from IAS 18 is applied. For revenues generated from licensing, selling or otherwise marketing software solutions or stand-alone software sales, the Group also applies the guidance from IAS 18 but requires vendor specific objective evidence (VSOE) of fair value to separate multiple software elements. In addition, if any undelivered element in these transactions is essential to the functionality of delivered elements, revenue is deferred until such element is delivered or the last element is delivered. If the last undelivered element is a service, revenue for such transactions is recognized ratably over the service period.

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.

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

Alcatel-Lucent has considered relevant to the understanding of the Group'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, litigations, gain/(loss) on disposal of consolidated entities, impairment of assets 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; and
- 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 profit, administrative and selling expenses and research and development costs (see Note 1f) and, in particular, pension costs (except for the financial component, see Note 1j), employee profit sharing, valuation allowances on receivables (including the two categories of vendor financing as described in Note 1q) 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 "Finance cost" and "Other 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 share in net income (losses) of equity affiliates, income tax (expense) benefit and income (loss) from discontinued operations.

o/ Finance costs and other financial income (loss)

Finance costs include interest charges 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 finance lease obligations) and interest income on 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 profit or loss.

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 income statement.

p/ Structure of consolidated statement of financial position

Most of the Group's activities in the various business segments have long-term operating cycles, and, as a result, current assets and current liabilities include certain elements that are due after one year.

q/ Financial instruments

i. Financial assets and liabilities

Financial assets include assets classified as available-for-sale and held-to-maturity, assets at fair value through profit and loss, asset derivative instruments, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts, liability derivative instruments and payables.

The recognition and measurement of financial assets and liabilities is governed by IAS 39.

The Group determines the classification of its financial assets and liabilities at initial recognition. In the statement of financial position, financial assets are classified in "Other non-current financial assets, net", "Marketable securities" and "Other current and non-current assets", and financial liabilities are classified in "Convertible bonds and other bonds, long-term", "Other long-term debt", "Other current and non-current liabilities" and "Current portion of long-term and short-term debt".

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition at fair value through profit or loss. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets and liabilities at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognized in finance costs in the income statement.

Loans, receivables and borrowings

After initial measurement, loans, receivables and borrowings are measured at amortized cost using the Effective Interest Rate method (EIR), less impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the transaction. Amortization, calculated using the EIR, is included in finance costs in the income statement. The impairment of loans and receivables, which is 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.

Certain financial instruments that are part of financial debt 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: Presentation”.

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.

Held-to-maturity investments

The Group did not have any held-to-maturity investments during the years ended December 31, 2014, 2013 and 2012.

Available-for-sale financial assets

Available-for-sale financial assets include investments in non-consolidated companies and are recorded at cost upon acquisition including transaction costs.

After initial measurement, available-for-sale financial assets are subsequently measured at their fair value. The fair value for listed securities on an active market 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 other comprehensive income. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and objective evidence of impairment of that financial asset exists (for instance, a significant or prolonged decline in the value of the asset), an irreversible impairment loss is recorded in the income statement. This loss can only be released upon the sale of the securities concerned.

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

Derecognition of financial assets

A financial asset as defined under IAS 32 “Financial Instruments: 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 under IAS 39 “Financial Instruments: Recognition and Measurement”, 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 20.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position, if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

ii. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- using recent arm’s length market transactions;
- reference to the current fair value of another instrument that is substantially the same; and
- a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 26.

The fair values of financial instruments are categorized into a fair value hierarchy of three levels. The levels depend on the type of input used for the valuation of the instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included under Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

iii. Cash and Cash equivalents

In accordance with IAS 7 "Statement of Cash Flows", 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 liabilities and are 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.

iv. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability;
- cash flow hedges, when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; and
- hedges of a net investment in a foreign operation.

The Group did not have any derivatives qualified as hedges of a net investment in a foreign operation during the years ended December 31, 2014, 2013 and 2012.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below.

Fair value hedges

The change in the fair value of a hedging derivative is recognized in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the income statement.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through the income statement over the remaining term of the hedge using the effective interest rate (EIR) method. EIR amortization may begin as soon as an adjustment exists and shall terminate when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value of the hedging instrument is recognized immediately in the income statement.

See Note 26 for more details.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity (other comprehensive income in the cash flow hedge reserve), while any ineffective portion is recognized immediately in the income statement in “other financial income (loss)”.

Amounts recognized as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Refer to Note 26 for more details.

r/ Customer financing

The Group undertakes two types of customer financing:

- financing relating to the operating cycle and directly linked to actual contracts; and
- 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.

s/ 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 accumulated deficit (credit) at grant date, with a counterpart in deferred compensation (debit) (also accounted for in accumulated deficit). During the vesting period, deferred compensation is amortized in the income statement as an expense.

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.

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 vested stock options at the time of acquisition is taken into account in the cost of the business combination.

t/ Assets held for sale and discontinued operations

IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”, sets out the accounting treatment applicable to assets held for sale and presentation and disclosure requirements for 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.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

u/ Earnings per share

Basic earnings per share is computed using the number of shares issued, after deduction of the weighted average number of shares owned by consolidated subsidiaries and the weighting effect of shares issued during the year.

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").

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.

NOTE 2 PRINCIPAL UNCERTAINTIES REGARDING THE USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with IFRSs requires that the Group makes a certain number of estimates and assumptions that are considered realistic and reasonable. In the context of the current global economic environment, the degree of volatility and subsequent lack of visibility remain high as of December 31, 2014. Future 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 (see Note 18)

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.

b/ Impairment of customer receivables (see Note 19)

An impairment loss is recorded for customer receivables if the expected present value of the future receipts is lower than the carrying 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 deterioration in our major customers' creditworthiness could have an adverse impact on our future results.

c/ Goodwill, other intangible assets and capitalized development costs

Goodwill (see Note 11)

Goodwill net, is allocated, where applicable, to cash generating units that are equivalent to a product division or groups of product divisions within Alcatel-Lucent's reporting structure. Product divisions are two levels below our three reportable segments. In assessing whether goodwill should be subject to impairment, the carrying value of each cash generating unit is compared to its recoverable value. Recoverable value is the greater of the value in use and the fair value less costs to sell.

The value in use of each cash generating unit is calculated using a five-year discounted cash flow analysis with a discounted residual value, corresponding to the capitalization to perpetuity of the normalized cash flows of year 5 (also called the Gordon Shapiro approach).

The fair value less costs to sell of each cash generating unit is determined based upon the weighted average of the Gordon Shapiro approach described above and the following two approaches, being additional inputs that represent assumptions that a market participant would use when pricing the asset:

- five-year discounted cash flow analysis with a Sales Multiple (Enterprise Value/Sales) to measure discounted residual value; and
- five-year discounted cash flow analysis with an Operating Profit Multiple (Enterprise Value/Earnings Before Interest, Tax, Depreciation and Amortization - "EBITDA") to measure discounted residual value.

The discount rates used for the annual impairment tests are based on the Group's weighted average cost of capital (WACC). A single discount rate is used on the basis that risks specific to certain products or markets have been reflected in determining the cash flows.

Growth and perpetual growth rates used are based on expected market trends.

Other intangible assets (see Note 12)

Impairment tests are performed if we have indications of a potential reduction in the value of our intangible assets due to change in market trends or new technologies. The recoverable amounts are based on discounted future cash flows or fair values of the assets concerned.

Capitalized development costs (see Note 12)

The Group evaluates the commercial and technical feasibility of development projects for which costs are capitalized, and estimates the useful lives of the products resulting from the projects. Should a product fail to substantiate these evaluations, the Group may be required to impair some of the net capitalized development costs in the future.

d/ Provisions for warranty costs and other product sales reserves (see Note 25)

These provisions are calculated based on historical return rates and warranty costs expensed as well as on estimates. Costs and penalties ultimately paid can differ considerably from the amounts initially reserved and could therefore have a significant impact on future results.

e/ Provisions for litigations (see Notes 25 and 31)

Certain legal proceedings are pending and cover a wide range of matters. Due to the inherent nature of litigation, the outcome or the cost of settlement may materially vary from estimates.

f/ Deferred tax assets (see Note 8)

The evaluation of the Group's capacity to utilize tax loss carry-forwards relies on significant judgment. The Group analyzes past events and 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. This analysis is carried out regularly in each tax jurisdiction where significant deferred tax assets, mainly in the U.S., are recorded.

If future taxable results are considerably different from those forecasted 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 our financial results.

g/ Pension and retirement obligations and other employee and post-employment benefit obligations (see Note 23)

Actuarial assumptions

Our results of operations include the impact of significant pension and post-retirement benefits that are measured using actuarial valuations. Inherent in these valuations is a key assumption concerning discount rates in retirement plans and healthcare plans. This assumption is updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. In addition, discount rates are updated quarterly for those plans for which changes in these assumptions would have a material impact on our financials.

Discount rates

Discount rates for our U.S. plans are determined using the values published in the "original" CitiGroup Pension Discount Curve, which is based on AA-rated corporate bonds. Each future year's expected benefit payments are discounted by the discount rate for the applicable year listed in the CitiGroup Curve, and for those years beyond the last year presented in the CitiGroup Curve for which we have expected benefit payments, we apply the discount rate of the last year presented in the Curve. After applying the discount rates to all future years' benefits, we calculate a single discount rate that results in the same interest cost for the next period as the application of the individual rates would have produced. Discount rates for our non U.S. plans were determined based on Bloomberg AA Corporate yields until December 31, 2012. Since Bloomberg stopped publishing these yields, discount rates for our non U.S. plans are determined based on Iboxx AA Corporate yields starting January 1, 2013.

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have increased or decreased the 2014 net pension and post-retirement benefits costs (determined in accordance with IAS 19 "Employee Benefits" (revised)) by approximately €75 million and €(34) million, respectively.

Healthcare cost trends

Regarding healthcare cost trends for our U.S. plans, our external actuaries annually review expected cost trends from numerous healthcare providers, recent developments in medical treatments, the utilization of medical services, and Medicare future premium rates published by the U.S. Government's Center for Medicare and Medicaid Services (CMS) as these premiums are reimbursed for some retirees. They apply these findings to the specific provisions and experience of our U.S. post-retirement healthcare plans in making their recommendations. In determining our assumptions, we review our recent experience together with our actuaries' recommendations.

Expected participation rates in retirement healthcare plans

Our U.S. post-retirement healthcare plans allow participants to opt out of coverage at each annual enrollment period, and for almost all to opt back in at any future annual enrollment. An assumption is developed for the number of eligible retirees who will elect to participate in our plans at each future enrollment period. Our actuaries develop a recommendation based on the expected increases in the cost to be paid to a retiree participating in our U.S. plans and recent participation history. We review this recommendation annually after the annual enrollment has been completed and update it if necessary.

Mortality assumptions

Until September 30, 2014, we used the RP-2000 Combined Health Mortality table with Generational Projection based on the U.S. Society of Actuaries Scale AA. On October 27, 2014, the U.S. Society of Actuaries (SOA) issued new mortality tables. Starting December 31, 2014, we changed these assumptions to the RP-2014 White Collar table with MP-2014 mortality improvement scale for Management records and the RP-2014 Blue Collar table with MP-2014 mortality improvement scale for Occupational records. These changes had a U.S.$2.6 billion negative effect on the benefit obligation of our U.S. plans. These effects were recognized in the 2014 Statement of Comprehensive Income.

Plan assets investment

Plan assets are invested in many different asset categories (such as cash, equities, bonds, real estate and private equity). In the quarterly update of plan asset fair values, approximately 84% are based on closing date fair values and 16% have a one to three-month delay, as the fair values of private equity, venture capital, real estate and absolute return investments are not available in a short period. This is standard practice in the investment management industry. Assuming that the December 31, 2014 actual fair values of private equity, venture capital, real estate and absolute return investments were confirmed to be, after the one to three-month delay, 10% lower than the ones used for accounting purposes as of December 31, 2014, and since our U.S. Management pension plan has a material investment in these asset classes (and the asset ceiling described below is not applicable to this plan), other comprehensive income would be negatively impacted by approximately €308 million.

Asset ceiling

For retirees who were represented by the Communications Workers of America union and the International Brotherhood of Electrical Workers union, we expect to fund our current retiree healthcare and group life insurance obligations with Section 420 transfers from our U.S. Occupational pension plans. Section 420 of the U.S. Internal Revenue Code provides for transfers of certain excess pension plan assets held by a defined benefit pension plan into a retiree health benefits account established to pay retiree health benefits and into a group life insurance account established to pay retiree life insurance benefits. This is considered as a refund from the pension plan when setting the asset ceiling.

Depending on the type of Section 420 transfer, assets in excess of 120% or 125% of the funding obligation can be transferred. Using the methodology we selected to value plan assets and obligations for funding purposes (see Note 23), we estimated that, as of December 31, 2014, the excess of assets above 120% of the plan obligations was US$1.8 billion (€1.5 billion), and the excess above 125% of plan obligations was US$1.4 billion (€1.2 billion).

h/ Revenue recognition (see Note 6)

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

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 financial condition.

Although estimates inherent in construction contracts are subject to uncertainty, certain situations exist whereby management is unable to reliably estimate the outcome of a construction contract. These situations can occur during the early stages of a contract due to a lack of historical experience or throughout the contract as significant uncertainties develop related to additional costs, claims and performance obligations, particularly with new technologies.

Contracts that are multiple-element arrangements can include hardware products, stand-alone software, installation and/or integration services, extended warranty, and product roadmaps, as examples. Revenue for each unit of accounting is recognized when earned based on the relative fair value of each unit of accounting as determined by internal or third-party analyses of market-based prices. Significant judgment is required to allocate contract consideration to each unit of accounting and determine whether the arrangement is a single unit of accounting or a multiple-element arrangement. Depending upon how such judgment is exercised, the timing and amount of revenue recognized could differ significantly.

For multiple-element arrangements that are based principally on licensing, selling or otherwise marketing software solutions, judgment is required as to whether such arrangements are accounted for under IAS 18 or IAS 11. Software arrangements requiring significant production, modification or customization are accounted for as a construction contract under IAS 11. All other software arrangements are accounted for under IAS 18, in which case the Group requires vendor specific objective evidence (VSOE) of fair value to separate the multiple software elements. Significant judgment is required to determine the most appropriate accounting model to be applied in this environment and whether VSOE of fair value exists to allow separation of multiple software elements.

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

i/ Restructuring costs and impact on the recoverable value of goodwill (see Note 11)

On July 26, 2012, we announced the launch of the "Performance Program" to achieve additional cost reductions to bring total savings to €1.25 billion by the end of 2013. This program included the elimination of approximately 5,500 jobs across the Group, and provided for exiting or restructuring unprofitable Managed Services contracts, along with associated headcount reductions, and exiting or restructuring unprofitable markets.

On June 19, 2013, we announced the launch of The Shift Plan. Through this plan and the remainder of the Performance Program, we aim at (i) reducing our fixed-cost base by €950 million in 2015 compared to our 2012 cost base (including fixed cost savings to be realized under the Performance Program) through the adoption of direct-channel operations, additional consolidation of SG&A (selling, general and administrative) functions, and by refocusing our R&D capacity, (ii) generating revenues from the Core Networking segment at or above €7 billion with an operating margin at or above 12.5% in 2015, and (iii) generating segment operating cash flow from the Access segment at or above €200 million by the end of 2015.

We estimate restructuring costs related to The Shift Plan at €950 million for all outstanding actions anticipated for the years between 2013 and 2015. For the year ended December 31, 2014, we expensed €238 million of restructuring costs for these actions. The remaining restructuring costs related to The Shift Plan will be reserved and expensed in future quarters.

In compliance with sections 44 and 45 of IAS 36 "Impairment of Assets" and considering that we believe we are not committed to a restructuring program as long as we have not been able to expense it, we exclude future restructuring costs (and corresponding cost savings), if they have not been expensed, when we determine the value in use for the annual impairment test of goodwill. On the other hand, we fully took into account these future cash outflows and inflows in assessing the recoverability of our deferred tax assets and in determining the fair value less costs to sell of cash generating units (CGU), corresponding to the methodology described in Note 2c. We arrive at fair value less costs to sell of a CGU by basing it on a weighted average of three discounted cash flow approaches (two of the three using discounted residual values that are based respectively on a Sales multiple and an Operating Profit multiple), to arrive at a fair value that reflects assumptions that market participants would use when pricing a CGU.

NOTE 3 CHANGES IN CONSOLIDATED COMPANIES

2014

On March 31, 2014, Alcatel-Lucent completed the disposal of LGS Innovations LLC to a U.S.-based company owned by a Madison Dearborn Partners-led investor group that includes CoVant, for a cash selling price of U.S.$110 million (€81 million) after taking into account all working capital adjustments. The agreement includes an earnout of up to U.S.$100 million, based on the divested company's results of operations for the 2014 fiscal year, but for which we are not expecting to receive a significant amount. An €11 million loss was recognized in the line item "Gain/(loss) on disposal of consolidated companies".

On September 30, 2014, Alcatel-Lucent completed the disposal of 85% of its Enterprise business to China Huaxin, for cash proceeds of €205 million, of which €61 million was paid at closing and €141 million on October 9, 2014 (see Note 9).

On December 31, 2014, Alcatel-Lucent completed the disposal of its cyber-security services & solutions and communications security activities to Thales for a cash selling price of €41 million, subject to usual working capital adjustments. A €39 million gain was recognized in the line item "Gain/(loss) on disposal of consolidated companies".

No other material change in consolidated companies occurred during 2014.

2013

No material change in consolidated companies occurred during 2013 except for the agreement signed on December 20, 2013 to sell our subsidiary LGS Innovations LLC (see above).

2012

On February 1, 2012, we concluded the sale of our Genesys business to a company owned by the Permira funds (Permira is a European private equity firm) and Technology Crossover Ventures (a venture capital firm), for cash proceeds of U.S.$1.5 billion, pursuant to a binding offer that we had received on October 19, 2011 (see Note 9).

No other material change in consolidated companies occurred during 2012.

NOTE 4 CHANGE IN ACCOUNTING POLICY AND PRESENTATION

a/ Change in accounting policy

No change in accounting policy occurred in 2014 apart from the first adoption, during the first semester of 2014, of the IFRIC Interpretation 21 "Levies" (which is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"), the adoption of which was immaterial to these consolidated financial statements.

b/ Change in presentation

No change in presentation occurred in 2014.

NOTE 5 INFORMATION BY OPERATING SEGMENT AND BY GEOGRAPHICAL SEGMENT

In accordance with IFRS 8 "Operating Segments", the information by operating segment comes from the business organization and activities of Alcatel-Lucent.

As a part of The Shift Plan announced on June 19, 2013, a new organization was put in place effective from July 1, 2013 onwards. This organization is composed of three reportable segments: Core Networking, Access and Other. These reportable segments are composed as follows:

- "Core Networking" is composed of the following product divisions: IP Routing, Terrestrial Optics, Wireless Transmission, Submarine, Network Build & Implementation IP, IP Platforms & Platform Professional Services, and Strategic Industries;
- "Access" is composed of the following product divisions: Wireless and Network Build & Implementation Wireless, RFS (Radio Frequency Systems), Fixed Access and Network Build & Implementation Fixed, Multivendor Maintenance, Licensing and Managed Services; and
- "Other" comprised the Government product division up to March 31, 2014 and excludes the Enterprise business, which is reported in discontinued operations for all periods presented.

Results of operations for 2014 and for the comparable periods of 2013 and 2012 are presented according to this organization structure.

The information by reportable segment follows the same accounting policies as those used and described in these consolidated financial statements.

All inter-segment commercial relations are conducted on an arm's length basis on terms and conditions identical to those prevailing for the supply of goods and services to third parties.

a/ Information by reportable segment

(In millions of euros) **2014**	Core Networking	Access	Other	Total reportable segments	Other and unallocated (1)	Total	PPA adjustment (2)	Total consolidated
Revenues from external customers	5,959	7,151	41	13,151	27	**13,178**	**-**	**13,178**
Revenues from transactions with other reportable segments	7	6	-	13	(13)	-	-	-
Revenues from reportable segments	**5,966**	**7,157**	**41**	**13,164**	**14**	**13,178**	**-**	**13,178**
Operating income (loss))(3)	**630**	**42**	**-**	**672**	**(49)**	**623**	**(51)**	**572**
Amounts included in the operating income (loss):								
• depreciation and amortization	290	204	-	**494**	1	**495**	50	**545**
• material non-cash items other than depreciation and amortization	-	-	-	-	-	-	-	-

(1) Includes revenues from our non-core businesses and €21 million of share-based compensation expense that are not allocated to reportable segments.

(2) Represents purchase price allocation adjustments (excluding restructuring costs and impairment of assets) related to the Lucent business combination.

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

(In millions of euros) **2013(1)**	Core Networking	Access	Other	Total reportable segments	Other and unallocated (2)	Total	PPA adjustment(3)	Total consolidated
Revenues from external customers	6,130	7,437	210	13,777	36	**13,813**	**-**	**13,813**
Revenues from transactions with other reportable segments	21	10	-	31	(31)	-	-	-
Revenues from reportable segments	**6,151**	**7,447**	**210**	**13,808**	**5**	**13,813**	**-**	**13,813**
Operating income (loss) (4)	**479**	**(85)**	**5**	**399**	**(121)**	**278**	**(86)**	**192**
Amounts included in the operating income (loss):								
• depreciation and amortization	293	208	6	**507**	9	**516**	84	**600**
• material non-cash items other than depreciation and amortization	-	-	-	-	-	-	-	-

(1) 2013 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) Includes revenues from our non-core businesses and €26 million of share-based compensation expense that are not allocated to reportable segments.

(3) Represents purchase price allocation adjustments (excluding restructuring costs and impairment of assets) related to the Lucent business combination.

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

(In millions of euros) 2012(1)	Core Networking	Access	Other	Total reportable segments	Other and unallocated (2)	Total	PPA adjustment(3)	Total consolidated
Revenues from external customers	6,216	7,286	195	13,697	67	**13,764**		**13,764**
Revenues from transactions with other reportable segments	17	7	-	24	(24)	**-**		**-**
Revenues from reportable segments	**6,233**	**7,293**	**195**	**13,721**	**43**	**13,764**		**13,764**
Operating income (loss) (4)	**153**	**(323)**	**20**	**(150)**	**(100)**	**(250)**	(230)	**(480)**
Amounts included in the operating income (loss):								
• depreciation and amortization	302	282	3	587	13	**600**	230	**830**
• material non-cash items other than depreciation and amortization	-	-	-	-	-	-	-	-

(1) 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) Includes revenues from our non-core businesses and €35 million of share-based compensation expense that are not allocated to reportable segments.

(3) Represents purchase price allocation adjustments (excluding restructuring costs and impairment of assets) related to the Lucent business combination.

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

b/ Information by geographical segment

(In millions of euros)	France	Other Western Europe	Rest of Europe	China	Other Asia Pacific	U.S.A.	Other Americas	Rest of world	Consolidated
2014									
Revenues by customer location	771	1,929	282	1,342	1,289	5,488	1,009	1,068	**13,178**
Non-current assets (1)	315	202	24	266	47	1,222	56	11	**2,143**
2013(2)									
Revenues by customer location	798	2,125	361	1,097	1,230	5,986	1,209	1,007	**13,813**
Non-current assets (1)	280	215	28	213	45	1,137	51	14	**1,983**
2012 (2)									
Revenues by customer location	669	2,255	429	1,053	1,363	5,339	1,633	1,023	**13,764**
Non-current assets (1)	276	232	28	204	51	1,352	54	11	**2,208**

(1) Represents intangible and tangible assets.

(2) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

c/ Concentrations

A few large telecommunications service providers account for a significant portion of our revenues. In 2014, Verizon, AT&T and Sprint represented respectively 14%, 11% and 10% of our revenues (respectively 12%, 11% and 10% in 2013 and 11%, 10 % and 6% in 2012).

NOTE 6 REVENUES

(In millions of euros)	2014	2013(1)	2012(1)
Construction contract revenues	2,314	2,643	2,161
Other product revenues	7,440	6,922	6,819
Other service revenues	3,234	4,087	4,576
License revenues	22	41	58
Rental income and other income	168	120	150
Total revenues	**13,178**	**13,813**	**13,764**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

NOTE 7 FINANCIAL INCOME (LOSS)

(In millions of euros)	2014	2013(1)	2012(1)
Interest expense related to gross financial debt	(359)	(462)	(357)
Interest income related to cash and marketable securities	68	70	78
Finance costs (net)	**(291)**	**(392)**	**(279)**
Reversal of impairment losses/ (impairment losses) on financial assets	15	(3)	(28)
Net exchange gain (loss)	2	(24)	(2)
Financial component of pension and post-retirement benefit costs	(44)	(84)	(127)
Actual and potential capital gain/(loss) on financial assets (shares of equity affiliates or non-consolidated securities and financial receivables) and marketable securities	-	3	9
Other(2)	(184)	(210)	(246)
Other financial income (loss)	**(211)**	**(318)**	**(394)**
Total financial income (loss)	**(502)**	**(710)**	**(673)**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) 2014: mainly includes a €30 million loss related to the partial repurchase of our Senior Note due 2016 (see Note 24) and a €101 million loss related to the impact of the re-evaluation of our Senior Secured Credit Facility repaid on August 19, 2014 (see Note 24).

2013: of which €134 million related to a net loss on bonds repurchased (€26 million during the second quarter of 2013 and €87 million during the third quarter of 2013 and €21 million during the fourth quarter of 2013), €24 million related to the accelerated amortization of outstanding costs related to the asset sale facility repaid by Alcatel-Lucent USA Inc. during the third quarter of 2013, €(21) million related to the accelerated amortization of outstanding costs related to the euro denominated senior secured facility repaid by Alcatel-Lucent USA Inc. during the fourth quarter of 2013 and €39 million (U.S.$52 million) related to the change of estimated future cash flows in respect of Lucent Technologies Capital Trust I's 7.75% convertible trust preferred securities in the fourth quarter of 2013 (see Note 24a).

2012: of which €27 million loss related to the repurchase of U.S.$115.5 million nominal value of Alcatel-Lucent USA, Inc.'s 2.875% Series B convertible debentures in the first quarter of 2012 and of which a loss of €178 million (U.S.$229 million) related to the change of estimated future cash flows in respect of Alcatel-Lucent USA, Inc.'s 2.875 % Series B convertible debentures in the second quarter of 2012 (Note 24a).

NOTE 8 INCOME TAX

a/ Analysis of income tax (expense) benefit

(In millions of euros)	2014	2013(1)	2012(1)
Current income tax (expense) benefit	**(61)**	**(56)**	**(70)**
Deferred taxes on temporary differences	(6)	43	(13)
Deferred taxes recognized/(reversed)	383	186	(340)
Deferred income tax benefit (expense), net	**377**	**229**	**(353)**
Income tax benefit (expense)	**316**	**173**	**(423)**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

Deferred taxes recognized/(reversed) in 2014 result mainly from a re-assessment of the recoverability of prior-year net operating losses, and of prior-year deductible temporary differences to a lesser extent.

b/ Disclosure of tax effects relating to each component of other comprehensive income

(In millions of euros)	2014			2013			2012		
	Value before tax	Tax (expense) benefit	Value net of tax	Value before tax	Tax (expense) benefit	Value net of tax	Value before tax	Tax (expense) benefit	Value net of tax
Financial assets available for sale	8	-	8	11	-	11	16	-	16
Cumulative translation adjustments	501	-	501	(232)	-	(232)	(34)	-	(34)
Cash flow hedging	(1)	-	(1)	-	-	-	14	-	14
Actuarial gains (losses)	(1,822)	254	(1,568)	1,667	(256)	1,411	172	(101)	71
Other	-	-	-	-	-	-	-	-	-
Other comprehensive income	**(1,314)**	**254**	**(1,060)**	**1,446**	**(256)**	**1,190**	**168**	**(101)**	**67**

c/ Effective income tax rate

The effective tax rate can be analyzed as follows:

(In millions of euros except for percentage)	2014	2013[(1)]	2012[(1)]
Income (loss) before income tax and discontinued operations	(350)	(1,442)	(2,304)
Corporate income tax rate (France)	38%	38%	36.10%
Expected tax (charge) benefit	**133**	**548**	**832**
Impact on tax (charge) benefit of:			
• difference in tax rates [(2)]	35	20	(7)
• reduced taxation of certain revenues	-	8	3
• non deductible impairment of assets	-	(209)	(219)
• permanent differences and utilization of previously unrecognized tax losses	230	136[(4)]	205[(3)]
• adjustment to prior years' current tax charge	(14)	11	18
• recognition of previously unrecognized deferred tax assets	395[(3)]	162[(3)]	21
• deferred tax assets no longer recognized	(4)	(9)	(546)
• non-recognition of tax losses	(519) [(4)]	(506)[(4)]	(759)[(4)]
• tax credits	41	25	23
• other	19	(13)	6
Actual income tax (charge) benefit	**316**	**173**	**(423)**
Effective tax rate	**90.0%**	**12%**	**(18.4)%**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) Alcatel-Lucent's presence in jurisdictions in which tax rates differ from the French statutory tax rate generates the differences in tax amounts.

(3) Mainly related to the reassessment of the recoverability of deferred tax assets in the United States. In 2014, €363 million (primarily net operating losses) were recognized based on the revised 2015-2017 tax planning.

(4) Mainly related to the French tax group.

d/ Deferred tax balances

(In millions of euros) **Balances**	2014	2013	2012
Deferred tax assets:			
• deferred tax assets recognizable	13,758	12,460	12,698
• of which not recognized	(12,242)	(11,460)	(11,713)
Net deferred tax assets recognized	**1,516**	**1,000**	**985**
Deferred tax liabilities	**(872)**	**(990)**	**(889)**
Net deferred tax assets (liabilities)	**644**	**10**	**96**

Change during the period

		Impact on net income (loss)				
(In millions of euros)	December 31, 2013	Income tax benefit (expense)	Income loss from discontinued operations	Translation adjustments	Other	December 31, 2014
Deferred tax assets recognized	1,000	371	-	152	(7)	**1,516**
Deferred tax liabilities	(990)	6	-	(65)	177	**(872)**
Net deferred tax assets (liabilities)	10	**377**	**-**	**87**	**170**	**644**

Analysis of deferred tax assets and liabilities by temporary differences

(In millions of euros)	December 31, 2013	Impact on net income (loss)	Translation adjustments	Reclassification and Other	December 31, 2014
Fair value adjustments of tax assets and liabilities resulting from business combinations	(238)	(27)	(35)	-	(300)
Provisions	239	-	11	15	265
Pension reserves	1,083	18	24	453(1)	1,578
Prepaid pensions	(1,181)	(24)	40	182	(983)
Property, plant and equipment and intangible assets	676	(160)	55	17	588
Temporary differences arising from other statement of financial position captions	273	37	34	(73)	271
Tax loss carry-forwards and tax credits	10,618	245	624	(20)	11,467
Deferred tax assets (liabilities), gross	**11,470**	**89**	**753**	**575**	**12,886**
Deferred tax assets not recognized	(11,460)	288	(666)	(404)	(12,242)
Net deferred tax assets (liabilities)	**10**	**377**	**87**	**170**	**644**

(1) Mainly U.S.

(In millions of euros) **Deferred tax assets recognized**	December 31, 2014	December 31, 2013	December 31, 2012
Related to the United States	1,280(1)	777(1)	770(1)
Related to other tax jurisdictions	236	223	215
Total	**1,516**	**1,000**	**985**

(1) A reassessment of deferred taxes, as of December 31, 2014, resulted in increasing the deferred tax assets recorded in the United States compared to the situation as of December 31, 2013. The impact related to foreign exchange rate variation was €140 million.

Deferred taxes not recognized relating to temporary differences on investments in subsidiaries, equity affiliates and joint ventures were zero at December 31, 2014, December 31, 2013 and December 31, 2012.

e/ Tax losses carried forward and temporary differences

Tax losses carried forward

Total tax losses carried forward represent a potential tax saving of €11,467 million at December 31, 2014 (€10,618 million at December 31, 2013 and €10,200 million at December 31, 2012). The increase of tax losses carried forward between 2014 and 2013 is due to new tax losses (not recognized) of which €547 million arose in the French tax group, partly offset by the use of previously recognized or unrecognized losses mainly in the U.S. tax group for €254 million. Exchange rate impacts on tax losses between 2014 and 2013 concerning the United States represented an increase of tax losses carried forward of €567 million. The potential tax savings relate to tax losses carried forward that expire as follows:

(In millions of euros) **Years**	Recognized	Unrecognized	Total
2015	63	5	68
2016	33	13	46
2017	122	24	146
2018	136	17	153
2019	5	9	14
2020 and thereafter	745	3,565	4,310
Indefinite	43	6,687	6,730
Total	**1,147**	**10,320**	**11,467**

Temporary differences

(In millions of euros)	Recognized	Unrecognized	Total
At December 31, 2012	46	1,563	1,609
At December 31, 2013	(63)	915	852
At December 31, 2014	**(503)**	**1,922**	**1,419**

Recognized net taxable temporary differences of €503 million in 2014 mainly related to deferred tax liabilities in respect of pre-paid pensions, purchase price allocation and the equity component of the OCEANE.

NOTE 9 DISCONTINUED OPERATIONS, ASSETS HELD FOR SALE AND LIABILITIES RELATED TO DISPOSAL GROUPS HELD FOR SALE

Discontinued operations for 2014, 2013 and 2012 were as follows:

- in 2014: On February 6, 2014, Alcatel-Lucent announced that it had received a binding offer from China Huaxin, an existing partner of Alcatel-Lucent's Alcatel-Lucent Shanghai Bell (ASB) joint venture in China, for 85% of the Enterprise business. After having obtained the requisite approvals, the deal closed on September 30, 2014, with most of the Enterprise business transferred. The transferred Enterprise business is presented in discontinued operations in the consolidated income statements and statements of cash flows for all periods presented;
- in 2013: settlements of litigations related to businesses disposed of in prior periods and a post-closing purchase price adjustment in connection with the Genesys business disposal; and
- in 2012: settlements of litigations related to businesses disposed of in prior periods and the Genesys business until disposal.

(In millions of euros) **Income statement of discontinued operations**	**2014**	**2013**(1)	**2012**(1)
Revenues	437	623	711
Cost of sales	(222)	(302)	(366)
Gross profit	216	321	345
Administrative and selling expenses	(169)	(203)	(241)
Research and development costs	(33)	(106)	(119)
Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities, impairment of assets and post-retirement benefit plan amendments	**14**	**12**	**(15)**
Restructuring costs	(1)	(20)	(10)
Gain/(loss) on disposal of consolidated entities	-	-	-
Post-retirement benefit plan amendments	-	2	-
Income (loss) from operations	12	(6)	**(25)**
Financial income (loss)	(3)	(1)	(3)
Income tax (expense) benefit	(1)	(2)	(22)
Income (loss) from discontinued operations before capital gains (losses)	**8**	**(9)**	**(50)**
Net capital gain (loss) on disposal of discontinued operations	1	(17)	-
Capital gain on disposal of Enterprise net of related costs and taxes	(58)	-	-
Capital gain on disposal of Genesys net of related costs and taxes	-	1	689
Income (loss) from discontinued operations	**(49)**	**(25)**	**639**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations.

During the third quarter 2012, we received a tax audit report relating to the contribution of our railway signalling business to Thales in 2006. As indicated in Note 25b, depending upon the outcome, our income (loss) from discontinued operations could be materially, negatively impacted.

Assets held for sale

For 2013, assets and liabilities of disposal groups held for sale include (i) Alcatel-Lucent Networks Services GmbH, the disposal of which was completed on January 7, 2014 in the context of the transfer of the E-Plus managed services business to ZTE, and (ii) LGS Innovations (discussed below).

On December 20, 2013, Alcatel-Lucent signed a definitive agreement for the sale of its subsidiary, LGS Innovations LLC, to a US-based company owned by a Madison Dearborn Partners-led investor group that includes CoVant. On March 31, 2014, we completed the disposal for a cash selling price of U.S.$110 million (€181 million) after taking into account all working capital adjustments. The agreement includes an earnout of up to U.S.$100 million based on the divested company's results of operations for the 2014 fiscal year, but for which we are not expecting to receive significant amount.

Other assets held for sale are composed of real estate property sales that were in progress at December 31, 2014, 2013 and 2012.

At December 31, 2014, assets and liabilities of disposal groups held for sale include only the remaining, not yet transferred Enterprise assets and liabilities that are expected to be transferred within one year from the date the deal was closed (September 30, 2014). Alcatel-Lucent Networks Services GmbH and LGS Innovations, which were presented in assets and liabilities of disposal groups held for sale as of December 31, 2013, were disposed of on January 7, 2014 and on March 31, 2014, respectively.

(In millions of euros) **Statement of financial position**	**December 31, 2014**	**December 31, 2013**	**December 31, 2012**
Goodwill	-	-	-
Intangible and tangible assets	2	21	-
Operating working capital (1)	13	38	-
Cash	-	-	1
Pension reserves	-	(7)	-
Other assets and liabilities	(20)	(13)	(3)
Assets and liabilities of disposal groups held for sale	**(5)**	**39**	**(2)**
Assets of disposal groups held for sale (A)	*20*	*133*	*18*
Liabilities related to disposal groups held for sale (B)	*(25)*	*(94)*	*(20)*
Real estate properties and other assets held for sale (C)	**45**	**9**	**2**
Other liabilities held for sale (D)	**(7)**	**-**	**-**
Total assets held for sale and assets included in disposal groups held for sale (A) + (C)	**65**	**142**	**20**
Total liabilities related to disposal groups held for sale (B) + (D)	**(32)**	**(94)**	**(20)**

(1) As defined in Note 17.

The cash flows of discontinued operations were as follows:

(In millions of euros)	**Year ended December 31, 2014**	**Year ended December 31, 2013(1)**	**Year ended December 31, 2012(1)**
Net income (loss) from discontinued operations	**(49)**	**(25)**	**639**
Net cash provided (used) by operating activities before changes in working capital	11	**60**	(41)
Other net increase (decrease) in net cash provided (used) by operating activities	23	**5**	(30)
Net cash provided (used) by operating activities (A)	34	65	(71)
Capital expenditures (B)	**(14)**	-	**(129)**
Free cash flow: (A) + (B) (2)	**10**	**9**	**(107)**
Net cash provided (used) by investing activities excluding capital expenditures (C)	119	1	1,124
Net cash provided (used) by financing activities (D)	65	(15)	36
Total (A) + (B) + (C) + (D)	**170**	**(14)**	**1,031**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations.

(2) Of which €(82) million related to the Genesys business in 2012.

NOTE 10 EARNINGS PER SHARE

The tables below provide the elements used in arriving at the basic earnings (loss) per share and diluted earnings (loss) per share for the periods presented:

Number of shares	2014	2013	2012(1)
Number of ordinary shares issued (share capital)	2,820,432,270	2,808,554,197	2,458,611,327
Treasury shares	(40,120,327)	(51,894,411)	(61,482,325)
Number of shares in circulation	**2,780,311,943**	**2,756,659,786**	**2,397,129,002**
Weighting effect of share issues (of which stock options exercised)	(3,867,299)	(317,578,166)	(304,610)
Weighting effect of treasury shares	(9,418,294)	(7,912,902)	(5,985)
Weighted average number of shares outstanding - basic number of shares used for calculating basic earnings per share	**2,767,026,349**	**2,431,168,718**	**2,396,818,408**
Dilutive effects:			
— Equity plans (stock options, RSU)	-	-	-
—Alcatel-Lucent's convertible bonds (OCEANE) issued on June 12, 2003 and on September 10, 2009	-	-	-
—Alcatel-Lucent's convertible bonds (OCEANE) issued on July 3, 2013	-	-	-
—Alcatel-Lucent's convertible bonds (OCEANE) 1st and 2nd tranche issued on June 10, 2014	-	-	-
—7.75 % convertible trust preferred securities	-	-	-
—2.875% Series A convertible securities	-	-	-
—2.875% Series B convertible securities	-	-	-
Weighted average number of shares outstanding - diluted	**2,767,026,349**	**2,431,168,718**	**2,396,818,408**

(1) As a result of the 2013 capital increase made by Alcatel-Lucent through an offering of preferential subscription rights to existing shareholders, the calculation of basic and diluted earnings per share for 2012 has been adjusted retrospectively. Number of outstanding ordinary shares has been adjusted to reflect the proportionate change in the number of shares.

As our net result was a loss, stock-options and performance shares' plans had an anti-dilutive effect; as a consequence, potential shares linked to those instruments were not taken into account in the diluted weighted average number of shares or in the calculation of diluted earnings (loss) per share. Additionally, convertible bonds had an anti-dilutive effect; as a consequence, potential shares linked to those instruments were not taken into account in the diluted weighted average number of shares or in the calculation of diluted earnings (loss) per share.

(In millions of euros) **Net income (loss)**	2014	2013(1)	2012(1)
Net income (loss) attributable to the equity owners of the parent - basic	(118)	(1,304)	(2,011)
Adjustment for dilutive securities on net income: Interest expense related to convertible securities	-	-	-
Net income (loss) - diluted	**(118)**	**(1,304)**	**(2,011)**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

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

	2014	2013	2012
Equity plans (stock options, RSU)	48,335,993	25,156,350	31,983,113
Alcatel-Lucent's convertible bonds (OCEANE) issued on June 12, 2003 and on September 10, 2009	-	-	327,169,179
Alcatel-Lucent's convertible bonds (OCEANE) issued on July 3, 2013	370,378,501	370,379,561	-
Alcatel-Lucent's convertible bonds (OCEANE) 1st and 2nd tranche issued on June 10, 2014	281,999,995	-	-
7.75% convertible trust preferred securities	-	37,557,287	39,688,905
2.875% Series A convertible securities	-	-	68,844,512
2.875% Series B convertible securities	-	-	554,556,556

NOTE 11 GOODWILL AND IMPAIRMENT LOSSES

a/ Goodwill

(In millions of euros)	Net
Goodwill at December 31, 2011	**4,389**
Additions	-
Disposals and discontinued operations	-
Changes during goodwill allocation period	-
Impairment losses for the period	(522)
Net effect of exchange rate changes	(47)
Other changes	-
Goodwill at December 31, 2012	**3,820**
Additions	-
Disposals and discontinued operations	-
Changes during goodwill allocation period	-
Impairment losses for the period	(568)
Net effect of exchange rate changes	(99)
Other changes	3
Goodwill at December 31, 2013	**3,156**
Additions	10
Disposals and discontinued operations	(222)
Changes during goodwill allocation period	-
Impairment losses for the period	-
Net effect of exchange rate changes	237
Other changes	-
Goodwill at December 31, 2014	**3,181**

Main changes accounted for

- 2014: The decrease of €222 million was related to the disposal of the Enterprise business. The increase of €10 million was attributable to the acquisition of Optoplan, a Norwegian company;
- 2013: Impairment losses amounting to €568 million were accounted for during 2013; and
- 2012: Impairment losses amounting to €522 million were accounted for during 2012.

Key assumptions used in determining the recoverable values

The recoverable values of our CGUs are based on key assumptions, which could have a significant impact on our consolidated financial statements. The key assumptions used were as follows:

	2014	2013	2012
Source	Business plan Shift plan	Business plan Shift plan	Business plan Performance plan
Basis of recoverable amount	Fair value (1)	Fair value (1)	Fair value (1) or value in use
Discount rates (WACC)	9.8%	11%	11%
Perpetual growth rates (2)	0% to 2.0%	0% to 2.5%	0% to 2.5%

(1) Fair value less costs to sell.

(2) As defined in Note 2c, growth rates used for the cash flow analysis are those used in the Group's budgets and industry rates for the subsequent periods. Perpetual growth rate used for the residual values are between +0% and +2.5% depending on the Group's CGUs.

The methods used to determine recoverable amounts are described in Note 2c.

2014 Annual impairment test

The annual impairment test assumptions that were used were derived from our 5-year Business Plan which is based on The Shift Plan launched mid-2013 as detailed in Note 2i. Significant development of our Wavelength-Division Multiplexing (WDM) revenues for Optical Products was also used as a key assumption for IP Transport.

As a result of the 2014 annual impairment test, no impairment loss on goodwill was accounted for in 2014.

In those cash generating units (Note 1g) in which there is significant goodwill, data and specific assumptions used for the annual goodwill impairment test were as follows:

(In millions of euros)	Net carrying amount of goodwill as of December 31, 2014	Difference between recoverable value (A) and carrying value of the net assets (B) (A) - (B)	Perpetual Growth rate
IP Routing	829	4,328	2.0%
Fixed Networks	703	1,706	1.5%
Submarine	608	188	2.0%
IP Platform	533	1,524	1.5%
IP Transport	303	136	2.0%
Other CGUs	205		0% to 1.0%
TOTAL NET	**3,181**		

Sensitivity analysis

Holding all other assumptions constant, a 0.5% increase or decrease in the discount rate would have decreased or increased the 2014 recoverable value of all CGUs or groups of CGUs that include goodwill and intangible assets by €598 million and €673 million, respectively. An increase of 0.5% in the discount rate would have led to no impairment loss.

Holding all other assumptions constant, an increase in the discount rate of 3.3% and 2.9% would have led to the recoverable values of Submarine and IP Transport respectively, being equal to their carrying amounts.

Holding all other assumptions constant, a 0.5% decrease in the perpetual growth rate would have decreased the recoverable values of Submarine and IP Transport by €21 and €5 million, respectively.

Holding all other assumptions constant, if the estimated growth of our sales of WDM products were to be delayed by six months, it would have decreased the December 31, 2014 recoverable value of IP Transport by €210 million, leading to a goodwill impairment loss of €74 million.

2013 Annual impairment test

The 2013 annual impairment test of goodwill did not result in any impairment loss that was additional to the €568 million derived from the selective impairment test performed in June 2013 (see below).

The annual impairment test assumptions that were used were derived from The Shift Plan that we launched in June 2013, as detailed in Note 2i, which caused a revision of the five-year forecasted cash flows and terminal values used to determine the recoverable values of certain CGUs.

We also applied the following key assumptions related to the recoverable value for the IP Transport CGU: (i) perpetual growth rate of 1.5%, and (ii) significant development of our WDM revenues in the coming years.

Due to the change in organization effective July 1, 2013 (see Note 5), as from this date, goodwill was reallocated to the new Product Divisions or groups of Product Divisions, corresponding to the CGUs at which level goodwill is monitored and tested for impairment.

Six-month period ended June 30, 2013 selective additional impairment test

The June 19, 2013 announcement concerning the Group’s new strategy embodied in The Shift Plan leads to additional restructuring costs. Such additional costs had and could have a negative impact on the recoverable value of our goodwill in certain CGUs, principally in the Wireless product division.

Although all of the goodwill and a significant proportion of the intangible assets of the Wireless product division were impaired at the time of the annual goodwill impairment test carried out during the fourth quarter of 2012, as a result of the implementation of the new organizational structure starting on January 1, 2013 resulting from the announcement of the Performance Plan, and, more particularly, as a result of the inclusion of the Maintenance activity in each product division instead of in a stand-alone product division, we allocated a significant amount of additional goodwill to the Wireless product division. The Shift Plan further adjusted the organizational structure starting July 1, 2013, although it did not change the allocation of the Maintenance activities among the product divisions.

Based on the estimated impact of The Shift Plan on the recoverable value of certain CGUs, management decided to perform a selective impairment test as of June 30, 2013 on three product divisions (i.e. Wireless, Terrestrial Optics and Enterprise). Assumptions made in the 2012 annual impairment test performed in December 2012 were updated based on the assumptions taken into account in The Shift Plan.

As a result of this selective additional impairment test, all the goodwill related to the Wireless product division was impaired, representing an impairment loss of €568 million.

2012 Annual impairment test

This annual impairment test occurred during the time of a continuing deterioration in the economic environment, competitive pricing being experienced in certain regions challenging the Group's profitability, and the deterioration in our adjusted operating income as compared to our budget. We also revised our assumptions about the pace of the Wavelength-Division Multiplexing (WDM) ramp-up and the migration of new technologies in the Optics Division. These evolutions were reflected in our revision of the five-year forecasted cash flows and terminal values used to determine the recoverable values of certain CGUs.

These recoverable values incorporated certain future benefits that we expected from the Performance Program we launched in July 2012, in which we assumed cost savings of €1,250 million by the end of 2013 (see Note 2i).

As a result of the 2012 annual impairment tests, an impairment loss on goodwill of €522 million was accounted for in 2012, to reduce the carrying values of certain CGUs to recoverable value. Of the €522 million, €503 million was recorded in the former Networks operating segment (of which, in the various product divisions, €431 million was recorded in the Optics product division, €64 million in Wireline Networks, and €8 million in Wireless Networks) and €19 million in the former Software, Services & Solutions operating segment (of which €11 million in the Advanced Communications Solutions product division and €8 million in the Network Build & Implementation product division).

Due to the new organization of our reporting structure beginning January 1, 2013, we also performed a specific impairment test as of January 1, 2013 on the goodwill relating to the CGUs that changed. The remaining goodwill as of December 31, 2012 was reallocated to the new CGUs using a relative value approach.

No impairment loss was accounted for in connection with this specific impairment test.

b/ Impairment losses

(In millions of euros) **2014**	Core Networking	Access	Other	Not allocated	Total Group
Impairment losses on goodwill	-	-	-	-	-
Impairment losses on capitalized development costs	-	-	-	-	-
Impairment losses on other intangible assets	-	-	-	-	-
Impairment losses on property, plant and equipment	-	-	-	-	-
Total - Net	**-**	**-**	**-**	**-**	**-**
of which reversal of impairment losses	-	-	-	-	-

(In millions of euros) **2013**	Core Networking	Access	Other	Not allocated	Total Group
Impairment losses on goodwill	-	(568)	-	-	(568)
Impairment losses on capitalized development costs	-	-	-	-	-
Impairment losses on other intangible assets	-	4	-	-	4
Impairment losses on property, plant and equipment	-	18	-	(2)	16
Total - Net	**-**	**(546)**	**-**	**(2)**	**(548)**
of which reversal of impairment losses	*-*	*22*	*-*	*-*	*22*

(In millions of euros) **2012**	Core Networking	Access	Other	Not allocated	Total
Impairment losses on goodwill	(442)	(80)	-	-	(522)
Impairment losses on capitalized development costs(1)	-	(122)	-	-	(122)
Impairment losses on other intangible assets(2)	-	(191)	-	-	(191)
Impairment losses on property, plant and equipment	-	(59)	-	-	(59)
Total - Net	**(442)**	**(452)**	**-**	**-**	**(894)**
of which reversal of impairment losses	*-*	*2*	*-*	*-*	*2*

(1) As part of our annual goodwill impairment test in the fourth quarter of 2012, we identified indications that capitalized development costs related to our offering for GSM and CDMA technologies (both in our Wireless networks product division) may be impaired. The main triggering event was the faster than anticipated replacement of these technologies by the new LTE technology. Impairment tests of these assets were therefore conducted. As of December 31, 2012, the capitalized development costs for these two technologies were fully impaired or amortized.

(2) Due to the change in the CDMA market conditions, we also performed an impairment test on the other intangible assets. As a result of this impairment test, an impairment loss on other intangible assets of €191 million was accounted for in 2012. These impairment losses were all recorded in the Wireless Networks Product Division, including mainly €136 million of customer relationships and €50 million of CDMA acquired technology, both initially accounted for in the context of the merger with Lucent in 2006. These two assets were fully amortized or impaired as of December 31, 2012.

NOTE 12 INTANGIBLE ASSETS

a/ Intangible assets

(In millions of euros)	Capitalized development costs	Other intangible assets	Total
At December 31, 2012			
At cost or valuation	2,613	5,630	8,243
Amortization and impairment	(2,192)	(4,876)	(7,068)
Net book value	**421**	**754**	**1,175**
At December 31, 2013			
At cost or valuation	2,380	5,358	7,738
Amortization and impairment	(2,002)	(4,735)	(6,737)
Net book value	**378**	**623**	**1,001**
At December 31, 2014			
At cost or valuation	2,370	6,048	8,418
Amortization and impairment	(2,041)	(5,366)	(7,407)
Net book value	**329**	**682**	**1,011**

Other intangible assets include primarily intangible assets acquired in business combinations (acquired technologies, in-process research and development and customer relationships), patents, trademarks and licenses.

b/ Changes in intangible assets, net

(In millions of euros)	Capitalized development costs	Other intangible assets	Total
At December 31, 2011	**560**	**1,214**	**1,774**
Capitalization	270	33	303
Additions	-	13	13
Amortization	(282)	(303)	(585)
Impairment losses	(122)	(191)	(313)
Assets held for sale, discontinued operations and disposals	-	(2)	(2)
Net effect of exchange rate changes	(5)	(11)	(16)
Other changes	-	1	1
At December 31, 2012	**421**	**754**	**1,175**
Capitalization	189	32	221
Additions	-	7	7
Amortization	(223)	(148)	(371)
Impairment losses	-	4	4
Assets held for sale, discontinued operations and disposals	-	(2)	(2)
Net effect of exchange rate changes	(9)	(27)	(36)
Other changes	-	3	3
At December 31, 2013	**378**	**623**	**1,001**
Capitalization	162	73	235
Additions	-	5	5
Amortization	(164)	(97)	(261)
Impairment losses	-	-	-
Assets held for sale, discontinued operations and disposals	(77)	(3)	(80)
Net effect of exchange rate changes	30	74	104
Other changes	-	7	7
At December 31, 2014	**329**	**682**	**1,011**

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

a/ Property, plant and equipment

(In millions of euros)	Land	Buildings & vessels	Plant, equipment and tools	Other	Total
At December 31, 2012					
At cost or valuation	124	1,000	2,935	761	4,820
Amortization and impairment	(17)	(573)	(2,479)	(618)	(3,687)
Net book value	**107**	**427**	**456**	**143**	**1,133**
At December 31, 2013					
At cost or valuation	90	931	2,716	768	4,505
Amortization and impairment	(10)	(558)	(2,277)	(585)	(3,430)
Net book value	**80**	**373**	**439**	**183**	**1,075**
At December 31, 2014					
At cost or valuation	88	943	2,867	709	4,607
Amortization and impairment	(11)	(545)	(2,362)	(557)	(3,475)
Net book value	**77**	**398**	**505**	**152**	**1,132**

b/ Changes in property, plant and equipment, net

(In millions of euros)	Land	Buildings & vessels	Plant, equipment and tools	Other	Total
At December 31, 2011	**114**	**495**	**495**	**128**	**1,232**
Additions	-	5	97	197	299
Depreciation charge	(1)	(68)	(220)	(36)	(325)
Impairment losses (1)	(4)	(16)	(41)	2	(59)
Reversals of impairment losses (1)	-	-	-	-	-
Assets held for sale, discontinued operations and disposals	-	(3)	(1)	-	(4)
Changes in consolidated group	-	4	(1)	-	3
Net effect of exchange rate changes	(2)	(6)	(4)	(3)	(15)
Other changes	-	16	131	(145)	2
At December 31, 2012	**107**	**427**	**456**	**143**	**1,133**
Additions	-	13	90	220	323
Depreciation charge	(1)	(51)	(206)	(37)	(295)
Impairment losses (1)	(4)	-	(1)	-	(5)
Reversals of impairment losses (1)	4	2	12	-	18
Assets held for sale, discontinued operations and disposals	(28)	(15)	(8)	-	(51)
Changes in consolidated group	-	-	-	(2)	(2)
Net effect of exchange rate changes	(4)	(13)	(13)	(5)	(35)
Other changes	6	10	109	(136)	(11)
At December 31, 2013	**80**	**373**	**439**	**183**	**1,075**
Additions	-	32	96	199	327
Depreciation charge	(1)	(49)	(208)	(36)	(294)
Impairment losses (1)	-	-	-	-	-
Reversals of impairment losses (1)	-	-	-	-	-
Assets held for sale, discontinued operations and disposals	(9)	(20)	(20)	(11)	(60)
Changes in consolidated group	-	-	-	-	-
Net effect of exchange rate changes	9	33	35	7	84
Other changes	(2)	29	163	(190)	-
At December 31, 2014	**77**	**398**	**505**	**152**	**1,132**

(1) Refer to Note 11b.

c/ Finance leases

Property, plant and equipment held under finance leases have a net carrying amount of €45 million at December 31, 2014 (€51 million at December 31, 2013 and €53 million at December 31, 2012). Such finance leases relate primarily to IS/IT equipment sold and leased back in connection with the Hewlett Packard co-sourcing agreement (refer to Note 28).

Future minimum lease payments under non-cancellable finance leases are shown in Note 28a - Off balance sheet commitments.

NOTE 14 INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND INTERESTS IN SUBSIDIARIES

a/ Investments in associates and joint ventures

(In millions of euros)	Value		
	2014	**2013**	**2012**
Equity affiliates of Alcatel-Lucent Shanghai Bell	9	9	9
Alda Marine	16	13	11
AMIRIB	12	7	3
Tetron	8	5	5
Other (less than €5 million each)	6	1	1
Investments in associates and joint ventures	**51**	**35**	**29**

b/ Change in investments in associates and joint ventures

(In millions of euros)	**2014**	**2013**	**2012**
Carrying amount at January 1	**35**	**29**	**21**
Change in equity affiliates accounted for under the equity method	-	-	2
Share of net income (loss)	15	7	5
Net effect of exchange rate changes	1	-	1
Other changes	-	(1)	-
Carrying amount at December 31	**51**	**35**	**29**

c/ Summarized financial information for associates and joint ventures

Aggregated financial information for associates and joint ventures as if those entities were consolidated at 100%:

(In millions of euros)	**2014**	**2013**	**2012**
Total assets	305	234	238
Liabilities (excluding equity)	186	148	168
Equity	119	86	70
Revenues	118	107	119
Net income (loss) attributable to equity owners of the parent	24	19	16

d/ Interests in subsidiaries

The Group has a material non-wholly owned subsidiary, Alcatel-Lucent Shanghai Bell Co. Ltd, which has material non-controlling interests (50% less one share). Alcatel-Lucent Shanghai Bell Co. Ltd and its subsidiaries in China and in the rest of the world, including the RFS Group, make up the "Alcatel-Lucent Shanghai Bell Group". Materiality of the non-controlling interests was determined based on the significance of the Alcatel-Lucent Shanghai Bell Group's revenues and statement of financial position to the Group's financial statements. Non-controlling interests in other subsidiaries are individually immaterial.

(In millions of euros)	**Non - controlling interests**	*Of which Alcatel-Lucent Shanghai Bell Group*		
		Net contribution	*Eliminations*	*Before intragroup eliminations*
Balance at December 31, 2011	**747**	*659*	-	-
Capital increase	122	*122*	-	-
Non-controlling interests in 2012 income	(77)	*(92)*	*(3)*	*(89)*
Other changes (1)	(47)	*(23)*	-	-
Balance at December 31, 2012	**745**	*666*	-	-
Non-controlling interests in 2013 income	10	*2*	*(4)*	*6*
Other changes (1)	(25)	*(13)*	-	-
Balance at December 31, 2013	**730**	*655*	-	-
Non-controlling interests in 2014 income	35	18	5	13
Other changes (1)	68	75	-	-
Balance at December 31, 2014	**833**	**748**	-	-

(1) This amount primarily relates to net gains (losses) recognized directly in equity attributable to non-controlling interests, dividends paid and the currency translation impact.

Alcatel-Lucent Shanghai Bell Group - Summarized financial information

(In millions of euros) **Amounts before intragroup eliminations**	**2014**	**2013**	**2012**[5]
Income statement			
Revenues	3,089	2,130	2,197
Income (loss) from operations	35	(8)	(188)
Net Income (loss)	26	3	(196)
Attributable to:			
- Equity owners of the parent	13	(3)	(107)
- Non-controlling interests	**13**	**6**	**(89)**
Statement of financial position			
Non-current assets	517	430	407
Non-current liabilities	(127)	(115)	(115)
Operating working capital [1]	76	(10)	33
Cash and cash equivalents [2] [4]	1,217	1,139	1,210
Financial debt	(142)	(44)	(106)
Statement of cash flows			
Net cash provided (used) by operating activities	(30)	101	90
Free cash flow[3]	(139)	19	22
Net cash provided (used) by investing activities	28	(28)	(133)
Net cash provided (used) by financing activities	83	(76)	107
Of which dividends paid to non-controlling interests	-	-	*(18)*

(1) As defined in Note 17.

(2) As defined in Note 24.

(3) As defined in Note 27b.

(4) Includes €988 million cash and cash equivalents held in countries subject to exchange control restrictions as of December 31, 2014 (€652 million as of December 31, 2013 and €819 million as of December 31, 2012).

(5) Including RFS Group as from April 1, 2012.

NOTE 15 FINANCIAL ASSETS

(In millions of euros)	**December 31, 2014**			**December 31, 2013**			**December 31, 2012**		
	Other non-current financial assets, net [1]	**Marketable securities** [2]	**Total**	**Other non-current financial assets, net** [1]	**Marketable securities** [2]	**Total**	**Other non-current financial assets, net** [1]	**Marketable securities** [2]	**Total**
Financial assets available for sale	226	167	393	172	158	330	181	146	327
Financial assets at fair value through profit or loss	100	1,505	1,605	91	2,101	2,192	98	1,382	1,480
Financial assets at amortized cost[3]	80	-	80	59	-	59	62	-	62
Total	**406**	**1,672**	**2,078**	**322**	**2,259**	**2,581**	**341**	**1,528**	**1,869**

(1) Of which €22 million matures within one year as of December 31, 2014 (€22 million as of December 31, 2013 and €47 million as of December 31, 2012).

(2) All of which is current as of December 31, 2014, 2013 and 2012.

(3) Of which €32 million relates to a loan to the former Enterprise business as of December 31, 2014. The loans to Alda Marine and AMIRIB that represented €7 million as of December 31, 2013 and €24 million as of December 31, 2012 respectively were reimbursed in 2014.

No financial asset is considered as being held to maturity.

The cumulated fair value changes of financial assets available for sale represented a potential gain as of December 31, 2014 of €48 million that was booked directly in equity (€40 million as of December 31, 2013 and €29 million as of December 31, 2012).

a/ Financial assets available for sale

(In millions of euros)	December 31, 2014			December 31, 2013			December 31, 2012		
	Other non-current financial assets	Marketable securities	Total	Other non-current financial assets	Marketable securities	Total	Other non-current financial assets	Marketable securities	Total
Net carrying amount at January 1	**172**	**158**	**330**	**181**	**146**	**327**	**216**	**133**	**349**
Additions/(disposals)	43	-	43	(3)	-	(3)	(24)	(3)	(27)
Fair value changes	(1)	9	8	(1)	12	11	-	16	16
Impairment losses (1)	(1)	-	(1)	(1)	-	(1)	(6)	-	(6)
Change in consolidated group	-	-	-	-	-	-	-	-	-
Other changes	13	-	13	(4)	-	(4)	(5)	-	(5)
Net carrying amount at December 31	**226**	**167**	**393**	**172**	**158**	**330**	**181**	**146**	**327**
Of which:									
• *at fair value* (2)	9	167	176	*7*	*158*	*165*	*8*	*146*	*154*
• *at cost*	217	-	217	*165*	-	*165*	*173*	-	*173*

(1) Included in the amounts reported in Note 11b.

(2) Fair value hierarchy is presented in Note 1q-ii and Note 26c.

Financial assets available for sale are stated at fair value, except for non-listed financial assets, which are stated at amortized cost, if no reliable fair value exists.

(In millions of euros) **Fair value changes:**	2014	2013	2012
Fair value changes recognized directly in other comprehensive income	8	11	16
Changes resulting from gains (losses) previously recognized in other comprehensive income now recognized in net income (loss) due to disposals	-	-	-
Total	**8**	**11**	**16**

b/ Financial assets at fair value through profit or loss

(In millions of euros)	2014	2013	2012
Net carrying amount at January 1	**2,192**	**1,480**	**907**
Additions/(disposals)	(626)	715	569
Fair value changes	6	6	9
Other changes (CTA revaluation)	33	(9)	(5)
Net carrying amount at December 31	**1,605**	**2,192**	**1,480**

c/ Financial assets at amortized cost

(In millions of euros)	2014	2013	2012
Net carrying amount at January 1	**59**	**62**	**224**
Additions/(disposals)	23	(16)	(13)
Impairment losses(1)	16	(2)	(22)
Change in consolidated group	-	-	-
Other changes (reclassifications)	(18)	15	(127)
Net carrying amount at December 31	**80**	**59**	**62**

(1) Included in the amounts reported in Note 11b.

NOTE 16 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

(In millions of euros)	December 31, 2014	December 31, 2013	December 31, 2012
Cash	2,399	2,473	2,362
Cash equivalents	1,479	1,623	1,039
Of which money market mutual funds	*1,096*	*1,476*	*906*
Of which Other (certificates of deposit, treasury bills, etc)	*383*	*147*	*133*
Cash and Cash Equivalents - excluding discontinued operations	**3,878**	**4,096**	**3,401**
Cash in discontinued operations	-	-	-
Cash and Cash Equivalents - including discontinued operations	**3,878**	**4,096**	**3,401**

As of December 31, 2014, €1,019 million of cash and cash equivalents were held in countries subject to exchange control restrictions (mainly China) (€756 million as of December 31, 2013 and €949 million as of December 31, 2012).

NOTE 17 OPERATING WORKING CAPITAL

Operating working capital

Operating working capital represents the working capital resulting from current operating assets and liabilities, as presented below. We define operating working capital by excluding other current assets and other current liabilities.

(In millions of euros)	December 31, 2014	December 31, 2013	December 31, 2012
Inventories and work in progress, net	1,971	1,935	1,940
Trade receivables and other receivables, net(1)	2,528	2,482	2,860
Advances and progress payments, net	43	46	53
Customers' deposits and advances	(810)	(681)	(718)
Trade payables and other payables	(3,571)	(3,518)	(3,726)
Operating working capital, net	**161**	**264**	**409**

(1) Amounts of trade receivables sold without recourse and the impact of these transfers on the cash flow statement are detailed in Note 20.

(In millions of euros)	December 31, 2013	Cash flow	Cash flow of discontinued activities(1)	Change in consolidated group(1)	Translation adjustments and other	December 31, 2014
Inventories and work in progress	2,330	72	(1)	(47)	13	**2,367**
Trade receivables and other receivables(2)	2,639	(18)	(49)	(82)	231	**2,721**
Advances and progress payments	46	(4)	1	(1)	1	**43**
Customers' deposits and advances	(681)	(88)	4	17	(62)	**(810)**
Trade payables and other payables	(3,518)	167	9	156	(385)	**(3,571)**
Operating working capital, gross	**816**	**129**	**(36)**	**43**	**(203)**	**749**
Cumulated valuation allowances	(552)	-	-	14	(50)	**(588)**
Operating working capital, net	**264**	**129**	**(36)**	**57**	**(253)**	**161**

(1) Mainly related to the Enterprise business that was reclassified to "Discontinued operations" as of December 31, 2013 (see Note 9).

(2) Amounts of trade receivables sold without recourse and the impact of these transfers on the cash flow statement are detailed in Note 20.

Amounts due from / to customers on construction contracts

(In millions of euros) **Analysis of amounts due from/to customers on construction contracts**	December 31, 2014	December 31, 2013	December 31, 2012
Amounts due from customers on construction contracts	613	757	723
Amounts due to customers on construction contracts	(96)	(82)	(103)
Total	**517**	**675**	**620**
Work in progress on construction contracts, gross	499	487	493
Work in progress on construction contracts, depreciation	(7)	(2)	(23)
Accrued receivables on construction contracts	117	270	262
Product sales reserves - construction contracts	(92)	(80)	(112)
Total	**517**	**675**	**620**

NOTE 18 INVENTORIES AND WORK IN PROGRESS

a/ Analysis of net value

(In millions of euros)	2014	2013	2012
Raw materials and goods	231	265	283
Work in progress excluding construction contracts	842	817	845
Work in progress on construction contracts, gross	499	487	493
Finished products	794	761	767
Gross value	**2,366**	**2,330**	**2,388**
Valuation allowance	(395)	(395)	(448)
Total, net	**1,971**	**1,935**	**1,940**

b/ Change in valuation allowance

(In millions of euros)	2014	2013	2012
At January 1	**(395)**	**(448)**	**(455)**
(Additions)/ reversals	(139)	(106)	(171)
Utilization	54	45	40
Changes in consolidated group	9	9	-
Net effect of exchange rate changes and other changes	76	105	138
At December 31	**(395)**	**(395)**	**(448)**

NOTE 19 TRADE RECEIVABLES AND RELATED ACCOUNTS

Trade receivables and other receivables, net

(In millions of euros)	2014	2013	2012
Receivables bearing interest	1	5	41
Other trade receivables	2,720	2,634	2,939
Gross value	**2,721**	**2,639**	**2,980**
Accumulated impairment losses	(193)	(157)	(120)
Total, net	**2,528**	**2,482**	**2,860**
Of which due after one year on the net value	*108*	*39*	*55*

Customers' deposits and advances

(In millions of euros)	2014	2013	2012
Advance payments received on construction contracts	57	68	77
Other deposits and advances received from customers	753	613	641
Total customers' deposits and advances	**810**	**681**	**718**
Of which:			
• *portion due within one year*	*767*	*640*	*674*
• *portion due after one year*	*43*	*41*	*44*

NOTE 20 FINANCIAL ASSETS TRANSFERRED

a/ Receivables sold without recourse

Balances

(In millions of euros)	December 31, 2014	December 31, 2013	December 31, 2012
Outstanding amounts of receivables sold without recourse (1)	1,678	1,343	1,111

(1) Without recourse in case of payment default by the debtor. We have no material continuing involvement in the receivables sold without recourse which are derecognized in their entirety.

Changes in receivables sold without recourse

(In millions of euros)	2014	2013	2012
Impact on cash flows from operating activities	335	232	159

b/ Receivables transferred that are not derecognized in their entirety

Receivables related to French R&D tax credits (i.e. "Crédits d'Impôt Recherche") were sold to banks but not derecognized from the statement of financial position as we are keeping substantially all risks and rewards related to those receivables, due to the ability of the buyer to retroactively cancel the sale in certain circumstances and to the existence of a selling price adjustment if the receivable is redeemed before or after its contractual maturity (i.e. three years) by the French State.

These receivables represented an amount of €233 million as of December 31, 2014 (€248 million as of December 31, 2013 and €166 million as of December 31, 2012) included in our financial debt (other financial debt).

NOTE 21 OTHER ASSETS AND LIABILITIES

(In millions of euros) **Other assets**	**December 31, 2014**	**December 31, 2013**	**December 31, 2012**
Other current assets	877	751	726
Other non-current assets	429	413	428
Total	**1,306**	**1,164**	**1,154**
Of which:			
• Currency derivatives	*149*	*18*	*29*
• Interest-rate derivatives - hedging	*2*	*11*	*33*
• Interest-rate derivatives - other	*-*	*-*	*-*
• Commodities derivatives	*-*	*-*	*-*
• Other tax receivables	*730*	*747*	*698*
• Other current and non-current assets	*425*	*388*	*394*

(In millions of euros) **Other liabilities**	**December 31, 2014**	**December 31, 2013**	**December 31, 2012**
Other current liabilities	(1,429)	(1,237)	(1,204)
Other non-current liabilities	(175)	(188)	(177)
Total	**(1,604)**	**(1,425)**	**(1,381)**
Of which:			
• Currency derivatives	*(51)*	*(54)*	*(40)*
• Interest-rate derivatives - hedging	*-*	*(21)*	*-*
• Interest-rate derivatives - other	*(9)*	*-*	*(1)*
• Commodities derivatives	*-*	*-*	*-*
• Other tax payables	*(352)*	*(287)*	*(291)*
• Accrued wages and social charges	*(850)*	*(794)*	*(768)*
• Other current and non-current liabilities	*(343)*	*(269)*	*(281)*

NOTE 22 EQUITY

a/ Capital stock and additional paid-in capital

At December 31, 2014, the capital stock consisted of 2,820,432,270 ordinary shares of nominal value €0.05 (2,808,554,197 ordinary shares of nominal value €0.05 at December 31, 2013 and 2,326,563,826 ordinary shares of nominal value €2 at December 31, 2012).

During 2014, increases in capital stock and additional paid-in capital amounted to €15 million. These net increases resulted from the following transactions:

- issuance of 11,878,073 shares for €15 million, mainly as a result of the exercise of options and the vesting of performance shares (including additional paid-in capital of €14 million).

During 2013, net increases in capital stock and additional paid-in capital amounted to €990 million. These increases resulted from the following transactions:

- issuance of 455,568,488 shares for €926 million (including additional paid-in capital of €903 million);
- issuance of 10,763,621 shares for €16 million, mainly as a result of the exercise of stock options and the vesting of performance shares (including additional paid-in capital of €11 million);
- conversion of the outstanding OCEANE due 2015 into 15,658,262 Alcatel-Lucent shares generating a capital increase of €48 million (including additional paid-in capital of €47 million); and
- capital reduction of €1.95 per share from a nominal value of €2 to €0.05 generating a decrease in the nominal value of capital stock of €4,542 million and an increase in additional paid-in capital of €4,542 million.

During 2012, increases in capital stock and additional paid-in capital amounted to €0 million. These increases were related to the following transactions:

- issuance of 1,180,498 shares for €0 million, as a result of the exercise of performance shares (including additional paid-in capital of €(2) million).

In order to maintain or adjust the capital structure, the Group can adjust the amount of dividends paid to shareholders (see Note 22d), or repurchase its own shares (see Note 22c) or issue new shares, or issue convertible bonds or similar instruments.

The Group is not party to any contract restricting the issuance of additional equity.

b/ Stock options, performance shares and share-based payments

Share-based payments

During the vesting period, estimated annual forfeiture rates of 5% for share-based payments granted 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.

Impact on income (loss) from operating activities of share-based payments resulting from stock options, stock purchase plans and restricted stock and cash units

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

(In millions of euros)	2014	2013	2012
Compensation expense for share-based payments	23	27	35
Of which equity settled	16	19	26
Of which cash settled (1)	7	8	9

(1) Includes grants of phantom shares and French taxes paid at the grant date by Alcatel-Lucent for stock options, restricted stock units and performance shares granted from January 1, 2008 onwards.

The reserve for cash settled instruments is €12 million at December 31, 2014 (€6 million at December 31, 2013 and €8 million at December 31, 2012).

Stock options

Details of stock options at December 31, 2014 are as follows:

Grant date	Exercise period	Exercise price(1)	Number of stock options granted(1)	Number of outstanding stock options(1)	Number of vested stock options(1)
3/1/07	3/1/08 to 2/28/15	€9.463	210,665	96,488	96,488
3/28/07	3/28/08 to 3/27/15	€8.611	41,293,536	19,687,806	19,687,806
8/16/07	8/16/08 to 8/15/15	€8.517	347,323	126,342	126,342
11/15/07	11/15/08 to 11/14/15	€5.962	301,216	35,620	35,620
3/25/08	3/25/09 to 3/24/16	€3.596	49,601,042	25,706,953	25,706,953
7/1/08	7/1/09 to 6/30/16	€4.164	229,515	96,550	96,550
12/31/08	12/31/09 to 12/30/16	€1.893	2,099,746	105,054	105,054
3/18/09	3/18/10 to 3/17/17	€1.893	54,344,640	29,923,624	29,923,624
7/1/09	7/1/10 to 6/30/17	€1.893	458,597	178,147	178,147
10/1/09	10/1/10 to 9/30/17	€2.744	287,390	82,963	82,963
12/1/09	12/1/10 to 11/30/17	€2.366	110,985	19,024	19,024
3/17/10	3/17/11 to 3/16/18	€2.271	19,492,023	10,847,736	10,847,736
7/1/10	7/1/11 to 6/30/18	€2.082	739,569	140,130	140,130
10/1/10	10/1/11 to 9/30/18	€2.176	892,366	486,055	486,055
12/9/10	12/9/11 to 12/8/18	€2.082	130,655	67,109	67,109
3/1/11	3/1/12 to 2/28/19	€3.028	635,597	108,330	92,356
3/16/11	3/16/12 to 3/15/19	€3.501	11,738,649	7,776,479	6,256,542
6/1/11	6/1/12 to 5/31/19	€3.974	427,713	180,239	143,168
9/1/11	9/1/12 to 8/31/19	€2.366	178,297	121,014	90,485
12/1/11	12/1/12 to 11/30/19	€1.893	152,467	105,110	80,262
3/14/12	3/14/13 to 3/13/20	€1.893	11,286,981	7,793,308	3,989,012
8/13/12	8/13/13 to 8/12/20	€1.893	399,202	130,528	63,937
12/17/12	12/17/13 to 12/16/20	€1.893	99,628	76,233	39,328
7/12/13	7/12/14 to 7/11/21	€1.419	23,655,950	20,565,135	3,961,390

(1) Values have been updated to reflect the capital increase.

Conditions of settlement

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

Vesting conditions for plans covered by IFRS 2

Vesting	Options granted before May 2010 (except for the March 2009 grant to all employees and options granted after May 2008 to Management Committee members)	Options granted after May 2008 and before December 2010 to Management Committee members	Options granted after January 2011 to Management Committee members	Options granted in March 2009 to all employees	Options granted after June 2010 to employees (ex Management Committee members)
Service conditions	Successive portions over 4 years: 25% of the options are vested after 12 months and, for each month after the first year, 1/48.	For employees with a French employment contract: Successive portions over 4 years: 50% after 2 years, 25% after 3 years and 25% after 4 years. For other employees: linearly over 4 years (25% per year).	For employees with a French employment contract: Successive portions over 4 years: 50% after 2 years, 25% after 3 years and 25% after 4 years. For other employees: linearly over 4 years (25% per year).	Two successive tranches, at 50% per year over two years.	For employees with a French employment contract: Successive portions over 4 years: 50% after 2 years, 25% after 3 years and 25% after 4 years. For other employees: linearly over 4 years (25% per year).
Performance	Not applicable.	Applied to 50% of the grant. 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. Vesting depends on the Alcatel-Lucent ranking compared to its peers.	Applied to 50% of the grant. Performance condition is linked to a financial criterion based on the "Free Cash Flow". At the end of each period, depending on the performance level achieved, a coefficient of 100%, 75%, 50%, 20% or 0% is used to calculate the number of rights vested for each period.	Not applicable.	Not applicable.

Number of options and exercise prices

Information on the number of stock options and exercise prices is presented below:

	All plans	
	Number of stock options	Weighted average exercise price (in euros)
At January 1, 2012	**175,879,780**	**5.58**
Granted	11,255,155	2.00
Exercised	(46,596)	0.76
Forfeited	(10,926,218)	4.91
Expired	(12,437,061)	13.20
At December 31, 2012	**163,725,060**	**4.80**
Granted until December 9, 2013	22,417,900	1.50
Exercised until December 9, 2013	(5,396,922)	2.06
Forfeited until December 9, 2013	(18,274,115)	4.46
Expired until December 9, 2013	(12,636,462)	9.76
At December 9, 2013 before capital increase	**149,835,461**	**4.03**
Capital increase effect	8,553,374	(0.22)
At December 9, 2013 after capital increase	**158,388,835**	**3.81**
Exercised from December 10, 2013 to December 31, 2013	(2,537,051)	1.97
Forfeited from December 10, 2013 to December 31, 2013	(1,693,337)	4.68
Expired from December 10, 2013 to December 31, 2013	(1,422)	1.19
At December 31, 2013	**154,157,025**	**3.83**
Exercised	(7,500,665)	1.96
Forfeited	(12,631,995)	3.91
Expired	(9,568,388)	10.99
Outstanding at December 31, 2014	**124,455,977**	**3.38**

Fair value

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 and fair values for the main plans are as follows:

Plan	Grant date	Share price at grant date (in euros)	Expected volatility	Risk-free rate	Distribution rate on future income	Fair value (in euros)
March 2008	03/25/2008	3.80	45%	3.90%	0.8% per year	1.50
March 2009	03/18/2009	1.228	64%	3.00%	0.8% per year	0.49
March 2009 All employees	03/18/2009	1.228	64%	3.00%	0.8% per year	0.46
March 2010	03/17/2010	2.400	45%	3.00%	0.8% per year	0.95
March 2011	03/16/2011	3.700	40%	3.00%	0.8% per year	1.40
March 2012	03/14/2012	1.800	60%	1.50%	0.8% per year	0.82
July 2013	07/12/2013	1.500	58%	1.50%	0.8% per year	0.68

Other plans have fair values between €0.28 and €2.13 and a weighted average fair value of €1.04.

Plans related to acquired companies

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.

The option plans of companies that were acquired by Alcatel provide for the issuance of Alcatel-Lucent shares or ADSs upon exercise of options granted under such plans in an amount determined by applying the exchange ratio used in the acquisition to the number of shares of the acquired company that were the subject of the options.

Upon exercise, Alcatel-Lucent will issue new ADSs (and, consequently, shares).

Performance shares

Conditions of settlement

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

Vesting conditions for Performance Shares granted in 2009 and 2010

The following rules are applicable to all performance share plans granted by Alcatel-Lucent in 2009 and 2010:

- 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; and
- 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.

Vesting conditions for Performance Shares granted in 2011

The following rules are applicable to all performance share plans granted by Alcatel-Lucent in 2011:

- 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; and
- performance condition: It is based on the Alcatel-Lucent share price performance measured over two years against a representative sample of 12 other solution and service providers in the telecommunications equipment sector. The sample was chosen to obtain Alcatel-Lucent's ranking among the following issuers: F5 Networks, Ciena, Juniper, ZTE, Tellabs, Arris, Cisco, ADTRAN, Comverse, Nokia, Ericsson and Motorola

Solutions Inc. This sample of providers may be revised as the companies included evolve (due to mergers, bankruptcies, etc). The reference share price is calculated on the basis of the opening price for Alcatel-Lucent shares on the Euronext Paris market for the 20 trading days preceding the end of each one-year period. The changes in the share price of Alcatel-Lucent and the other issuers in the sample are measured at the end of the two reference periods of one year, which each counts for 50% of the rights granted. Depending on Alcatel-Lucent's share price performance, a different coefficient is used to calculate the number of rights acquired during each period. The coefficient may be 100%, 70%, 50%, 20% or 0%, the latter corresponding to the case where Alcatel-Lucent is last in this ranking. The coefficient used for the second period applies to the balance of rights that are not acquired during the first period. For the purposes of determining the final number of vested performance shares at the expiration of the vesting period, with respect to the employees in Group companies having their registered office outside France, the performance of the Company's share price and of the other issuers, who form part of the representative selection, will be calculated once again on the fourth anniversary date of the Grant Date. All issuers' reference share prices at the Grant date will be compared to the average of all issuers' reference share prices determined at each anniversary date of the Grant date during the 4-year vesting period, in order to establish a ranking of the Company and the other issuers in accordance with the performance of their share price for the whole four-year period. If the Company is not ranked in last position, the total number of performance shares as determined at the end of the second period will finally vest at the end of the vesting period.

Vesting conditions for Performance Shares granted in 2014

- service condition: 50% of the performance shares vest at the end of a two-year vesting period and the remaining 50% vest at the end of a four-year period; and
- performance condition: it is based on the Alcatel-Lucent share price measured over a two-year period and a four year period against a representative sample of 10 other solution and service providers in the telecommunications equipment sector. The sample was chosen to obtain Alcatel-Lucent's share price performance compared to the share price performance median among the following group: ADTRAN, Amdocs, Arris, Ciena, Cisco, CommScope, Ericsson, Juniper, Nokia and ZTE. This sample may be revised based on changes at these companies, especially in case of transactions concerning their structure that may affect their listing. Each period counts for 50% of the rights granted.
    - tranche 1 – two-year period from year 1 to 2: depending on Alcatel–Lucent's share price performance, a coefficient ranging from 0 to 100%, based on the Alcatel-Lucent share price performance compared with the median of the sample group, is used to calculate the number of shares vested during the first tranche,
    - tranche 2 – four-year period from year 1 to 4: depending on Alcatel–Lucent's share price performance, a coefficient ranging from 0 to 100%, based on the Alcatel-Lucent share price performance compared with the median of the sample group, is used to calculate the number of shares vested during the second tranche. For purposes of determining the final number of performance shares vested at the end of the vesting period, a minimum condition is considered: if the Alcatel-Lucent share performance is below 60% of the sample group, no rights are vested even those that could have been acquired at the end of the Tranche 1 period. Also, if the level of realization of the performance condition at the end of Tranche 2 is superior to the one at the end of Tranche 1, the level of realization of the performance condition at the end of Tranche 2 shall apply to the whole vesting of performance shares.

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

The change in number of performance shares is shown below:

(In number of performance shares) **Grant date**	**03/18/09**	**03/17/10**	**03/16/11**	**03/14/12**	**07/12/13**	**09/15/14**
Outstanding at December 31, 2011	**5,303,163**	**6,873,978**	**9,784,210**	**-**	**-**	**-**
Granted	-	-	-	10,674,215	-	-
Acquired	(2,017)	(1,177,356)	(6,637)	(1,500)	-	-
Forfeited	(78,279)	(248,610)	(532,232)	(382,852)	-	-
Outstanding at December 31, 2012	**5,222,867**	**5,448,012**	**9,245,341**	**10,289,863**	**-**	**-**
Granted until December 9, 2013	-	-	-	-	2,368,500	-
Acquired until December 9, 2013	(1,880,603)	(3,716)	(988,790)	(10,350)	-	-
Forfeited until December 9, 2013	(3,342,264)	(17,496)	(1,085,897)	(1,227,938)	-	-
At December 9, 2013 before capital increase	**-**	**5,426,800**	**7,170,654**	**9,051,575**	**2,368,500**	**-**
Capital increase effect	-	312,876	410,201	517,299	134,497	-
At December 9, 2013 after capital increase	**-**	**5,739,676**	**7,580,855**	**9,568,874**	**2,502,997**	**-**
Acquired from December 10, 2013 to December 31, 2013	-	-	-	-	-	-
Forfeited from December 10, 2013 to December 31, 2013	-	(2,617)	(1,639)	(194,254)	(84,544)	-
Outstanding at December 31, 2013	**-**	**5,737,059**	**7,579,216**	**9,374,620**	**2,418,453**	**-**
Granted	-	-	-	-	-	10,466,473
Acquired	-	(2,393,947)	(1,797)	(2,041,408)	-	-
Forfeited	-	(3,343,112)	(13,022)	(364,375)	(126,813)	(96,865)
Outstanding at December 31, 2014	**-**	**-**	**7,564,397**	**6,968,837**	**2,291,640**	**10,369,608**

Fair value of Performance shares granted by Alcatel-Lucent

The fair value of performance shares with service conditions only 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. The fair value of other performance shares is measured at granting date using some stochastic models.

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:

- March 18, 2009 plan: fair value of €1.19;
- March 17, 2010 plan: fair value of €2.40;
- March 16, 2011 plan: fair value of €3.05;
- March 14, 2012 plan: fair value of €1.41;
- July 12, 2013 plan: fair value of €1.09; and
- September 15, 2014 plan: fair value of €1.82.

c/ Treasury stock

Alcatel-Lucent established a buy-back program for the ordinary shares, which was renewed at the shareholders' annual general meeting held on May 7, 2013, for the purpose of allocating those shares to employees of the Group under the terms provided by law, of honoring obligations arising from the issuance of securities conferring a right to the capital of the company or for use in an exchange or as payment for acquisitions. The purchases are limited to a maximum of 10% of the capital stock, and the authorization expires 18 months from the most recent shareholders' general meeting at which authorization was given. As part of this program, no shares were purchased through December 31, 2014 (no shares were purchased in 2013 or 2012).

The carrying value of Alcatel-Lucent shares owned by Group consolidated subsidiaries was €1,084 million at December 31, 2014 (€1,428 million at December 31, 2013 and €1,567 million at December 31, 2012). They are deducted at cost from equity.

d/ Dividends

Our Board of Directors will propose at the Annual Shareholders' Meeting to be held on May 26, 2015 not to distribute a dividend for the year ended December 31, 2014. No dividends were distributed for the years 2013 and 2012.

NOTE 23 PENSIONS, RETIREMENT INDEMNITIES AND OTHER POST-RETIREMENT BENEFITS

In accordance with the laws and customs of each country, the Group provides to its employees a significant number of pension plans, group life plans and reimbursement of medical expenses. Features of the plans also depend upon local legislation, the business and the historical practice of the subsidiary concerned.

State plans

In certain countries, and more particularly in Western Europe, the Group participates in mandatory social security plans organized at state or industry level, for which contributions expensed correspond to the contributions due to such state or equivalent organizations. Such plans are considered to be defined contribution plans. However, in certain countries, the element of social security contributions paid that relates to pension plans is not clearly identifiable.

Other defined contribution plans

The benefits paid out depend solely on the amount of contributions paid into the plan and the investment returns arising from the contributions. The Group's obligation is limited to the amount of contributions that are expensed.

Contributions made to defined contribution plans (excluding mandatory social security plans organized at state or industry level) were €58 million for 2014 (€103 million for 2013 and €123 million for 2012).

Defined benefit plans

The pension and other post employment benefits for the countries described below represent 99% of our benefit obligation at December 31, 2014.

84% of our total defined benefit obligation relates to retirees. Therefore, our plans are very mature and sensitive to mortality risk and discount rate changes. If life expectancy increased by one year, the benefit obligation at December 31, 2014 would increase from €(31,570) million to €(32,717) million. Also, a 50 basis point increase or decrease in the discount rate would decrease or increase the benefit obligation at December 31, 2014 by €1,554 million and €1,709 million, respectively.

Pensions and retirement obligations are determined in accordance with the accounting policies presented in Note 1j.

United States of America

For U.S. employees of the former Lucent group, Alcatel-Lucent maintains defined benefit pension plans covering employees and retirees, as well as other post-retirement benefit plans for U.S. retirees that include health care, dental benefits and group life insurance coverage. These pension plans feature traditional service-based programs, as well as a cash balance program. The legacy Lucent cash balance program was added to the defined benefit pension plan for U.S. management employees hired after December 31, 1998; however, no employees were transitioned from the traditional program to the cash balance program. Additionally, participants in the legacy Lucent cash balance program are not eligible to receive company-paid post-retirement health and group life insurance coverage. U.S. management employees with less than 15 years of service as of June 30, 2001 are not eligible to receive company-paid post-retirement group life insurance and health care benefits. Starting January 1, 2008, the defined benefit pension plan for U.S. management employees no longer accepted new entrants. On October 21, 2009, Alcatel-Lucent USA Inc. froze both the defined benefit pension plan for U.S. management employees and the U.S. supplemental pension plan effective January 1, 2010. For participants in this plan who continued to work for the Group, no additional benefits accrued based on years of service or compensation earned after December 31, 2009. Starting January 1, 2014, the Group adopted a new cash balance program for U.S. management employees.

Germany

With a few exceptions, all traditional plans (final salary-based plans and career average salary-based plans) were frozen at December 31, 2012 and replaced by a cash balance program in which contributions are 0.75% of the pay that is eligible to be included in the pension calculation below the security contribution ceiling and 3.0% for such pay above the security contribution ceiling. Benefits are paid as a lump sum upon retirement in an amount equal to accrued pensions which are collected in a separate account plus guaranteed interest.

The Netherlands

Starting December 31, 2011, the career average salary-based plan was frozen and replaced by a cash balance program in which contributions are paid to an insurance company and pensions are indexed to inflation. Starting 2014, this plan was converted into a defined contribution plan. This plan is no longer reserved and the annual contribution is recognized in the consolidated income statements.

Belgium

Active employees benefit from a final salary-based pension plan in which the benefits are paid as a lump sum amount upon retirement.

France

In addition to the mandatory retirement indemnity plan, we provide a private pension plan (AUXAD plan) to all corporate executives of Group companies incorporated in France. This pension scheme supplements the benefits under the French AGIRC (General Association of Pensions Institutions for Managerial Staff) plan for the portion of income that exceeds eight times the annual French social security pension limit, beyond which there is no legal or contractual pension scheme. The system and the method of calculation of the AUXAD plan are similar to those of the AGIRC plan. The AUXAD plan does not require the beneficiary to be employed by the Company at the time of retirement.

United Kingdom

There are two defined benefit pension plans that we offer in the United Kingdom: the Alcatel Pension Plan and the Lucent Technologies Retirement Benefits Plan. Both plans were closed to new entrants in 2002 and 2001 respectively but active employees still accrue benefits. These plans are both final salary-based programs.

a/ Actuarial assumptions

To determine actuarial valuations, actuaries have determined general assumptions on a country-by-country basis and specific assumptions (rate of employee turnover, salary increases) company by company. The assumptions for 2014, 2013 and 2012 are as follows (the rates indicated are weighted average rates):

	2014	2013	2012
Discount rate	3.31%	4.07%	3.25%
Future salary increases	2.56%	3.36%	3.33%
Post-retirement cost trend rate	**6.60% to 4.90%**	**5.90% to 4.90%**	**6.90% to 5.10%**

The above rates are broken down by geographical segment as follows for 2014, 2013 and 2012:

	2014		2013		2012	
	Discount rate	Future salary increases	Discount rate	Future salary increases	Discount rate	Future salary increases
France	1.75%	1.99%	3.25%	2.00%	2.75%	2.95%
Belgium	1.75%	3.00%	3.25%	3.25%	2.75%	3.25%
United Kingdom	3.42%	4.27%	4.50%	4.56%	4.25%	4.27%
Germany	1.75%	3.00%	3.25%	3.00%	2.75%	3.00%
Rest of Europe	1.48%	0.35%	2.94%	2.45%	2.53%	2.54%
United States of America	3.49%	2.12%	4.53%	2.67%	3.29%	3.77%
Other	4.35%	3.92%	5.63%	4.22%	4.08%	3.25%

The discount rates are obtained by reference to market yields on high quality bonds (government and prime-rated corporations - AA or AAA) in each country having maturity dates equivalent to those of the plans.

For the Euro zone and United Kingdom, the discount rates used are the Bloomberg Corporate AA yields and, for the U.S., the “original” CitiGroup pension discount yield curve was used. These references comply with IAS 19 requirements and have been used consistently by us until December 31, 2012. As Bloomberg stopped publishing these yields starting 2013, discount rates for the Euro zone and United Kingdom are now determined based on Iboxx AA Corporate yields.

b/ Components of net periodic cost of post-employment benefit

(In millions of euros)	2014	2013	2012
Service cost and prior service cost	(100)	(68)	(73)
Interest cost on the benefit obligation	(1,026)	(927)	(1,127)
Interest income on plan assets net of administrative expense	1,037	886	1,044
Interest cost on unrecognized surplus	(55)	(43)	(44)
Effect of curtailments and settlements	(44)	(19)	24
Plan amendments	112	133	204
Net periodic benefit (cost)	**(76)**	**(38)**	**28**
Of which:			
• *Recognized in Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments*	*(99)*	*(68)*	*(73)*
• *Recognized in restructuring costs*	*(44)*	*(19)*	*24*
• *Post-retirement benefit plan amendments*	*112*	*133*	*204*
• *Recognized in other financial income (loss)*	*(44)*	*(84)*	*(127)*
• *Recognized in income (loss) from discontinued operations*	*(1)*	*-*	*-*

c/ Change in the obligation recorded in the statement of financial position

(In millions of euros)	2014	2013	2012
Change in benefit obligation			
Benefit obligation at January 1	**(25,398)**	**(30,104)**	**(30,843)**
Service cost	(100)	(68)	(73)
Interest cost on the benefit obligation	(1,026)	(927)	(1,127)
Plan participants' contributions	(138)	(150)	(126)
Amendments	112	133	69
Business combinations		(8)	(22)
Disposals	46	7	1
Curtailments	(14)	6	24
Settlements	43	28	646
Special termination benefits	(29)	(24)	-
Actuarial gains and (losses) due to changes in financial assumptions	(2,276)	2,092	(1,821)
Actuarial gains and (losses) due to changes in demographic assumptions	(1,905)	(29)	8
Actuarial gains and (losses) – Other	(10)	221	113
Benefits paid from plan assets	2,304	2,329	2,530
Benefits paid from the employer	73	86	56
Medicare Part D Subsidy		(19)	(22)
Foreign currency translation and other	(3,252)	1,029	483
Benefit obligation at December 31	**(31,570)**	**(25,398)**	**(30,104)**
Benefit obligation excluding effect of future salary increases	(31,331)	(25,148)	(29,782)
Effect of future salary increases	(239)	(250)	(322)
Benefit obligation	**(31,570)**	**(25,398)**	**(30,104)**
Pertaining to retirement plans	(28,583)	(22,766)	(26,958)
Pertaining to other post-employment plans	(2,987)	(2,632)	(3,146)

(In millions of euros)	2014	2013	2012
Change in plan assets			
Fair value of plan assets at January 1	**25,944**	**28,796**	**29,013**
Interest income on plan assets net of administrative expense	1,037	886	1,044
Actuarial gains and (losses)	2,113	(596)	1,958
Employers' contributions	118	120	156
Plan participants' contributions	138	150	126
Amendments	-	-	-
Business combinations	-	-	22
Disposals	(6)	-	-
Curtailments	-	-	-
Settlements	(42)	(27)	(511)
Benefits paid/Special termination benefits	(2,304)	(2,329)	(2,530)
Foreign currency translation and other	3,222	(1,056)	(482)
Fair value of plan assets at December 31	**30,220**	**25,944**	**28,796**

(In millions of euros)	2014	2013	2012
Change in **unrecognized surplus (due to application of asset ceiling and IFRIC14)**			
Unrecognized surplus at January 1	**(1,250)**	**(1,233)**	**(1,121)**
Interest cost on unrecognized surplus	(55)	(43)	(44)
Change in the unrecognized surplus	256	(21)	(86)
Foreign currency translation	(128)	47	18
Unrecognized surplus at December 31	**(1,177)**	**(1,250)**	**(1,233)**

(In millions of euros)	2014	2013	2012
Present value of defined benefit obligations that are wholly or partly funded	(29,971)	(23,979)	(28,468)
Fair value of plan assets	30,220	25,944	28,796
Funded (unfunded) status of defined benefit obligations that are wholly or partly funded	**249**	**1,965**	**328**
Present value of defined benefit obligations that are wholly unfunded	(1,599)	(1,419)	(1,636)
(Unfunded) / funded status	**(1,350)**	**546**	**(1,308)**
Unrecognized surplus (due to application of asset ceiling and IFRIC14)	(1,177)	(1,250)	(1,233)
Net amount recognized	**(2,527)**	**(704)**	**(2,541)**
Of which:			
• *prepaid pension costs*	*2,636*	*3,150*	*2,797*
• *pensions, retirement indemnities and other post-retirement benefit obligations*	*(5,163)*	*(3,854)*	*(5,338)*

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

(In millions of euros)	December 31, 2014			December 31, 2013			December 31, 2012		
	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	**1,392**	**(2,096)**	**(704)**	**95**	**(2,636)**	**(2,541)**	**40**	**(2,991)**	**(2,951)**
Operational charge	(97)	(2)	(99)	(66)	(2)	(68)	(70)	(3)	(73)
Financial income	39	(83)	(44)	(3)	(81)	(84)	(16)	(111)	(127)
Curtailment (1)	(41)	(3)	(44)	(18)	(1)	(19)	24	-	24
Pension and healthcare plan amendments (2)	7	105	112	78	55	133	144	60	204
Discontinued operations (Genesys business)	(1)		(1)	-	-	-	-	-	-
Total recognized in profits (losses)	**(93)**	**17**	**(76)**	**(9)**	**(29)**	**(38)**	**82**	**(54)**	**28**
Actuarial gains and (losses) for the period	(1,870)	(208)	(2,078)	1,417	271	1,688	305	(47)	258
Asset ceiling limitation and IFRIC14 effect	256	-	256	(21)	-	(21)	(86)	-	(86)
Total recognized in Statement of comprehensive income (3)	**(1,614)**	**(208)**	**(1,822)**	**1,396**	**271**	**1,667**	**219**	**(47)**	**172**
Contributions and benefits paid	182	10	192	177	12	189	177	13	190
420 transfer	(169)	169	-	(196)	196	-	(393)	393	-
Change in consolidated companies	40	-	40	7	-	7	-	-	-
Other (reclassifications and exchange rate changes)	130	(287)	(157)	(78)	90	12	(30)	50	20
Net asset (liability) recognized at the end of the period	**(132)**	**(2,395)**	**(2,527)**	**1,392**	**(2,096)**	**(704)**	**95**	**(2,636)**	**(2,541)**
Of which:									
• *Prepaid pension costs*	*2,636*	*-*	*2,636*	*3,150*	*-*	*3,150*	*2,797*	*-*	*2,797*
• *Pension, retirement indemnities and post-retirement benefits liability*	*(2,768)*	*(2,395)*	*(5,163)*	*(1,758)*	*(2,096)*	*(3,854)*	*(2, 702)*	*(2,636)*	*(5, 338)*

(1) Accounted for in restructuring costs.

(2) Accounted for on a specific line item "Post-retirement benefit plan amendments" in the income statement.

(3) The amounts recognized directly in the Statement of Comprehensive Income indicated in the table above differ from those disclosed in the Statement of Comprehensive Income, due to the amounts related to discontinued operations, which are excluded in the above schedule.

Funding requirements are usually determined for each individual plan, and as a result excess plan assets for overfunded plans cannot be used for underfunded plans. Our main underfunded plans are our U.S. post-retirement benefits and our French and German pension plans. Decisions on funding the benefit obligations are taken based on each country's legal requirements and the tax-deductibility of the contributions made. In France and Germany, the funding of pension obligations relies primarily on defined contribution plans; setting up other funding arrangements is not common practice. Furthermore, in Germany, the benefits accruing to employees are guaranteed in the event of bankruptcy through a system of mutual insurance common to all companies involved in similar plans. See Note 23f below for information on U.S. plans.

The benefit obligation, the fair value of the plan assets and the actuarial gains (losses) generated for the current year and the previous years are as follows:

(In millions of euros)				Experience adjustments generated on the benefit obligation		Experience adjustments generated on the plan assets	
	Benefit obligation	Plan assets	Funded (underfunded) status	Amount	In percentage of the benefit obligation	Amount	In percentage of the plan assets
2012	(30,104)	28,796	(1,308)	113	0.38%	1,958	6.80%
2013	(25,398)	25,944	546	221	0.87%	(596)	2.30%
2014	(31,570)	30,220	(1,350)	(10)	0.03%	2,113	6.99%

With respect to the health care plans, a change of one percentage point in the assumed health costs has the following impact:

(In millions of euros)	Increase of 1%	Decrease of 1%
Impact on the current service cost and interest costs	(3)	2
Impact on the benefit obligation	(96)	87

The plan assets of retirement plans are invested as follows:

(In millions of euros) *Asset allocation at December 31, 2014*	Level 1	Level 2	Level 3	Total
Equities (US market)	910	124	-	1,034
Equities (Other markets)	1,218	156	-	1,374
Government and Treasury bonds	4,373	2,405	-	6,778
Corporate bonds	499	10,710	17	11,226
Real estate (properties)	16	-	911	927
Real estate (investments)	427	-	-	427
Cash and cash equivalents	395	3,515	-	3,910
Alternative (Private equity)	-	-	1,700	1,700
Alternative (Absolute return and other)	31	320	1,007	1,358
Insurance company products	116	1,040	330	1,486
Fair value of plan assets at December 31, 2014	**7,985**	**18,270**	**3,965**	**30,220**

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly (inputs include quoted prices for similar assets or liabilities in active markets, interest rates and yield curves, credit risk assessments, etc.).

Level 3 – Significant unobservable inputs for assets or liabilities.

(In millions of euros) *Asset allocation at December 31, 2013*	Level 1	Level 2	Level 3	Total
Equities (US market)	864	135	-	999
Equities (Other markets)	1,259	171	-	1,430
Government and Treasury bonds	4,438	2,759	-	7,197
Corporate bonds	427	9,049	43	9,519
Real estate (properties)	13	-	1,089	1,102
Real estate (investments)	408	-	-	408
Cash and cash equivalents	329	933	-	1,262
Alternative (Private equity)	-	-	1,503	1,503
Alternative (Absolute return and other)	1	268	867	1,136
Insurance company products	141	947	300	1,388
Fair value of plan assets at December 31, 2013	**7,880**	**14,262**	**3,802**	**25,944**

(In millions of euros) *Asset allocation at December 31, 2012*	Level 1	Level 2	Level 3	Total
Equities (US market)	959	111	-	1,070
Equities (Other markets)	1,606	336	-	1,942
Government and Treasury bonds	5,460	2,923	-	8,383
Corporate bonds	537	10,018	43	10,598
Real estate (properties)	13	-	1,194	1,207
Real estate (investments)	429	35	-	464
Cash and cash equivalents	256	923	-	1,179
Alternative (Private equity)	-	-	1,648	1,648
Alternative (Absolute return and other)	(9)	285	747	1,023
Insurance company products	142	853	287	1,282
Fair value of plan assets at December 31, 2012	**9,393**	**15,484**	**3,919**	**28,796**

For historical Alcatel companies, the investment policy relating to plan assets within the Group depends upon local practices. In all cases, the proportion of equity securities cannot exceed 80% of plan assets and no individual equity security may represent more than 5% of total equity securities within the plan. The equity securities held by the plan must be listed on a recognized exchange. The bonds held by the plan must have a minimum “A” rating according to Standard & Poor’s or Moody’s rating criteria.

The expected contributions and benefits paid directly by the Group to retirees for 2015 are €138 million for the pension and other post-retirement benefit plans.

Expected benefit payments to be made to beneficiaries from defined benefit plans through 2024 are as follows:

(In millions of euros) **Total**	Expected benefit payments
2015	2,330
2016	2,197
2017	2,149
2018	2,110
2019	2,067
2020 - 2024	9,729

d/ Funded status

(In millions of euros)	December 31, 2014	December 31, 2013	December 31, 2012
Benefit obligation	(31,570)	(25,398)	(30,104)
Fair value of plan assets	30,220	25,944	28,796
Funded (underfunded) status	**(1,350)**	**546**	**(1,308)**
Unrecognized prior service cost and surplus (due to application of asset ceiling and IFRIC14)	(1,177)	(1,250)	(1,233)
Net liability recognized at end of period	**(2,527)**	**(704)**	**(2,541)**

Detail of funded status by country

(In millions of euros)	2014	2013	2012
USA (1)	(990)	823	(566)
Belgium	866	842	822
United Kingdom	225	137	76
Germany	(1,124)	(979)	(1,118)
Other	(327)	(277)	(522)
Total (underfunded) funded status	**(1,350)**	**546**	**(1,308)**

(1) See detailed information by plans in Note 23f.

e/ Pension and healthcare plan amendments

2014 U.S. formerly represented healthcare plan amendment

Alcatel-Lucent has a collective bargaining agreement with the Communication Workers of America (CWA) and International Brotherhood of Electrical Workers (IBEW) to provide post-retirement medical and dental benefits, for formerly represented retirees until December 31, 2016. On July 31, 2014, Alcatel-Lucent agreed to a three-year extension of post-retirement healthcare benefits until December 31, 2019 in exchange for a reduction in the Group’s obligation to pay for retirees, who are subject to annual dollar caps, of U.S.$40 million for 2017, U.S.$40 million for 2018 and U.S.$40 million for 2019. Reductions of U.S.$107 million in the existing obligation were accounted for in the "Post-retirement benefit plan amendments" line item of the consolidated income statement.

2014 U.S. management healthcare plan amendment

Alcatel-Lucent currently subsidizes retiree healthcare benefits for formerly Management retirees who retired on or after March 1, 1990 and who are under 65 years old. Starting January 1, 2015, Alcatel-Lucent will discontinue this subsidy, resulting in a gain of U.S. $33 million. This plan amendment was accounted for in the "Post-retirement benefit plan amendments" line item of the 2014 consolidated income statement.

2014 Dutch pension plan amendment

In 2014, Alcatel-Lucent converted the defined benefit pension plan of current active employees into a defined contribution pension plan under which Alcatel-Lucent no longer guarantees any increases in pensions. This plan amendment resulted in a gain of €7 million and was accounted for in the "Post-retirement benefit plan amendments" line item of the 2014 consolidated income statement.

2013 French AUXAD pension plan amendment

AUXAD is a French supplemental pension plan for the portion of income that exceeds eight times the annual French social security pension limit, beyond which there is no legal or contractual pension scheme. Starting January 1, 2013, the plan was amended to be fully aligned with the conditions of the French AGIRC scheme (General Association of Pension Institutions for Managerial Staff). Amendments included changes in the contribution rate, in the pensions for beneficiaries having a certain number of children, in certain technical elements and in the retirement age. During 2013, these changes were accounted for as a €41 million gain in the line item "Post-retirement benefit plan amendments" of the consolidated income statement.

2013 German pension plans amendment

Most of our German active employees have been transferred out of their traditional pension plans into a new cash balance plan whose benefits are lower than in the previous plans. The reductions in the obligation were accounted for as a €35 million gain in the line item "Post-retirement benefit plan amendments" of the consolidated income statement.

2013 U.S. represented healthcare plan amendment

Alcatel-Lucent USA, Inc.'s 2004 U.S. collective bargaining agreement with the Communication Workers of America and the International Brotherhood of Electrical Workers provides for retiree healthcare benefits, among other items, for formerly represented retirees. The collective bargaining agreement will expire on May 24, 2014. On February 15, 2013, Alcatel-Lucent USA, Inc. and its unions agreed to a two-year extension of retiree healthcare benefits until December 31, 2016, although the Group's obligation to pay for retirees, who are subject to annual dollar caps, was reduced by U.S.$40 million for 2015 and by U.S.$40 million for 2016. Reductions of U.S.$73 million in our existing obligation were accounted for in the "Post-retirement benefit plan amendments" line item of the consolidated income statement.

2012 U.S. represented healthcare plan amendment

In April 2012, Alcatel-Lucent USA, Inc. and the Communication Workers of America and the International Brotherhood of Electrical Workers agreed to a seven-month extension of retiree healthcare benefits from May 25, 2013 until December 31, 2013, although the Group's obligation to pay for retirees, who are subject to annual dollar caps, was reduced by U.S.$40 million for 2013. On December 28, 2012, Alcatel-Lucent USA, Inc. and those unions agreed to an additional one-year extension of retiree healthcare benefits until December 31, 2014, although the Group's obligation to pay for retirees, who are subject to annual dollar caps, was reduced by U.S.$40 million for 2014. Reductions of U.S.$77 million in our existing obligation were accounted for in the "Post-retirement benefit plan amendments" line item of the 2012 consolidated income statement.

2012 U.S. pension lump sum offer for deferred vested participants

During the third and fourth quarters of 2012, Alcatel-Lucent USA, Inc. offered the deferred vested participants in the defined benefit pension plan for U.S. management employees and in the U.S. inactive occupational pension plan the right to elect a lump sum payment rather than a pension payment during a specific window period (the window period only applies to deferred vested participants that cannot apply permanently for the lump sum payment). Because the IAS 19 discount rate was lower than the pension/lump sum conversion rate, that difference resulted in a one-time credit that was recorded when the lump sum payment was made. This credit was U.S.$174 million during 2012. This impact was accounted for in the "Post-retirement benefit plan amendments" line item of the 2012 audited consolidated income statement.

f/ Alcatel-Lucent's U.S. pension and post-retirement obligations (Supplementary information)

All the following tables and information relate only to our U.S. pension and post-retirement plans. All these data are included in the figures presented on a consolidated basis in Notes 23a, b, c and d and are presented below in U.S. dollars.

Key assumptions

Assumptions used to determine:	December 2014	December 2013	December 2012
Benefit obligations - discount rate			
Pension	3.49%	4.19%	3.30%
Post-retirement health care and other	3.21%	3.72%	2.84%
Post-retirement group life	3.69%	4.49%	3.61%
Rate of compensation increase	2.12%	2.44%	3.86%
Net benefit cost or credit - discount rate			
Pension	4.19%	3.30%	3.67%
Post-retirement health care and other	3.72%	2.84%	3.24%
Post-retirement group life	4.49%	3.60%	3.91%

	December 31, 2014	December 31, 2013	December 31, 2012
Assumed health care cost trend rates			
Health care cost trend rate assumed for next year	6.50%	5.80%	6.90%
Health care cost trend rate assumed for next year (excluding post-retirement dental benefits)	6.60%	5.90%	7.00%
Rate that the cost trend rate gradually declines to	4.90%	4.90%	5.10%
Year that the rate reaches the rate it is assumed to remain at	2024	2024	2022

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(In millions of U.S. dollars)	1 percentage point	
	Increase	Decrease
Effect on total of service and interest cost components	(4)	3
Effect on post-retirement benefit obligation	(117)	106

Discount rates for Alcatel-Lucent's U.S. plans are determined using the values published in the "original" CitiGroup Pension Discount Curve which is based on AA-rated corporate bonds. Each future year's expected benefit payments are discounted by the corresponding value in the CitiGroup Curve, and for those years not presented in the CitiGroup Curve, we use the value of the last year presented for benefit payments expected to occur beyond the final year of the Curve. Then a single discount rate is selected that results in the same interest cost for the next period as the application of the individual rates would have produced. Unique rates are developed for each major plan; some very small plans are grouped for this process. The average durations of Alcatel-Lucent's major U.S. pension obligations and post-retirement health care obligations were 10.43 years and 7.96 years, respectively, as of December 31, 2014 (9.30 years and 7.09 years, respectively, as of December 31, 2013 and 10.07 years and 7.53 years, respectively, as of December 31, 2012).

Until September 30, 2014, we retained the RP-2000 Combined Health Mortality table with Generational Projection based on the U.S. Society of Actuaries Scale AA. On October 27, 2014, the U.S. Society of Actuaries (SOA) issued new mortality tables. Starting December 31, 2014, we changed these assumptions to the RP-2014 White Collar table with MP-2014 mortality improvement scale for Management records and the RP-2014 Blue Collar table with MP-2014 mortality improvement scale for Occupational records. This update had a U.S.$2.6 billion negative effect on the benefit obligation of our U.S. plans. These effects were recognized in the 2014 Statement of Comprehensive Income.

Components of net periodic cost of post-employment benefit

(In millions of U.S. dollars)	Pension benefits			Post-retirement benefits		
Pension credit/post-retirement benefit (cost)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Service cost	(77)	(9)	(9)	(2)	(3)	(3)
Interest cost on the benefit obligation	(1,058)	(949)	(1,104)	(137)	(125)	(154)
Interest income on plan assets	1,188	1,018	1,172	26	18	11
Interest cost on unrecognized surplus	(53)	(41)	(51)	-	-	-
Subtotal	**-**	**19**	**8**	**(113)**	**(110)**	**(146)**
Special termination benefits	(36)		-	(3)		-
Curtailments	(53)	(22)	-	(2)	3	-
Settlements	-	(27)	-	0	(5)	-
Pension credit/post-retirement benefit (cost)	(89)	**(30)**	**8**	(118)	**(112)**	**(146)**
Plan amendments		-	174	140	73	77
Pension credit/post-retirement benefit (cost)	**(89)**	**(30)**	**182**	**22**	**(39)**	**(69)**

Change in the obligation recorded in the statement of financial position

The following tables summarize changes in the benefit obligation, the plan assets and the funded status of Alcatel-Lucent's U.S. pension and post-retirement benefit plans as well as the components of net periodic benefit costs, including key assumptions. The measurement dates for plan assets and obligations were December 31, 2014, December 31, 2013 and December 31, 2012.

(In millions of U.S. dollars)	Pension benefits			Post-retirement benefits		
Change in benefit obligation	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Benefit obligation at January 1	(26,166)	(29,973)	(30,232)	(3,630)	(4,150)	(4,541)
Service cost	(77)	(9)	(9)	(2)	(3)	(3)
Interest cost on the benefit obligation	(1,058)	(949)	(1,104)	(137)	(125)	(154)
Plan participants' contributions	-	-	-	(182)	(192)	(153)
Amendments	-	-	-	140	73	77
Business combinations	-	-	-	-	(9)	-
Disposals	-	-	-	-	-	-
Curtailments	(53)	(22)	-	(2)	3	-
Settlements	-	-	804	-	-	-
Special termination benefits	(36)	(27)	-	(3)	(5)	-
Actuarial gains and (losses) due to changes in financial assumptions	(1,910)	2,237	(1,771)	(245)	311	(237)
Actuarial gains and (losses) due to changes in demographic assumptions	(2,505)	(37)	-	(38)	-	-
Actuarial gains and (losses) – Other	(154)	169	(22)	1	(9)	147
Benefits paid from plan assets	2,415	2,412	2,361	494	502	743
Benefits paid from the employer	32	33	-	-	-	-
Medicare Part D subsidy	-	-	-	(23)	(26)	(29)
Foreign currency translations and other	-	-	-	-	-	-
Benefit obligation at December 31	**(29,512)**	**(26,166)**	**(29,973)**	**(3,627)**	**(3,630)**	**(4,150)**

(In millions of U.S. dollars)	Pension benefits			Post-retirement benefits		
Change in plan assets	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Fair value of plan assets at January 1	30,192	32,705	32,698	739	672	671
Interest income on plan assets net of administrative expense	1,188	1,018	1,172	26	18	11
Actuarial gains and (losses)	2,476	(861)	2,298	5	58	30
Employers' contributions	2	2	33	36	41	45
Plan participants' contributions	-	-	-	182	192	153
Amendments	-	-	-	-	-	-
Business combinations	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Curtailments	-	-	-	-	-	-
Settlements	-	-	(630)	-	-	-
Benefits paid/Special termination benefits	(2,415)	(2,412)	(2,361)	(494)	(502)	(743)
420 transfer	(225)	(260)	(505)	225	260	505
Other (external transfer and exchange rate changes)	-	-	-	-	-	-
Fair value of plan assets at December 31	**31,218**	**30,192**	**32,705**	**719**	**739**	**672**

(In millions of U.S. dollars)	Pension benefits			Post-retirement benefits		
Change in unrecognized surplus (due to application of asset ceiling and IFRIC14)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Unrecognized surplus at January 1	(1,260)	(1,250)	(1,327)	-	-	-
Interest cost on unrecognized surplus	(53)	(41)	(51)	-	-	-
Change in the unrecognized surplus	269	31	128	-	-	-
Foreign currency translation	-	-	-	-	-	-
Unrecognized surplus at December 31	**(1,044)**	**(1,260)**	**(1,250)**	**-**	**-**	**-**

(In millions of U.S. dollars)	Pension benefits			Post-retirement benefits		
Change in unrecognized surplus (due to application of asset ceiling and IFRIC14)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
(Unfunded) / funded status	**1,706**	**4,026**	**2,732**	**(2,908)**	**(2,891)**	**(3,478)**
Unrecognized surplus (due to application of asset ceiling and IFRIC14)	(1,044)	(1,260)	(1,250)	-	-	-
Net amount recognized	662	2,766	1,482	(2,908)	(2,891)	(3,478)
Of which:						
Prepaid pension costs	*2,146*	*3,176*	*2,603*	*-*	*-*	*-*
Pensions, retirement indemnities and other post-retirement benefit obligations	*(1,484)*	*(410)*	*(1,121)*	*(2,908)*	*(2,891)*	*(3,478)*

Additional Information

(in millions of U.S. dollars) **December 31, 2014**	Obligations	Assets	Funded Status
Pension Benefits			
U.S. management	(21,095)	20,111	(984)
U.S. occupational	(7,952)	11,107	3,155
Supplemental	(465)	-	(465)
Total Pension Benefits	**(29,512)**	**31,218**	**1,706**
Post-retirement Benefits			
Non-represented health	(259)	-	(259)
Formerly represented health	(1,764)	322	(1,442)
Non-represented group life	(979)	301	(678)
Formerly represented group life	(624)	96	(528)
Other	(1)	-	(1)
Total Post-retirement Benefits	**(3,627)**	**719**	**(2,908)**

(in millions of U.S. dollars) **December 31, 2013**	**Obligations**	**Assets**	**Funded Status**
Pension Benefits			
U.S. management [(1)]	(18,296)	19,287	991
U.S. occupational [(1)]	(7,475)	10,905	3,430
Supplemental	(395)	-	(395)
Total Pension Benefits	**(26,166)**	**30,192**	**4,026**
Post-retirement Benefits			
Non-represented health	(276)	-	(276)
Formerly represented health	(1,765)	327	(1,438)
Non-represented group life	(987)	321	(666)
Formerly represented group life	(600)	91	(509)
Other	(2)	-	(2)
Total Post-retirement Benefits	**(3,630)**	**739**	**(2,891)**

(1) On December 1, 2013, we transferred about 30,000 beneficiaries from the U.S. occupational pension plan to the U.S. management pension plan. We transferred about U.S.$1,813 million in assets and U.S.$1,173 million in obligations determined in accordance with IFRSs.

(in millions of U.S. dollars) **December 31, 2012**	**Obligations**	**Assets**	**Funded Status**
Pension Benefits			
U.S. management	(19,629)	19,006	(623)
U.S. occupational	(9,867)	13,699	3,832
Supplemental	(477)	-	(477)
Total Pension Benefits	**(29,973)**	**32,705**	**2,732**
Post-retirement Benefits			
Non-represented health	(317)	-	(317)
Formerly represented health	(2,043)	294	(1,749)
Non-represented group life	(1,114)	306	(808)
Formerly represented group life	(673)	72	(601)
Other	(3)	-	(3)
Total Post-retirement Benefits	**(4,150)**	**672**	**(3,478)**

Plan Assets

The following table summarizes the target asset allocation ranges and our actual allocation of our pension and post-retirement trusts by asset category.

	Pension target allocation range	**Percentage of pension plan assets**	**Post-retirement target allocation**	**Percentage of post-retirement plan assets**
December 31, 2012				
Asset category				
Equity securities	7% - 13%	11%	44%	44%
Fixed income securities	63% - 86%	74%	15%	14%
Real estate	4% - 8%	6%	-	-
Private equity and other	6% - 13%	9%	-	-
Cash	-	-	41%	42%
Total		**100%**		**100%**
December 31, 2013				
Asset category				
Equity securities	7% - 13%	9%	46%	46%
Fixed income securities	62% - 85%	74%	16%	16%
Real estate	4% - 8%	7%	-	-
Private equity and other	7% - 13%	10%	-	-
Cash	-	-	38%	38%
Total		**100%**		**100%**
December 31, 2014				
Asset category				
Equity securities	7% - 13%	8%	**46%**	46%
Fixed income securities	64% - 84%	67%	**15%**	15%
Real estate	4% - 8%	5%	**-**	-
Private equity and other	7% - 13%	10%	**-**	-
Cash	-	10%	**39%**	39%
Total		**100%**		**100%**

The majority of Alcatel-Lucent's U.S. pension plan assets are held in a master pension trust. Alcatel-Lucent's U.S. post-retirement plan assets are held in two separate trusts in addition to the amount set aside in the master pension trust for retiree healthcare. Plan assets are managed by independent investment advisors with the objective of maximizing surplus returns with a prudent level of surplus risk. Alcatel-Lucent periodically completes asset-liability studies to assure that the optimal asset allocation is maintained in order to meet future benefit obligations. The Board of Directors formally approves the target allocation ranges every two to three years upon completion of a study by the external advisors and internal investment management. The overall pension plan asset portfolio reflects a balance of investments split about 27.0/73.0 between equity (which includes alternative investments for this purpose) and fixed income securities. Investment advisors managing plan assets may use derivative financial instruments including futures contracts, forward contracts, options and interest rate swaps to manage market risk.

Pension plan assets included U.S.$0.0 million of Alcatel-Lucent ordinary shares and U.S.$8.1 million of Alcatel-Lucent bonds as of December 31, 2014 (U.S.$0.0 million of Alcatel-Lucent ordinary shares and U.S.$7.8 million of Alcatel-Lucent bonds as of December 31, 2013 and U.S.$0.2 million of Alcatel-Lucent ordinary shares and U.S.$6.4 million of Alcatel-Lucent bonds as of December 31, 2012).

Contributions

Alcatel-Lucent contributes to its pension and post-retirement benefit plans to make benefit payments to plan participants and to pre-fund some benefits by means of trust funds. For Alcatel-Lucent's U.S. pension plans, the funding policy is to contribute amounts to the trusts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts as Alcatel-Lucent may determine to be appropriate. Contributions are made to benefit plans for the sole benefit of plan participants.

U.S. pension plan funding methods

Funding requirements for our major U.S. pension plans are determined by applicable statutes, namely the Employee Retirement Income Security Act of 1974 (ERISA), the Internal Revenue Code of 1986 (the "Code"), and regulations issued by the Internal Revenue Service (the "IRS"). The Pension Protection Act of 2006 (the "PPA") increased the funding target for determining required contributions, from 90% to 100% of the funding obligation, in 2% annual increments at each January 1 valuation date beginning in 2008 and ending with a 4% increment on January 1, 2011. The PPA was amended by the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA) and provided additional alternative methods for determining the funding obligation and the value of plan assets that included look-back averaging periods of up to twenty-four months. The IRS provides a number of methods to use for measuring plan assets and for determining the discount rate. For measuring plan assets, we can choose between the fair market value at the valuation date or a smoothed fair value of assets (based on any prior period of time up to a maximum of two years, with the valuation date being the last date in the prior period). For determining the discount rate, we can opt for the spot discount rate at the valuation date (in effect the average yield curve of the daily rates for the month preceding the valuation date) or a twenty-four month average of the rates for each time segment (any twenty-four month period as long as the twenty-four month period ends no later than five months before the valuation date). The Moving Ahead for Progress in the 21st Century Act (MAP-21), enacted on July 6, 2012, affects U.S. tax-qualified pension plan funding requirements for plans that use segment interest rates for measuring plan liabilities for regulatory funding purposes. For such plans, commencing in 2012, MAP-21 stabilizes such interest rates by establishing "corridors" around a 25-year average rate. MAP-21 is applicable to the Group's U.S. management and active occupational pension plans, which use segment interest rates for purposes of determining regulatory funding requirements, but not the U.S. inactive occupational pension plan, which, beginning in 2013 (for 2012), uses a full yield curve for such purposes. The Highway and Transportation Funding Act, enacted on August 8, 2014 (HATFA), modified and extended the interest rate "corridors". For the U.S. management and active occupational pension plans, MAP-21, modified and extended by HATFA, increases the interest rates used for funding valuations. According to our assessment of those plans, MAP-21, modified and extended by HATFA, is expected to result in an increase in the interest rates used for regulatory funding purposes and suggests no required funding contribution through at least 2017. Although MAP-21/HATFA is currently not applicable to the Group's U.S. inactive occupational pension plan, the Group does not foresee any required funding contribution for that plan, given the level of assets compared to liabilities for regulatory funding purposes.

U.S. Section 420 Transfer

Prior to the PPA, Section 420 of the Code provided for the transfer of pension assets ("Section 420 Transfer") in excess of 125% of a pension plan's funding obligation to be used to fund the healthcare costs of that plan's retired participants. The Code permitted only one transfer in a tax year with transferred amounts being fully used in the year of the transfer. It also required the company to continue providing healthcare benefits to those retirees for a period of five years beginning with the year of the transfer (cost maintenance period), at the highest per-person cost it had experienced during either of the two years immediately preceding the year of the transfer. With some limitations, benefits could be eliminated for up to 20% of the retiree population, or reduced for up to 20% for 100% of the retiree population, during the five-year period. The PPA as amended by the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007, expanded the types of transfers to include transfers covering a period of more than one year from assets in excess of 120% of the funding obligation, with the cost maintenance period extended through the end of the fourth year following the transfer period, and the funded status being maintained at a minimum of 120% during each January 1 valuation date in the transfer period. The PPA also provided for collectively bargained transfers, both single year and multi-year, wherein an enforceable labor agreement is substituted for the cost maintenance period. On July 6, 2012, the provisions of Section 420 of the Code were extended to life insurance benefits (in addition to healthcare costs) and extended until December 31, 2021.

On December 1, 2014, Alcatel-Lucent made a Section 420 "collectively bargained transfer" of excess pension assets from the U.S. occupational-inactive pension plan in the amount of U.S.$225 million to fund healthcare benefits for retirees who were represented by the Communications Workers of America and the International Brotherhood of Electrical Workers for the period beginning December 1, 2014 through about November 30, 2015 and group life insurance benefits for the period beginning December 1, 2014 through about December 30, 2015. Alcatel-Lucent expects to make a "collectively bargained transfer" during 2015 from the U.S. occupational-inactive pension plan to fund healthcare and group life insurance benefits for retirees who were represented by the Communications Workers of America and the International Brotherhood of Electrical Workers for the remainder of 2015 through the first nine months of 2016.

Contributions

The following table summarizes expected contributions (net of Medicare Part D subsidies) to its various pension and post-retirement plans through calendar 2024. Alcatel-Lucent did not have to make contributions to its qualified U.S. pension plans during the 2014 calendar year. Although certain data, such as the December 31, 2014 private equity and real estate values and the January 1, 2015 census data, will not be final until the second quarter of 2015, Alcatel-Lucent does not expect to make any contribution through early 2017. Alcatel-Lucent is unable to reliably estimate the expected contributions to its qualified U.S. pension plans (Management & Occupational pension plans) beyond the 2017 calendar year. Actual contributions may differ from expected contributions, due to various factors, including performance of plan assets, interest rates and potential legislative changes. The table below reflects the use of excess pension assets to fund healthcare costs and group life insurance payments for formerly union-represented retirees for the period 2015 to 2021 (Section 420 of the Code was extended in 2012 until December 31, 2021).

(In millions of U.S. dollars)	**Pension**	**Post-retirement**		
	Non-qualified pension plans	**Formerly union-represented retiree health plans(1)**	**Non-represented retiree health plans**	**Other benefit plans(2)**
2015	31	(24)	21	3
2016	30	(24)	20	3
2017	30	(24)	22	3
2018	30	(23)	22	3
2019	30	(22)	22	3
2020-2024	142	269	105	153

(1) Estimates take into account that Section 420 transfers are made to finance healthcare costs until December 31, 2021 (current expiration date of Section 420 of the Code). These estimates are net of Medicare Part D subsidies.

(2) Estimates take into account that Section 420 transfers are made to finance group life insurance payments until December 31, 2021 (current expiration date of Section 420 of the Code).

Certain of the actuarial assumptions used to determine if pension plan funding is required differ from those used for accounting purposes in a way that becomes significant in volatile markets. While the basis for developing discount rates in both cases is corporate bond yields, for accounting purposes we use a yield curve developed by CitiGroup as of the close of the last business day of December of the current calendar year, whereas the PPA allows either a daily average yield curve for the month of December or a two-year average yield curve. Also, available fair values of assets as of the close of the last business day of December must be used for accounting purposes, but the PPA provides for "asset smoothing" options that average fair values over periods as long as two years with limited expected returns included in the averaging. Both of these sets of options minimize the impact of sharp changes in asset values and corporate bond yields in volatile markets. A preliminary evaluation of the funded status of the U.S. management pension plan for regulatory funding valuation purposes indicates that this plan is over 100% funded at year-end 2014. In addition, under the PPA target, we would only need to fund this plan if the funded ratio were to decline below 100%.

Regarding healthcare benefits, it is important to note that such benefits for both management and formerly union-represented retirees' benefits are capped for those who retired after February 28, 1990 (the benefit obligation associated with this retiree group approximated 45% of the total U.S. retiree healthcare obligation as of December 31, 2014); and Medicare is the primary payer (pays first) for those aged 65 and older, who make up almost all of uncapped retirees.

Benefit Payments

The following table summarizes expected benefit payments from Alcatel-Lucent's various U.S. pension and post-retirement plans through calendar 2024. Actual benefit payments may differ from expected benefit payments. These amounts are reflected net of expected plan participant contributions and the annual Medicare Part D subsidy of approximately U.S.$24 million.

(In millions of U.S. dollars)	Pension		Post-retirement			
	Qualified U.S. management pension plans	Qualified U.S. occupational pension plans	Non-qualified pension plans	Formerly union-represented retiree health plans	Non-represented retiree health plans	Other benefit plans
2015	1,589	723	31	170	21	83
2016	1,489	668	30	162	20	83
2017	1,465	644	30	148	22	84
2018	1,440	620	30	137	22	84
2019	1,412	596	30	129	22	85
2020 - 2024	6,601	2,613	142	687	105	437

NOTE 24 FINANCIAL DEBT

(In millions of euros)	2014	2013	2012
Marketable securities – short term, net	1,672	2,259	1,528
Cash and cash equivalents	3,878	4,096	3,401
Cash, cash equivalents and marketable securities	**5,550**	**6,355**	**4,929**
Convertible bonds and other bonds – long-term portion	(4,696)	(4,711)	(3,727)
Other long-term debt	(179)	(211)	(227)
Current portion of long-term debt and short-term debt	(402)	(1,240)	(851)
of which (Bonds and credit facilities –short-term portion	*-*	*(964)*	*570*
of which (current portion of other long-term debt and short-term debt	*(402)*	*(276)*	*281*
Financial debt, gross	**(5,277)**	**(6,162)**	**(4,805)**
Derivative interest rate instruments – other current and non-current assets	1	11	33
Derivative interest rate instruments – other current and non-current liabilities	-	(21)	-
Loan to joint venturer – financial asset (loan to co-venturer)	-	7	23
Cash (financial debt), net before FX derivatives	**274**	**190**	**180**
Derivative FX instruments on financial debt – other current and non-current assets (1)	123	5	2
Derivative FX instruments on financial debt – other current and non-current liabilities (1)	(4)	(46)	(35)
Net amount paid/(received) in respect of credit support arrangements (CSA) for derivative instruments - other current assets/liabilities	(67)	-	-
Cash (financial debt), net – excluding discontinued operations	**326**	**149**	**147**
Cash (financial debt), net – assets held for sale	**-**	-	-
Cash (financial debt), net – including discontinued operations	**326**	**149**	**147**

(1) Foreign exchange (FX) derivatives are FX swaps (primarily U.S.$/€) related to inter-unit loans.

a/ Nominal value at maturity date of bonds and credit facilities

(In millions of euros)			Carrying amount at December 31, 2014	Equity component and fair value adjustments	Nominal value at maturity date	
					December 31, 2014	December 31, 2013
7.75% Convertible Trust Preferred Securities	U.S.$931 M	March 2017[1]	-	-	-	675
6.375% Senior Notes	€274 M	April 2014	-	-	-	274
4.50% Senior Secured Facility	U.S.$1,724 M	January 2019[2]	-	-	-	1,256
8.50% Senior Notes[3]	€192 M[4]	January 2016	190	2	192	425
4.625% Senior Notes[5]	U.S.$650 M	July 2017	531	4	535	471
4.25% OCEANE	€629 M	July 2018	538	91	629	629
0.00% OCEANE	€688 M	January 2019	588	100	688	-
0.125% OCEANE	€460 M	January 2020	373	88	460	-
8.875% Senior Notes[5]	U.S.$500 M	January 2020	403	9	412	363
6.75% Senior Notes[5]	U.S.$1,000 M	November 2020	814	10	824	725
6.50 % Senior Notes	U.S.$300 M	January 2028	228	19	247	218
6.45 % Senior Notes	U.S.$1,360 M	March 2029	1,031	89	1,120	986
Total bonds and credit facilities			**4,696**	**412**	**5,108**	**6,022**

(1) This debt was repaid prior to maturity in January 2014, see below.

(2) This facility was repaid prior to maturity in August 2014, see below.

(3) Guaranteed by Alcatel-Lucent USA Inc. and certain subsidiaries of Alcatel-Lucent.

(4) This Senior Note was subject to a tender offer in July 2014, see below.

(5) Guaranteed by Alcatel-Lucent and certain of its subsidiaries.

Changes in 2014

November / December 2014 – Partial buy-backs of Senior Notes 2016

During the fourth quarter of 2014, a €3 million nominal amount of Senior Notes 2016 was bought back and cancelled for a cash amount of €3 million excluding accrued interest.

As a result, the outstanding aggregate nominal amount of Senior Notes 2016 is €192 million.

August 2014 - Repayment of Senior Secured Credit Facility

The proceeds of the issuance of OCEANE 2019 and 2020 (see below) were used together with available cash to fully repay the outstanding amount of the Senior Secured Facility on August 19, 2014 for a nominal value of U.S.$1,724 million. The carrying amount of this facility had already been adjusted in accordance with IAS 39 §AG 8 requirements at end of June 2014 in order to take into account this anticipated repayment. Therefore on August 19, 2014, the nominal value of this facility was equal to its carrying value. The change in estimate during the second quarter of 2014 represented an “other financial loss” of €97 million (US$133 million, see Note 7) and a corresponding increase in the carrying value of the financial debt.

July 2014 – Tender offer on Senior Notes 2016

Pursuant to a tender offer we launched on June 24, 2014, we agreed to purchase, on July 4, 2014, an aggregate of €210 million nominal amount of Senior Notes 2016 for a total cash amount of €235 million. The Notes tendered in the offer were cancelled.

During the second quarter of 2014, a €19 million nominal amount of Senior Notes 2016 was bought back and cancelled for a cash amount of €22 million excluding accrued interest.

June 2014 - Issuance of OCEANE 2019 and 2020 and planned repayment of Senior Secured Credit Facility

On June 10, 2014, Alcatel-Lucent issued convertible/exchangeable bonds (OCEANE) in two tranches:

- tranche 1 due January 30, 2019 for a nominal value of €688 million, and
- tranche 2 due January 30, 2020 for a nominal value of €460 million.

The bonds bear interest at an annual rate of 0.00% and 0.125% respectively, payable semi-annually in arrears on January 30, and July 30, commencing January 30, 2015. At the option of Alcatel-Lucent, the bonds may be subject to early redemption under certain conditions.

The carrying values of the debt components at the date of issuance were €576 million and €364 million respectively. The difference between the nominal value and the carrying value of the debt component at the date of issuance was €208 million and is amortized to finance costs over the term of the bonds.

April 2014 – Repayment of 6.375% Senior Notes

On April 7, 2014, Alcatel-Lucent repaid on the maturity date the remaining €274 million outstanding under its 6.375% Senior Notes.

February 2014 - Senior Secured Credit Facility amendment

On December 20, 2013, Alcatel-Lucent USA Inc. amended its U.S.$1,750 million Senior Secured Credit Facility, which lowered the credit spread on the facility from 4.75% to 3.50% effective February 18, 2014. As a result, and after taking into account the Libor 1% floor, the applicable interest rate decreased from 5.75% to 4.50%. In accordance with IAS 39, this amendment to the terms of the Senior Secured Credit Facility did not lead to recording an extinguishment of the original facility and recognizing a new one, because the change in interest rate did not constitute a substantial modification of the terms of the original facility.

January 2014 - Repayment of 7.75% Convertible Trust Preferred Securities (Liability to Subsidiary Trust Issuing Preferred Securities)

On January 13, 2014, the outstanding principal amount of U.S.$931 million on the 7.75% Convertible Trust Preferred Securities due 2017 was repaid in full. As of December 31, 2013, the carrying value of this debt was already equal to its nominal value (see Note 25 of our 2013 audited consolidated financial statements), because we had already anticipated beginning December 12, 2013 that the debt would be redeemed in full.

Changes in 2013

6.75% Senior Notes due November 15, 2020

On November 15 and December 4, 2013, Alcatel-Lucent USA Inc. issued U.S.$750 million and U.S.$250 million, respectively, in Senior Notes due November 15, 2020. The Senior Notes bear interest at an annual rate of 6.75%, payable semi-annually in arrears on May 15, and November 15, commencing May 15, 2014. They are guaranteed by Alcatel-Lucent and certain of its subsidiaries.

The proceeds of this issuance were used to repay and retire the following debts:

- the 2.875% Series A convertible debentures:
  - outstanding nominal value repurchased: U.S.$95 million,
  - cash amount paid by the Company, excluding accrued interest: U.S.$95 million;
- the 2.875% Series B convertible debentures:
  - outstanding nominal value repurchased: U.S.$1 million,
  - cash amount paid by the Company, excluding accrued interest: U.S.$1 million;
- the €298 million Senior Secured Facility entered into on January 30, 2013 (see below):
  - outstanding nominal value repaid: €298 million,
  - cash amount paid by the Company, excluding accrued interest: €298 million.

On December 27, 2013, 14,772,054 OCEANE 2015 having a nominal value of €3.23 each and representing a total nominal value of €48 million were converted into 15,658,262 new Alcatel Lucent ordinary shares. The impact on the equity was €45 million, corresponding to the carrying value of the debt component just before the conversion (no profit or loss impact was accounted for). On December 27, 2013, the entire outstanding nominal value of €11 million after the conversion was repurchased for €11 million in cash (without accrued interest).

A total net loss of €(42) million related to the above repurchases (€(20) million for the Series A convertible bonds, €(21) million for the euro denominated Senior Secured Facility and €(1) million for the OCEANE due 2015) that occurred in the fourth quarter of 2013 was recorded in “other financial income (loss)” (see Note 7).

4.625% Senior Notes due July 1, 2017

On December 12, 2013, Alcatel-Lucent USA Inc. issued U.S.$650 million in Senior Notes due on July 1, 2017. The Senior Notes bear interest at an annual rate of 4.625%, payable semi-annually in arrears on January 1, and July 1, commencing July 1, 2014. The proceeds of this issuance were applied, together with available cash, to repay in full as of January 13, 2014 the U.S.$931 million principal amount outstanding of the 7.75% Convertible Trust Preferred Securities due 2017.

Senior Secured Credit Facility amendment

On December 20, 2013, Alcatel-Lucent USA Inc. signed an amendment relating to its U.S.$1,750 million Senior Secured Credit Facility, which became effective as of February 2014 and had the effect of lowering the credit spread from 4.75% to 3.50%. As a result, and taking into account the Libor 1% floor, the applicable interest rate decreases from 5.75% to 4.50%.

8.875 % Senior Notes due January 1, 2020

On August 7, 2013, Alcatel-Lucent USA Inc. issued U.S.$500 million in Senior Notes due on January 1, 2020. The Senior Notes bear interest at an annual rate of 8.875%, payable semi-annually in arrears on January 1, and July 1, commencing January 1, 2014. They are guaranteed by Alcatel Lucent and certain of its subsidiaries. The proceeds of this issuance were used to repay and terminate the U.S.$500 million Asset Sale Facility entered into on January 30, 2013 (see below), which involved a cash payment of U.S.$505 million. The outstanding balance of unamortized issuance costs of the Asset Sale Facility were expensed in Other financial income (loss) during the third quarter of 2013, representing a loss of €(24) million (see Note 7).

Senior Secured Credit Facility amendment

On August 16, 2013, Alcatel-Lucent USA Inc. amended the outstanding Senior Secured Credit Facilities entered into on January 30, 2013. The amendments had the effect of changing certain covenants governing the facilities, including lowering the credit spread on the U.S.$1,750 million Senior Secured Credit Facility due 2019 from 6.25% to 4.75% (total interest rate lowered to 5.75%) and lowering the credit spread on the €300 million Senior Secured Credit Facility due 2019 from 6.50% to 5.25% (total interest rate lowered to 6.25%).

OCEANE 2018

On July 3, 2013, Alcatel-Lucent issued convertible/exchangeable bonds (OCEANE) due July 1, 2018 for a nominal value of €629 million. The bonds bear interest at an annual rate of 4.25%, payable semi-annually in arrears on January 1, and July 1, commencing January 1, 2014. At the option of Alcatel-Lucent, the bonds may be subject to early redemption under certain conditions. The carrying value of the debt component at the date of issuance was €505 million. The difference between the nominal value and the carrying value of the debt component at the date of issuance was €124 million and is amortized in finance costs over the term of the bonds.

The proceeds of this issuance were used to repurchase and cancel €748 million in nominal value of the 5.00% OCEANE due January 2015 (carrying value of €691 million) for a cash payment of €780 million (without accrued interest). The negative impact on the income statement, which was accounted for in Other financial income (loss) during the third quarter of 2013, represented an €(87) million loss (see Note 7).

2.875 % Series B convertible debentures mandatory offer to purchase

At the holder's option, the Alcatel-Lucent USA, Inc. 2.875% Series B convertible debentures were redeemable at 100% of the principal amount plus any accrued and unpaid interest at the first optional redemption date, June 15, 2013.

The outstanding nominal value of the 2.875% Series B convertible debentures was equal to US$ 765 million just before June 15, 2013. At this date, US$ 764 million in nominal value of these debentures were redeemed and cancelled for US$ 764 million in cash, plus accrued interest.

Because of the new accounting treatment applied in the second quarter of 2012 (see Note 2i – to our consolidated financial statements for the year ended December 31, 2013 filed as part of our Annual Report on Form 20-F), the carrying amount of the 2.875% Series B convertible debentures was equal to the nominal value of the debentures as of June 15, 2013. No gain or loss related to the partial redemption, therefore, was recorded.

Buy-backs of debt

On May 21, 2013, the following bonds and notes were partially bought back and cancelled:

- 6.375% Notes due April 2014 issued by Alcatel-Lucent:
    - nominal value repurchased: €172 million,
    - cash amount paid by Alcatel-Lucent, excluding accrued interest: €180 million.

The 6.375% Notes due April 2014 issued by Alcatel-Lucent were the subject of additional repurchases during the second and the third quarters of 2013 for an additional nominal amount of €16 million and a cash amount paid by Alcatel-Lucent, excluding accrued interest, of €17 million. In addition, the interest rate swaps, which were hedging part of the debt repurchased, were cancelled, generating a cash gain of €7 million.

- 5.00% OCEANE 2015 issued by Alcatel-Lucent:
    - nominal value repurchased: €193 million,
    - cash amount paid by Alcatel-Lucent, excluding accrued interest: €196 million.

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.

An additional nominal amount of €748 million was repurchased in August 2013 (see above).

- 8.50% due January 2016 Senior Notes issued by Alcatel-Lucent:
    - nominal value repurchased: €75 million,
    - cash amount paid by Alcatel-Lucent, excluding accrued interest: €80 million.

A total net loss of €(26) million related to all the above listed repurchases that occurred in the second quarter of 2013 was recorded in "other financial income (loss)" (see Note 7).

Senior Secured Credit Facilities

On January 30, 2013, Alcatel-Lucent USA Inc., as borrower, Alcatel-Lucent and most of the subsidiaries of the Group as guarantors, entered into senior secured credit facilities that were syndicated in January 2013 and which comprised:

- An asset sale facility with a total nominal value of U.S.$500 million, with a coupon of the lower of Libor (with a 1.00% floor) plus 525 basis points, and the Alternate Base Rate (ABR) (the greatest of the Crédit Suisse Prime Rate, the Federal Funds Effective Rate plus 0.5% and one month Libor plus 1% after some adjustments) plus 425 basis points (as the borrower may choose at certain intervals), maturing in August 2016;
- A credit facility with a total nominal value of U.S.$1,750 million, with a coupon of the lower of Libor (with a 1.00% floor) plus 625 basis points, and the ABR plus 525 basis points (as the borrower may choose at certain intervals), maturing in January 2019; with a quarterly amortization of 0.25% of nominal value; and
- A credit facility with a total nominal value of €300 million, with a coupon of Libor (with a 1.00% floor) plus 650 basis points, also maturing in January 2019 and also with a quarterly amortization of 0.25% of nominal value.

These facilities were secured by a first-priority pledge of (i) the equity interests held by Alcatel-Lucent USA Inc., Alcatel-Lucent Holdings Inc. and the other guarantors in most of their subsidiaries, (ii) substantially all patents and other intellectual property rights of Alcatel-Lucent USA Inc., Alcatel-Lucent and the other guarantors, (iii) substantially all intercompany loans due to Alcatel-Lucent USA Inc., Alcatel-Lucent Holdings Inc. and the other guarantors, and (iv) substantially all other tangible and intangible personal property of Alcatel-Lucent USA Inc. and the U.S. guarantors.

The agreement relating to these facilities did not include any financial maintenance covenants (that is, a covenant the calculation of which is usually tested quarterly and that measures, for instance, the capacity of the borrower to repay debt) but included covenants restricting, among other things, the Group's ability to: (i) incur or guarantee additional debt or issue preferred stock, (ii) create certain liens, (iii) sell assets and monetize patents, (iv) pay dividends, buy back equity, or make certain investments, and (v) dispose of, or transfer within the Group, assets constituting the collateral of the secured financing.

In accordance with IAS 39, the floor conditions on the variable interest rate of these facilities were accounted for as embedded derivatives and separated from the host contracts (the credit facilities). The fair values at inception of the three floors were valued at U.S.$10 million for the asset sale facility of U.S.$500 million, U.S.$46 million for the credit facility of U.S.$1,750 million, and €7 million for the credit facility of €300 million. These fair values were subtracted from the nominal value of the facilities and recorded as interest rate derivatives and included in the Cash (financial debt), net as disclosed above. The change in these fair values representing a gain of €26 million for the year ended December 31, 2013 was recorded in "other financial income (loss)".

In addition, fees related to the issuance of these credit facilities were also subtracted from the nominal value, giving the following carrying values of the facilities: U.S.$470 million for the asset sale facility of U.S.$500 million, U.S.$1,633 million for the credit facility of U.S.$1,750 million and €283 million for the credit facility of €300 million. The net cash proceeds were reported in the cash flow statement for the year ended December 31, 2013 on the line item "issuance of long-term debt" for an aggregate amount of €1,917 million. The difference between the nominal value and the carrying value of the facilities is amortized to finance costs over the term of the debt.

Changes in 2012

Extension or redemption

The bonds initially issued in July and October 2010 (i.e. bonds due in February 2012 and May 2012 for a nominal amount of €50 million each) were redeemed.

Repurchases (redemption before maturity date)

In 2012, U.S.$115.5 million in nominal value of the Alcatel-Lucent USA, Inc. 2.875% Series B convertible debentures were bought back for U.S.$110 million in cash, excluding accrued interest, and then cancelled.

Nominal value repurchased: Alcatel-Lucent USA, Inc. convertible bond 2.875% Series B: U.S.$115,500,000

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 loss of €27 million related to these repurchases was recorded in "other financial income (loss)" in 2012 (see Note 7).

b/ Analysis of financial debt, gross – by type

(In millions of euros)	2014	2013	2012
Convertible bonds	1,498	1,191	2,179
Other bonds	3,198	4,485	2,118
Receivables transferred that are not derecognized in their entirety(1)	233	248	166
Bank loans, overdrafts and other financial debt	239	119	219
Finance lease obligations	18	24	23
Accrued interest	91	95	100
Financial debt, gross	**5,277**	**6,162**	**4,805**

(1) See Note 20 "Financial Assets Transferred".

c/ Analysis by maturity date and type of rate

(In millions of euros)	2014	2013	2012
Current portion of long-term debt (1)	-	1,054	570
Short-term debt(2)	402	186	281
Financial debt due within one year(4)	**402**	**1,240**	**851**
Of which:			
• *within 3 months*	*274*	*791*	*225*
• *between 3 and 6 months*	*104*	*406*	*603*
• *between 6 and 9 months*	*12*	*22*	*11*
• *over 9 months*	*11*	*21*	*12*
2014	-	-	604
2015	-	114	1,049
2016	280	515	495
2017	604	494	656
2018	539	401	-
2019 and thereafter	3,452	3,398	1,150
Financial debt due after one year (3) (4)	**4,875**	**4,922**	**3,954**
Total	**5,277**	**6,162**	**4,805**

(1) Amount as of December 31, 2013 included €274 million for the 6.375% trust preferred securities due April 2014 and €675 million for the 7.75% convertible notes debentures due to the existence of an irrevocable commitment to repay in full the 7.75% convertible debentures in January 2014.

Amount as of December 31, 2012 was related to the 2.875% Series B convertible debentures, due to the existence of a put option exercisable as of June 15, 2013.

(2) Amount as of December 31, 2014 included €91 million of accrued interest (€95 million as of December 31, 2013 and €100 million as of December 31, 2012).

(3) The convertible securities may be retired earlier based on early redemption or buy-back options. 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.

(4) Contractual cash flows of financial debt are disclosed in Note 28.

d/ Debt analysis by rate

(In millions of euros)	Amounts	Effective interest rate	Interest rate after hedging
2012			
Convertible bonds	2,179	9.23%	9.23%
Other bonds	2,118	7.78%	6.98%
Bank loans, overdrafts and finance lease obligations	408	1.97%	1.97%
Accrued interest	100	NA	NA
Financial debt, gross	**4,805**	**7.94%**	**7.58%**
2013			
Convertible bonds	1,191	9.50%	9.50%
Other bonds	4,485	7.50%	7.28%
Bank loans, overdrafts and finance lease obligations	391	2.66%	2.66%
Accrued interest	95	NA	NA
Financial debt, gross	**6,162**	**7.58%**	**7.42%**
2014			
Convertible bonds	1,498	5.83%	5.83%
Other bonds	3,198	7.27%	7.27%
Bank loans, overdrafts and finance lease obligations	490	2.02%	2.02%
Accrued interest	91	NA	NA
Financial debt, gross	**5,277**	**6.36%**	**6.36%**

e/ Debt analysis by type of rate

(In millions of euros)	2014		2013		2012	
	Before hedging	After hedging	Before hedging	After hedging	Before hedging	After hedging
Total fixed rate debt	5,269	5,269	6,154	5,880	4,789	4,329
Total floating rate debt	8	8	8	282	16	476
Total	**5,277**	**5,277**	**6,162**	**6,162**	**4,805**	**4,805**

f/ Debt analysis by currency

(In millions of euros)	2014		2013		2012	
	Before hedging	After hedging	Before hedging	After hedging	Before hedging	After hedging
Euro	1,976	2,388	1,544	1,544	2,205	2,205
U.S. Dollar	3,150	2,738	4,608	4,608	2,587	2,587
Other	151	151	10	10	13	13
Total	**5,277**	**5,277**	**6,162**	**6,162**	**4,805**	**4,805**

g/ Fair value of debt

The fair value of the Group's debt is determined for each loan by discounting the future cash flows using a discount rate corresponding to bond yields, adjusted by the Group's credit rate risk. The fair value of debt and bank overdrafts at floating interest rates approximates the net carrying amounts. The fair value of the financial instruments that hedge the debt is calculated in accordance with the same method, based on the net present value of the future cash flows:

- at December 31, 2014, the fair value of debt before hedging (including credit spread) was €6,299 million and the fair value of the debt after hedging (including credit spread) was €6,297 million;
- at December 31, 2013, the fair value of debt before hedging (including credit spread) was €7,221 million and the fair value of the debt after hedging (including credit spread) was €7,231 million; and
- at December 31, 2012, the fair value of debt before hedging (including credit spread) was €4,673 million and the fair value of the debt after hedging (including credit spread) was €4,640 million.

h/ Credit rating

Credit ratings of Alcatel-Lucent and Alcatel-Lucent USA Inc.

At February 5, 2015, the credit ratings of Alcatel-Lucent and Alcatel-Lucent USA Inc. were as follows:

Rating Agency	Corporate Family rating	Long-term debt	Short-term debt	Outlook	Last update of CFR/Debt rating	Last update of the outlook
Moody's:						
Alcatel-Lucent S.A.	B3	B3/Caa1 (1)	Not Prime	Positive	December 4, 2012/ December 19, 2013	November 17, 2014
Alcatel-Lucent USA Inc.	n.a.	B3 (2)	n.a	Positive	December 12, 2013	November 17, 2014
Standard & Poor's:						
Alcatel-Lucent S.A.	B	B	B	Stable	August 18, 2014	August 18, 2014
Alcatel-Lucent USA Inc.	B	B	n.a	Stable	August 18, 2014	August 18, 2014

(1) The OCEANE 2018 as well as the OCEANE 2019 & 2020 are rated Caa1; all other long-term debt issued by Alcatel-Lucent is rated B3.

(2) The 8.875% Senior Notes, the 6.75% Senior Notes and the 4.625% Senior Notes are each rated B3. Ratings were withdrawn on January 20, 2012 for the Alcatel-Lucent USA Inc. 6.50% Notes due 2028 and 6.45% Notes due 2029.

Moody's: On November 17, 2014, Moody's changed the outlook on Alcatel-Lucent and Alcatel-Lucent USA Inc to positive from stable, and affirmed the B3 ratings.

On December 19, 2013, Moody's upgraded the rating of the 8.50% Senior Notes due 2016 issued by Alcatel-Lucent from Caa1 to B3.

On November 7, 2013, Moody's changed the outlook on Alcatel-Lucent's Corporate Family B3 rating from Negative to Stable, and affirmed the existing ratings of the Group's debt.

On August 23, 2013, Moody's assigned a definitive B3 rating to the 8.875% Senior Notes due 2020 issued by Alcatel-Lucent USA Inc. and affirmed Alcatel-Lucent's B3 Corporate Family Rating.

On June 26, 2013, Moody's assigned a provisional Caa1 rating to the OCEANE due 2018 issued by Alcatel-Lucent and converted the provisional B1 rating of the Senior Secured Credit Facilities into a definitive B1 rating.

On December 19, 2012, Moody's assigned a provisional B1 rating to the Senior Secured Credit Facilities.

On December 4, 2012, Moody's lowered the Alcatel-Lucent Corporate Family rating from B2 to B3. Concurrently, Alcatel-Lucent's senior long-term debt ratings were downgraded from B3 to Caa1 and the ratings for the Alcatel-Lucent USA Inc. 2.875% Series A and Series B convertible bonds that were guaranteed by Alcatel-Lucent on a subordinated basis, were lowered from Caa1 to Caa2. The Negative outlook was affirmed.

On August 3, 2012, Moody's revised its outlook for the Alcatel-Lucent Corporate Family rating and debt, as well as Alcatel-Lucent USA Inc. debt and the trust preferred securities issued by Lucent Technologies Capital Trust I, from Stable to Negative. The ratings were affirmed.

On May 8, 2012, Moody's lowered the Alcatel-Lucent Corporate Family rating from B1 to B2 and changed the previously Negative outlook on the ratings to Stable. Concurrently, Alcatel-Lucent's senior long-term debt ratings were downgraded from B2 to B3 and the ratings for the Alcatel-Lucent USA Inc. 2.875% Series A and Series B convertible debentures, which were guaranteed by Alcatel-Lucent on a subordinated basis, were lowered from B3 to Caa1.

On January 20, 2012, Moody's affirmed the B1 rating for the Alcatel-Lucent Corporate Family rating but downgraded from B2 to B3 the Alcatel-Lucent USA, Inc.2.875% Series A and Series B convertible debentures that were guaranteed on a subordinated basis by Alcatel-Lucent. Concurrently, Moody's withdrew the ratings for the unguaranteed 6.50% Notes due 2028 and 6.45% Notes due 2029 issued by Alcatel-Lucent USA Inc. and for the trust preferred securities issued by Lucent Technologies Capital Trust I that are not guaranteed by Alcatel-Lucent. The Negative outlooks were affirmed.

The rating grid of Moody's ranges from Aaa, which is the highest rated class, to C, which is the lowest rated class. Alcatel-Lucent's Corporate Family rating, the Alcatel-Lucent long-term debt (except the OCEANE 2018, 2019 and 2020), and the Alcatel-Lucent USA Inc. rated long-term debt, are rated B3, in the B category, which also includes B1 and B2 ratings.

Moody's gives the following definition of its B category: "obligations rated B are considered speculative and are subject to high credit risk".

Alcatel Lucent's OCEANE 2018, 2019 and 2020 are rated Caa1, in the Caa category, which Moody's characterizes as follows: "obligations rated Caa are judged to be speculative, of poor standing and are subject to very high risk".

Standard & Poor's: On August 18, 2014, Standard & Poor's raised its corporate credit ratings on Alcatel-Lucent and Alcatel-Lucent USA Inc. from B- to B. The unsecured bonds issued by the Group were also upgraded, from CCC+ to B. At the same date, and as a consequence of the rating upgrade, the outlook was change from Positive to Stable.

On November 7, 2013, Standard & Poor's revised its outlook on Alcatel-Lucent and on Alcatel-Lucent USA Inc. from Stable to Positive, and affirmed its B- Corporate Credit rating on both companies. On November 7, 2013, Standard & Poor's also affirmed the B short-term rating on Alcatel-Lucent.

On September 3, 2013, Standard & Poor's raised to CCC+ from CCC the ratings of the senior unsecured notes issued by Alcatel-Lucent and by Alcatel-Lucent USA Inc.

On June 26, 2013, Standard & Poor's assigned the credit rating CCC to the OCEANE 2018 issued by Alcatel-Lucent on that date.

On June 21, 2013, Standard & Poor's lowered the long-term corporate credit ratings of Alcatel-Lucent and Alcatel-Lucent USA Inc from B to B- with a stable outlook. Standard & Poor's affirmed the B short-term ranking of Alcatel-Lucent, and lowered the rating on the Senior Secured Credit Facilities from BB- to B+, as well as the rating of the Group long-term unsecured debt from CCC+ to CCC. The rating of the trust preferred securities issued by Lucent Technologies Capital Trust I was lowered from CCC to CCC-.

On February 18, 2013, Standard & Poor's affirmed its B long-term credit ratings of Alcatel-Lucent and Alcatel-Lucent USA Inc. and removed them from Credit Watch with Negative implications. The outlook was negative. At the same time, the BB- issue rating on the Senior Secured Credit Facilities was affirmed. The other ratings were also affirmed.

On December 21, 2012, Standard & Poor's placed all corporate and issue credit ratings for Alcatel-Lucent and Alcatel-Lucent USA Inc. on Credit Watch with Negative implications. At the same time, Standard & Poor's lowered their issue ratings on Alcatel-Lucent and Alcatel-Lucent USA Inc. existing unsecured long-term debt from B to CCC+. The B ratings on Alcatel-Lucent short-term debt were affirmed.

On August 13, 2012, Standard & Poor's revised its outlook for Alcatel-Lucent and Alcatel-Lucent USA, Inc. from Stable to Negative. The ratings were affirmed.

The rating grid of Standard & Poor's ranges from AAA (the strongest rating) to D (the weakest rating).

Alcatel-Lucent's and Alcatel-Lucent USA Inc's Corporate Family Rating, as well as their long term debt are rated B, which is in the B category.

Standard & Poor's gives the following definition to the B category: "An obligation rated "B" is more vulnerable to non-payment than obligations rated "BB" but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation."

Rating clauses affecting Alcatel-Lucent and Alcatel-Lucent USA Inc. debt at December 31, 2014

Given its current short-term ratings and the lack of liquidity of the French commercial paper/"billets de trésorerie" market, Alcatel-Lucent has decided not to participate in this market for the time being.

Alcatel-Lucent and Alcatel-Lucent USA Inc.'s outstanding bonds do not contain clauses that could trigger an accelerated repayment in the event of a lowering of their respective credit ratings.

i/ Bank credit agreements

Alcatel-Lucent syndicated bank credit facility

On December 17, 2013, Alcatel-Lucent closed a €504 million three-year revolving credit facility with a syndicate of 12 international banks. The availability of this instrument is not dependent upon Alcatel-Lucent's Credit Ratings. The availability of this facility is dependent upon Alcatel-Lucent meeting a financial covenant linked to its capacity to cover its interest charges. As of December 31, 2014, the credit facility was undrawn.

A syndicated bank facility signed on April 5, 2007 was terminated following the closing of the Senior Secured Facilities in January 2013.

NOTE 25 PROVISIONS

a/ Balance at closing

(In millions of euros)	2014	2013	2012
Provisions for product sales	387	402	510
Provisions for restructuring	439	433	456
Provisions for litigation	122	122	150
Other provisions	416	459	533
Total (1)	**1,364**	**1,416**	**1,649**
(1) Of which: portion expected to be used within one year	*959*	*966*	*1,003*
portion expected to be used after one year	*405*	*450*	*646*

b/ Change during 2014

(In millions of euros)	December 31, 2013	Appropriation	Utilization	Reversals	Change in consolidated companies	Other	December 31, 2014
Provisions for product sales	402	288	(274)	(46)	(6)	23	387
Provisions for restructuring	433	395	(364)	(20)	(16)	11	439
Provisions for litigation	122	58	(40)	(18)	(2)	2	122
Other provisions	459	184	(167)	(62)	(7)	9	416
Total	**1,416**	**925**	**(845)**	**(146)**	**(31)**	**45**	**1,364**
Effect on the income statement:							
- Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities and post - retirement benefit plan amendments		(516)		87			**(429)**
- Restructuring costs		(393)		20			**(373)**
- Litigations		-		7			**7**
- Gain (loss) on disposal of consolidated entities		-		-			**-**
- Post-retirement benefit plan amendments		-		-			**-**
- Other financial income (loss)		(3)		14			**11**
- Income taxes		(7)		14			**7**
- Income (loss) from discontinued operations		(6)		4			**(2)**
Total		**(925)**		**146**			**(779)**

At year-end, contingent liabilities exist with regards to ongoing tax disputes and outstanding litigations. For certain of these disputes, neither the financial impact nor the timing of any cash payment that could result from an unfavorable outcome can be estimated at present and therefore nothing was reserved for those disputes as of December 31, 2014.

In particular, we received a tax audit report during the third quarter of 2012 confirming the German tax authority's position with regard to the tax impact of the contribution to Thales of our former railway signalling business in 2006. This tax audit report could represent a potential negative impact of €140 million before interest and penalties (€179 million including interest and penalties as of December 31, 2013). Nothing was reserved, as our position is that it is more likely than not that we will not have to pay these taxes. If we were to reserve anything in the future in relation to this tax litigation, it would be classified in discontinued operations, since the business was sold in 2006. In accordance with applicable law, we have declined to make the payment, although interest continues to accrue on the obligation, and therefore our 2012, 2013 and 2014 cash flow statements were not impacted.

c/ Analysis of restructuring provisions

(In millions of euros)	December 31, 2014	December 31, 2013[1]	December 31, 2012[1]
Opening balance	**433**	**456**	**294**
Utilization during period (restructuring cash outlays)	(364)	(522)	(340)
Restructuring costs (social costs and other monetary costs)	373	473	436
Reversal of discounting impact (financial loss)	1	1	6
Effect of acquisition (disposal) of consolidated subsidiaries	(16)	-	-
Cumulative translation adjustments and other changes	12	25	60
Closing balance	**439**	**433**	**456**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

d/ Restructuring costs

(In millions of euros)	2014	2013[1]	2012[1]
Social costs - Restructuring reserves	(245)	(302)	(378)
Other monetary costs - Restructuring reserves	(128)	(171)	(58)
Other monetary costs - Payables	(156)	(25)	(57)
Other monetary costs - Pension reserve	(32)	(19)	24
Valuation allowances or write-offs of assets and other	(13)	(1)	(10)
Total restructuring costs	**(574)**	**(518)**	**(479)**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

e/ Analysis of litigation provisions

(In millions of euros)	December 31, 2013	Appropriation	Utilization	Reversals	Change in consolidated companies	Other	December 31, 2014
FCPA litigation	13	-	(12)	-	-	(1)	-
Fox River litigation	11	-	(1)	(4)	1	1	7
Madrid building litigation	12	-	(9)	(3)	-	-	-
Sub-total - material litigations [1]	**36**	**-**	**(22)**	**(7)**	**1**	**-**	**7**
Other provisions	86	58	(18)	(11)	(3)	2	115
Total	**122**	**58**	**(40)**	**(18)**	**(2)**	**2**	**122**

(1) The FCPA litigation is disclosed in Note 35b of our 2011 audited consolidated financial statements. The Fox River litigation is disclosed in Note 33 of our 2012 audited consolidated financial statements (under the heading "Lucent's separation agreements"). The Madrid building litigation is disclosed in Note 34e of our 2010 audited consolidated financial statements.

NOTE 26 MARKET-RELATED EXPOSURES

The Group has a centralized treasury management in order to minimize the Group's exposure to market risks, including interest rate risk, foreign exchange risk, and counterparty risk. The Group uses derivative financial instruments to manage and reduce its exposure to fluctuations in interest rates and foreign exchange rates.

The Group's debt is issued in euros and in U.S. dollars. Interest-rate derivatives are used primarily to convert fixed rate debt into floating rate debt.

Estimated future cash flows (for example, firm commercial contracts or commercial bids) are hedged by forward foreign exchange transactions.

a/ Interest rate risk

Derivative financial instruments held at December 31, 2014 are intended to reduce the cost of debt and to hedge interest rate risk. At December 31, 2014, 2013, and 2012, outstanding interest-rate derivatives have the following characteristics:

i. Outstanding interest-rate derivatives at December 31

Analysis by type and maturity date

(In millions of euros)	2014					2013		2012	
	Contract notional amounts Maturity date								
	Less than one year	1 to 5 years	After 5 years	Total	Market value	Total	Market value	Total	Market value
Interest-rate swaps									
Pay fixed rate	-	412	4	416	-	9	-	14	(1)
Pay floating rate	-	416	-	416	(6)	272	11	460	33
Floors									
Buy	-	-	-	-	-	-	-	-	-
Sell	-	-	-	-	-	1,256	(21)	-	-
Options on interest-rate swaps U.S.$ Libor									
Buy	-	-	-	-	-	-	-	-	-
Sell	-	-	-	-	-	-	-	-	-
Total market value					**(6)**		**(10)**		**32**

Analysis by accounting category

(In millions of euros)	Market value		
	2014	2013	2012
Fair value hedges	2	11	33
Cash flow hedges	-	-	-
Instruments not qualifying for hedge accounting	(8)	(21)	(1)
Total	**(6)**	**(10)**	**32**

Analysis by market value and maturity date

(In millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
Market Value of derivatives as assets				
Fair value hedges	-	2	-	2
Cash flow hedges	-	-	-	-
Instruments not qualifying for hedge accounting	-	-	-	-
Total	**-**	**2**	**-**	**2**

(In millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
Market Value of derivatives as liabilities				
Fair value hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Instruments not qualifying for hedge accounting	-	(8)	-	(8)
Total	**-**	**(8)**	**-**	**(8)**

ii. Interest rate sensitivity

Interest rate sensitivity in terms of financial cost

An immediate increase in interest rates of 1%, applied to financial liabilities of which the impact is accounted for in the income statement after taking into account the hedging instruments, would not have a significant impact on interest expense for 2014 (no impact for 2013 and €5 million for 2012).

An immediate increase in interest rates of 1%, applied to financial assets of which the impact is accounted for in the income statement after taking into account the hedging instruments, would decrease interest expense by €52 million for 2014 (€59 million for 2013 and €43 million for 2012).

Financial assets are mainly short-term, and we assume that they are reinvested in assets of the same nature.

Interest rate sensitivity in terms of mark-to-market

An increase of 1% of the interest rate curve, applied to marketable securities of which the impact is accounted for in equity after taking into account the hedging instruments, would increase equity by €4 million for 2014 (decrease by €2 million in 2013 and €3 million in 2012).

An increase of 1% of the interest rate curve, applied to marketable securities of which the impact is accounted for in the income statement after taking into account the hedging instruments, would have a negative impact of €2 million in 2014 (€4 million in 2013 and €3 million in 2012).

An increase of 1% of the interest rate curve, applied to interest-rate derivatives qualified as a fair value hedge, would have a positive impact of €13 million in 2014 (a negative impact of €1 million in 2013 and €7 million in 2012).

An increase of 1% of the interest rate curve, applied to the hedged debt qualified as a fair value hedge, would have a corresponding negative impact of €13 million in 2014 (a negative impact of €1 million in 2013 and €7 million in 2012).

The impact on the income statement would be zero.

An increase of 1% of the interest rate curve, applied to interest-rate derivatives that do not qualify for hedge accounting, would have a positive impact of €18 million in 2014 (a positive impact of €17 million in 2013 and €0 million in 2012).

An increase of 1% of the interest rate curve, applied to financial debt after taking into account derivatives qualified for hedge accounting, would have a positive impact of €273 million on its market value for 2014 (€263 million in 2013 and €127 million in 2012). However, this impact would not be accounted for, as the debt is reassessed to its fair value only when it is hedged. As a result, it would have no impact on either the income statement or on equity.

(In millions of euros)	2014				2013				2012			
	Booked value	**Fair value**	**Fair value change if rates fall by 1% (1)**	**Fair value change if rates rise by 1%**	**Booked value**	**Fair value**	**Fair value change if rates fall by 1%(1)**	**Fair value change if rates rise by 1%**	**Booked value**	**Fair value**	**Fair value change if rates fall by 1%(1)**	**Fair value change if rates rise by 1%**
Assets												
Marketable securities	1,672	1,672	(2)	2	2,259	2,259	6	(6)	1,528	1,528	6	(6)
Cash & cash equivalents (2)	3,878	3,878	-	-	4,096	4,096	-	-	3,401	3,401	-	-
Subtotal	**5,550**	**5,550**	**(2)**	**2**	**6,355**	**6,355**	**6**	**(6)**	**4,929**	**4,929**	**6**	**(6)**
Liabilities												
Convertible bonds	(1,498)	(2,346)	(55)	53	(1,191)	(1,988)	(21)	20	(2,179)	(2,217)	(40)	39
Non convertible bonds	(3,198)	(3,372)	(229)	205	(4,485)	(4,745)	(269)	244	(2,118)	(1,943)	(105)	95
Other financial debt	(581)	(581)	-	-	(486)	(486)	-	-	(508)	(508)	-	-
Subtotal	**(5,277)**	**(6,299)**	**(284)**	**258**	**(6,162)**	**(7,219)**	**(290)**	**264**	**(4,805)**	**(4,668)**	**(145)**	**134**
Derivative interest rate instruments – other current and non-current assets	1	1	37	13	11	11	-	(1)	33	33	1	(7)
Derivative interest rate instruments – other current and non-current liabilities	-	-	-	-	(21)	(21)	(3)	17	-	-	-	-
Loan to co-venturer-financial asset	-	-	-	-	7	7	-	-	23	23	-	-
(Debt)/cash position before FX derivatives	**274**	**(748)**	**(249)**	**273**	**190**	**(867)**	**(287)**	**274**	**180**	**317**	**(138)**	**121**
Derivative FX instruments on financial debt - other current and non-current assets	123	123	-	-	5	5	-	-	2	2	-	-
Derivative FX instruments on financial debt - other current and non-current liabilities	(71)	(71)	-	-	(46)	(46)	-	-	(35)	(35)	-	-
(Debt)/cash position	**326**	**(696)**	**(249)**	**273**	**149**	**(908)**	**(287)**	**274**	**147**	**284**	**(138)**	**121**

(1) If the interest rate is negative after the decrease of 1%, the sensitivity is calculated with an interest rate equal to 0%.

(2) For cash & cash equivalents, the carrying value is considered as a good estimate of the fair value.

b/ Currency risk

i. Outstanding currency derivatives at December 31

Analysis by type and currency

(In millions of euros)	2014					2013		2012	
	U.S. dollar	British pound	Other	Total	Market value	Total	Market value	Total	Market value
Buy/Lend foreign currency									
Forward exchange contracts	337	139	487	963	10	222	(5)	529	(1)
Short-term exchange swaps	2,123	440	303	2,866	63	4,614	(42)	2,231	(35)
Cross currency swaps	412	-	-	412	56	-	-	-	-
Currency option contracts:									
• Buy call	-	-	-	-	-	-	-	-	-
• Sell put	-	-	-	-	-	-	-	-	-
Total	**2,872**	**579**	**790**	**4,241**	**129**	**4,836**	**(47)**	**2,760**	**(36)**
Sell/Borrow foreign currency									
Forward exchange contracts	336	28	2	366	(15)	350	2	681	10
Short-term exchange swaps	731	68	145	944	(16)	1,214	9	898	15
Cross currency swaps	-	-	-	-	-	-	-	-	-
Currency option contracts:									
• Sell call	-	-	-	-	-	-	-	-	-
• Buy put	10	-	29	39	-	-	-	-	-
Total	**1,077**	**96**	**176**	**1,349**	**(31)**	**1,564**	**11**	**1,579**	**25**
Total market value					**98**		**(36)**		**(11)**

Analysis by type and maturity

(In millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
Buy/Lend				
Forward exchange contracts	963	-	-	963
Short-term exchange swaps	2,866	-	-	2,866
Cross currency swaps	-	412	-	412
Currency option contracts:				
• Buy call	-	-	-	-
• Sell put	-	-	-	-
Total	**3,829**	**412**	**-**	**4,241**

(In millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
Sell/Borrow				
Forward exchange contracts	366	-	-	366
Short-term exchange swaps	944	-	-	944
Cross currency swaps	-	-	-	-
Currency option contracts:				
• Buy call	-	-	-	-
• Sell put	39	-	-	39
Total	**1,349**	**-**	**-**	**1,349**

Analysis by market value and maturity date

(In millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
Total market value of derivatives as assets	93	56	-	**149**

(In millions of euros)	Maturity date			
	Less than 1 year	1 to 5 years	After 5 years	Total
Total market value of derivatives as liabilities	(51)	-	-	**(51)**

Analysis by accounting category

(In millions of euros)	Market value		
	2014	2013	2012
Fair value hedges	112	(39)	(27)
Cash flow hedges	1	(1)	7
Instruments not qualifying for hedge accounting	(15)	4	9
Total	**98**	**(36)**	**(11)**

ii. Exchange rate sensitivity

The most used cross currencies in the Group are U.S.$ against EUR, GBP against EUR and GBP against U.S.$. The sensitivity is calculated by increasing or decreasing the value of the U.S.$ by 6% against other currencies.

An increase of foreign currency exchange rates versus EUR of 6%, applied to foreign exchange derivatives, would have a positive impact of €101 million in 2014 (against a positive impact of €201 million in 2013 and a positive impact of €59 million in 2012). This impact would affect the income statement only for foreign exchange derivatives, which do not qualify for hedge accounting.

For foreign exchange derivatives qualified as a fair value hedge, an increase of 6% in the foreign currency exchange rate would have a positive impact of €138 million in 2014 (against a positive impact of €245 million in 2013 and a positive impact of €94 million in 2012). However, this positive effect would be offset by a negative impact due to the re-evaluation of the underlying items. The impact on income statement would therefore be zero.

For foreign exchange derivatives qualified as a cash flow hedge, a 6% increase in the foreign currency exchange rate would have a positive impact of €1 million on equity in 2014 (against a negative impact of €1 million on equity in 2013 and a negative impact of €23 million on equity in 2012).

(In millions of euros)	2014			2013			2012		
	Fair value	Fair value change if U.S.$ falls by 6%	Fair value change if U.S.$ rises by 6%	Fair value	Fair value change if U.S.$ falls by 6%	Fair value change if U.S.$ rises by 6%	Fair value	Fair value change if U.S.$ falls by 6%	Fair value change if U.S.$ rises by 6%
Outstanding foreign exchange derivatives									
Fair value hedges	112	(135)	138	(39)	(244)	245	(27)	(94)	94
Cash flow hedges	1	(1)	1	(1)	1	(1)	7	23	(23)
Derivatives not qualifying for hedge accounting	(15)	39	(38)	4	44	(43)	9	13	(12)
Total outstanding derivatives	**98**	**(97)**	**101**	**(36)**	**(199)**	**201**	**(11)**	**(58)**	**59**
Impact of outstanding derivatives on financial result	(15)	39	(38)	4	44	(43)	9	13	(12)
Impact of outstanding derivatives on income (loss) from operating activities	-	-	-	-	-	-	-	-	-
Impact of outstanding derivatives on equity	1	(1)	1	(1)	1	(1)	7	23	(23)

iii. Reclassification to income statement of gains or losses on hedging transactions that were originally recognized in equity

(In millions of euros)	
Cash flow hedges accounted for in equity at December 31, 2011	**(13)**
Changes in fair value	17
Reclassification of gains or losses to income statement (1)	(3)
Cash flow hedges accounted for in equity at December 31, 2012	**1**
Changes in fair value	(1)
Reclassification of gains or losses to income statement (1)	1
Cash flow hedges accounted for in equity at December 31, 2013	**1**
Changes in fair value	(1)
Reclassification of gains or losses to income statement (1)	-
Cash flow hedges accounted for in equity at December 31, 2014	**-**

(1) The amounts recognized directly in equity indicated in this table differ from those disclosed in the Statement Of Comprehensive Income, due to the amounts related to discontinued operations and commodities derivatives, which are excluded in the above table.

c/ Fair value hierarchy

(In millions of euros)	2014				2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets												
Financial assets available for sale at fair value	3	167	6	**176**	-	158	7	**165**	1	146	7	**154**
Financial assets at fair value through profit or loss (1)	-	1,605	-	**1,605**	-	2,192	-	**2,192**	-	1,480	-	**1,480**
Currency derivatives (2)	-	149	-	**149**	-	18	-	**18**	-	29	-	**29**
Interest-rate derivatives -hedging(2)	-	2	-	**2**	-	11	-	**11**	-	33	-	**33**
Interest-rate derivatives -other (2)	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Cash equivalents (3)	1,096	383	-	**1,479**	1,476	147	-	**1,623**	906	133		**1,039**
Total	**1,099**	**2,306**	**6**	**3,411**	**1,476**	**2,526**	**7**	**4,009**	**907**	**1,821**	**7**	**2,735**
Liabilities												
Currency derivatives (2)	-	(51)	-	**(51)**	-	(54)	-	**(54)**	-	(40)	-	**(40)**
Interest-rate derivatives -hedging (2)	-	-	-	**-**	-	(21)	-	**(21)**	-	-	-	**-**
Interest-rate derivatives -other (2)	-	(9)	-	**(9)**	-	-	-	**-**	-	(1)	-	**(1)**
Total	**-**	**(60)**	**-**	**(60)**	**-**	**(75)**	**-**	**(75)**	**-**	**(41)**	**-**	**(41)**

(1) See Note 15.

(2) See Note 21.

(3) See Note 16. Actively traded money market funds are measured at their net asset value and classified as Level 1. The Group's remaining cash equivalents are classified as Level 2 and measured at amortized cost, which is a reasonable estimate of fair value because of the short time between the purchase of the instrument and its expected realization.

Financial assets at fair value through profit or loss and marketable securities that are included in financial assets available for sale at fair value classified in Level 2 are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data. The Group uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets.

The Group's derivative instruments are classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs (foreign currency exchange rates, volatility indices and interest rates).

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy for assets and liabilities that are measured at fair value on a recurring basis between 2014 and 2013, and between 2013 and 2012.

The financial assets categorized within Level 3 of the fair value hierarchy correspond to investments in non-consolidated companies. Amounts at stake are not material.

(In millions of euros)	
Amount in level 3 at December 31, 2012	**7**
Additions / (disposals)	-
Fair value changes through equity	(1)
Impairment losses	-
Change in consolidated group	-
Other changes	1
Amount in level 3 at December 31, 2013	**7**
Additions / (disposals)	-
Fair value changes through equity	(1)
Impairment losses	-
Change in consolidated group	-
Other changes	-
Amount in level 3 at December 31, 2014	**6**

Assets and Liabilities measured at Fair Value on a non-recurring basis:

The assets and liabilities that are remeasured at fair value on a non-recurring basis can include:

- loans and long-lived assets that have been reduced to fair value when they are held for sale;
- investments retained in formerly-consolidated subsidiaries (where we have sold a controlling stake but retained a non-controlling stake in the entity, resulting in the subsidiary's deconsolidation); and
- identifiable tangible and intangible assets and liabilities (excluding goodwill) resulting from business combinations.

The Group did not have any assets and liabilities measured at fair value on a non-recurring basis as of December 31, 2014, 2013 or 2012.

d/ Stock market risk

Alcatel-Lucent and its subsidiaries are not engaged in speculative trading in the stock markets. Subject to approval by Alcatel-Lucent, subsidiaries may make equity investments in selected companies.

e/ Credit risk

i. Maximum exposure to credit risk

The Group considers that its exposure is as follows:

(In millions of euros)	2014	2013	2012
Trade receivables and other receivables(1)	2,528	2,482	2,860
Marketable securities(2)	1,672	2,259	1,528
Cash and cash equivalents(3)	3,878	4,096	3,401
Other financial assets(2)	406	322	341
Foreign exchange derivative assets (4)	149	18	29
Interest-rate derivative assets (4)	2	11	33
Other assets (4)	1,120	1,135	1,092
Financial guarantees and off balance sheet commitments (5)	2	8	4
Maximum exposure to credit risk	**9,757**	**10,331**	**9,288**

(1) See Note 19.

(2) See Note 15.

(3) See Note 16.

(4) See Note 21.

(5) See Note 28.

ii. Credit risk concentration

Due to the diversification of its customers and their geographical dispersion, management considers that there is no significant credit risk concentration. The credit risk for the top five customers does not exceed 30% of trade receivables.

iii. Outstanding financial assets not impaired

(In millions of euros)	Carrying value at December 31, 2014	Of which amounts neither overdue nor impaired	Of which amounts not impaired but overdue at closing date				
			< 1 month	From 1 to 6 months	From 6 months to 1 year	> 1 year	Total
Trade receivables and other receivables							
Interest-bearing receivables	1	1	-	-	-	-	-
Other trade receivables	2,720	2,144	109	154	72	49	384
Gross value	**2,721**						
Valuation allowance	(193)						
Net value	**2,528**	**2,145**	**109**	**154**	**72**	**49**	**384**

(In millions of euros)	Carrying value at December 31, 2013	Of which amounts neither overdue nor impaired	Of which amounts not impaired but overdue at closing date				
			< 1 month	From 1 to 6 months	From 6 months to 1 year	> 1 year	Total
Trade receivables and other receivables							
Interest-bearing receivables	5	5	-	-	-	-	-
Other trade receivables	2,634	2,190	82	130	45	30	287
Gross value	**2,639**						
Valuation allowance	(157)						
Net value	**2,482**	**2,195**	**82**	**130**	**45**	**30**	**287**

(In millions of euros)	Carrying value at December 31, 2012	Of which amounts neither overdue nor impaired	Of which amounts not impaired but overdue at closing date				
			< 1 month	From 1 to 6 months	From 6 months to 1 year	> 1 year	Total
Trade receivables and other receivables							
Interest-bearing receivables	41	41	-	-	-	-	-
Other trade receivables	2,940	2,576	83	93	41	27	244
Gross value	**2,981**						
Valuation allowance	(120)						
Net value	**2,861**	**2,617**	**83**	**93**	**41**	**27**	**244**

We do not consider other financial assets that are overdue but not impaired to be material.

iv. Changes to trade receivable valuation allowances

(In millions of euros)	Amounts
Valuation allowance at December 31, 2011	**(123)**
Net result impact	(5)
Write-offs	8
Translation adjustments	-
Other changes	-
Valuation allowance at December 31, 2012	**(120)**
Net result impact	(62)
Write-offs	20
Translation adjustments	4
Other changes	1
Valuation allowance at December 31, 2013	**(157)**
Net result impact	(24)
Write-offs	4
Translation adjustments	(8)
Other changes	(8)
Valuation allowance at December 31, 2014	**(193)**

v. Credit risk on marketable securities, cash, cash equivalents and financial derivative instruments

The Group is exposed to credit risk on its marketable securities, cash, cash equivalents and financial derivative instruments if the counterparty defaults on its commitments. The Group diversifies the counterparties in order to dilute the credit risk. This risk is followed daily, with strict limits based on the counterparties' rating. All counterparties are classified in the investment grade category as of December 31, 2014, December 31, 2013 and December 31, 2012. The exposure, with regard to each counterparty, is calculated by taking into account the fair value of the marketable securities, cash, cash equivalents and financial derivative instruments.

f/ Liquidity risk

i. Liquidity risk on the financial debt

As of December 31, 2014, the Group considers that its available marketable securities, cash and cash equivalents and the available syndicated bank credit facility (refer to Note 24) are sufficient to cover its operating expenses and capital expenditures and its financial debt requirements for the next twelve months.

ii. Liquidity risk on foreign exchange derivatives

The mark-to-market of foreign exchange derivatives (see part b/, paragraph i. Outstanding currency derivatives at December 31) appropriately conveys the liquidity risk.

Assets and liabilities related to foreign exchange derivatives are given in Note 21 Other assets and liabilities.

iii. Liquidity risk on guarantees and off balance sheet commitments

See Note 28 Contractual obligations and disclosures related to off balance sheet commitments.

NOTE 27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

(In millions of euros)	**2014**	**2013[1]**	**2012[1]**
Net income (loss) attributable to the equity owners of the parent	**(118)**	**(1,304)**	**(2,011)**
Non-controlling interests	**35**	**10**	**(77)**
Adjustments:			
• Depreciation and amortization of tangible and intangible assets	545	600	830
Of which impact of capitalized development costs	*164*	*163*	*227*
• Impairment of assets	-	548	894
• Post-retirement benefit plan amendment	(112)	(135)	(204)
• Changes in pension and other post-retirement benefit obligations, net	(50)	(38)	10
• Provisions, other impairment losses and fair value changes	252	53	246
• Repurchase of bonds and change of estimates related to convertible debentures [2]	132	226	205
• Net (gain) loss on disposal of assets	(88)	(31)	(30)
• Share in net income (losses) of equity affiliates (net of dividends received)	(15)	(6)	(4)
• (Income) loss from discontinued operations	49	25	(639)
• Finance costs and interest on tax litigations	279	391	271
• Share-based payments	16	19	26
• Income tax	(316)	(173)	423
Sub-total of adjustments	**692**	**1,479**	**2,028**
Net cash provided (used) by operating activities before changes in working capital, interest and taxes	**609**	**185**	**(60)**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) See Notes 7 and 24.

b/ Free cash flow

(In millions of euros)	2014	2013(1)	2012(1)
Net cash provided (used) by operating activities before changes in working capital, interest and income taxes	**609**	**185**	**(60)**
Change in operating working capital(2)	(129)	(67)	326
Other current assets and liabilities(3)	(35)	34	(153)
Net cash provided (used) by operating activities before interest and taxes	**445**	**152**	**113**
Of which			-
- restructuring cash outlays	*(463)*	*(511)*	*(329)*
- contribution and benefits paid on pensions & other post-employment benefits	*(192)*	*(189)*	*(190)*
Interest received/(paid)	(225)	(296)	(202)
Taxes received/(paid)	(93)	(77)	(55)
Net cash provided (used) by operating activities	**127**	**(221)**	**(144)**
Capital expenditures	(556)	(463)	(524)
Disposal of Intellectual Property	9	27	-
Free cash flow	**(420)**	**(657)**	**(668)**

(1) 2013 and 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) Including amounts received from discounted receivables (refer to Note 20).

(3) Including amounts received from the sale of French R&D tax credits ("crédits d'impôt recherche") disclosed in Note 20.

c/ Cash (expenditure) / proceeds from obtaining / losing control of consolidated entities

(In millions of euros)	2014	2013	2012
Obtaining control of consolidated entities			
Cash (expenditure) on acquisition of newly consolidated entities	(14)	-	-
Cash and cash equivalents of newly consolidated entities	-	-	4
Total - net impact on cash flows of obtaining control	**(14)**	**-**	**4**
Losing control of consolidated entities			
Cash proceeds from disposal of formerly consolidated entities	113	-	-
Cash and cash equivalents of formerly consolidated entities	(29)	-	(5)
Total - net impact on cash flows of losing control	**84**	**-**	**(5)**

NOTE 28 CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET COMMITMENTS

a/ Contractual obligations

The following table presents minimum payments that the Group will have to make in the future under contracts and firm commitments as of December 31, 2014. Amounts related to financial debt, finance lease obligations and the equity component of Alcatel-Lucent's convertible bonds are fully reflected in the consolidated statement of financial position.

(In millions of euros)	Payment deadline				
Contractual payment obligations	**Before December 31, 2015**	**2016-2017**	**2018-2019**	**2020 and after**	**Total**
Financial debt (excluding finance leases)	397	875	1,143	2,847	**5,262**
Finance lease obligations	9	9	-	-	**18**
Equity component of convertible bonds	-	-	192	88	**280**
Sub-total - included in statement of financial position	**406**	**884**	**1,335**	**2,935**	**5,560**
Finance costs on financial debt	231	409	339	125	**1,104**
Operating leases	165	237	158	180	**740**
Commitments to purchase fixed assets	35	-	-	-	**35**
Unconditional purchase obligations (1)	925	731	534	127	**2,317**
Sub-total - commitments not included in statement of financial position	**1,356**	**1,377**	**1,031**	**432**	**4,196**
Total contractual obligations (2)	**1,762**	**2,261**	**2,366**	**3,367**	**9,756**

(1) Of which €594 million relate to commitments made to HP pursuant to the sales cooperation agreement and the IT outsourcing transaction entered into with HP and €635 million relate to commitments made to Accenture as part of several outsourcing transactions mentioned below. Other unconditional purchase obligations result mainly from obligations under multi-year supply contracts linked to the sale of businesses to third parties.

(2) Obligations related to pensions, post-retirement health and welfare benefits and post-employment benefit obligations are excluded from the table (refer to Note 23).

Future minimum sublease rental income expected to be received under non-cancellable operating subleases was €83 million at December 31, 2014 (€76 million at December 31, 2013 and €99 million at December 31, 2012).

Net lease payments under operating leases recognized as an expense in the income statement are analyzed as follows:

(In millions of euros)	**2014**	**2013**	**2012**
Lease payments - minimum	199	230	231
Lease payments - conditional	4	2	7
Sublease rental income	(24)	(26)	(26)
Total recognized in the income statement	**179**	**206**	**212**

b/ Off balance sheet commitments - commitments given

Off balance sheet commitments of the Group were primarily related to guarantees given to the Group's customers for contract execution (performance bonds, guarantees on advances received issued by financial institutions). Alcatel-Lucent does not rely on special purpose entities to deconsolidate these risks.

Guarantees given in the normal course of the Group's business are presented below. For guarantees given for contract performance, only those issued by the Group to back guarantees granted by financial institutions are presented below:

(In millions of euros)	**2014**	**2013**	**2012**
Guarantees given on contracts made by the Group	1,637	1,180	1,217
Discounted notes receivable with recourse (1)	-	-	1
Other contingent commitments (2)	737	671	716
Sub-total - contingent commitments	**2,374**	**1,851**	**1,934**
Secured borrowings (3)	2	8	4
Total (4)	**2,376**	**1,859**	**1,938**

(1) Amounts reported in this line item are related to discounting of receivables with recourse only. Total amounts of receivables discounted without recourse are disclosed in Note 20.

(2) Excluding the guarantee given to Louis Dreyfus Armateurs described below.

(3) Excluding the subordinated guarantees described below on certain bonds.

(4) Obligations related to pensions, post-retirement health and welfare benefits and post-employment benefit obligations are excluded from the table. Refer to Note 23 for a summary of our expected contributions to these plans.

Contingent commitments at December 31, 2014

(In millions of euros)	**Maturity date**				
Contingent commitments	**Less than one year**	**2 to 3 years**	**4 to 5 years**	**After 5 years**	**Total**
Guarantees on Group contracts (1)	830	377	15	395	**1,617**
Guarantees on third-party contracts	16	4	-	1	**21**
Discounted notes receivable and other	-	-	-	-	**-**
Other contingent commitments	50	238	134	314	**736**
Total	**896**	**619**	**149**	**710**	**2,374**
Counter guarantees received					**91**

(1) Reflected in statement of financial position: €97 million.

The amounts of guarantees given on contracts reflected in the preceding tables represent the maximum potential amounts of future payments (undiscounted) that the Group could be required to make under current guarantees granted by the Group. The maximum potential amount reflects the undiscounted reliable best estimate of the highest payment that could effectively be made, even if the likelihood of occurrence of such payment is remote, and without taking into account any reduction related to potential recovery through recourse or collateralization provisions. If such a reliable best estimate is not available, the amount disclosed is the maximum amount the Group could be required to pay, with all the other characteristics remaining the same. In addition, most of the parent company guarantees and performance bonds given to our customers are insured; therefore, the estimated exposure related to the guarantees set forth in the preceding table may be reduced by insurance proceeds that we may receive in case of a claim.

Commitments related to product warranties and pension and post-retirement benefits are not included in the preceding table. These commitments are fully reflected in the consolidated financial statements. Contingent liabilities arising out of litigation, arbitration or regulatory actions are not included in the preceding table either, with the exception of those linked to the guarantees given on our long-term contracts. For more information concerning contingencies, see Note 31.

Guarantees given on our long-term contracts consist of performance bonds issued by financial institutions to customers and bank guarantees given to secure advance payments received from customers (excluding security interests and restricted cash which are included in the table below "Guarantees granted on debt, advance payments received, contingencies and security interests granted at December 31, 2014" of this note). Alcatel-Lucent gives guarantees related to advances and payments received from customers, or commits to indemnify the customer, if the contractor does not perform the contract in compliance with the terms of the contract. In the event that, due to occurrences, such as delay in delivery or litigation related to failure in performance on the underlying contracts, it becomes likely that Alcatel-Lucent will be liable for such guarantees, the estimated risk is reserved for in the consolidated statement of financial position under the caption "provisions" (see Note 25) or in inventory reserve. The amounts concerned are given in the preceding table in the specific caption "(1) Reflected in statement of financial position".

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

Guarantees given on third-party long-term contracts could require the Group to make payments to the guaranteed party based on a non-consolidated company's failure to perform under an agreement. The fair value of these contingent liabilities, corresponding to the premium to be received by the guarantor for issuing the guarantee, was nil as of December 31, 2014 (nil as of December 31, 2013 and as of December 31, 2012).

Alcatel-Lucent licenses to its customers software and rights to use intellectual property that might provide the licensees with indemnification against any liability arising from third-party claims of patent, copyright or trademark infringement. Alcatel-Lucent cannot determine the maximum amount of losses that Alcatel-Lucent could incur under this type of indemnification, because Alcatel-Lucent often may not have enough information about the nature and scope of an infringement claim until it has been submitted.

Alcatel-Lucent indemnifies its directors and certain of its current and former officers for third-party claims alleging certain breaches of their fiduciary duties as directors or officers. Certain costs incurred for providing such indemnification may be recovered under various insurance policies. Alcatel-Lucent is unable to reasonably estimate the maximum amount that could be payable under these arrangements, since these exposures are not capped, due to the conditional nature of its obligations and the unique facts and circumstances involved in each agreement. Historically, payments made under these agreements have not had a material effect on Alcatel-Lucent's business, financial condition, results of operations or cash flows.

Guarantees granted on debt, advance payments received, contingencies and security interests granted at December 31, 2014

(In millions of euros)	Maturity date					Total of the statement of financial position caption	% of the statement of financial position caption
Guarantees on borrowings and advance payments received	**Less than one year**	**2 to 3 years**	**4 to 5 years**	**After 5 years**	**Total**		
Security interests granted	-	-	-	-	-		
Other guarantees given	2	-	-	-	2		
Total	**2**	**-**	**-**	**-**	**2**		
Net book value of assets given in guarantee:							
• intangible assets	-	-	-	-	-	1,011	0.00%
• tangible assets	-	-	-	-	-	1,132	0.00%
• financial assets	-	-	-	-	-	406	0.00%
• inventories and work in progress	-	-	-	-	-	1,971	0.00%
Total	**-**	**-**	**-**	**-**	**-**		

Outsourcing transactions

Outsourcing transaction with Accenture

On February 28, 2014, in conjunction with the targeted cost savings of The Shift Plan, we entered into a 7-year Service Implementation Agreement with Accenture regarding the business transformation of our finance function, including the outsourcing of our accounting function. This agreement supplements two similar service agreements regarding human resources and information technology. Each of the three corporate functions covered by our agreements with Accenture is called a "tower". The Accenture agreements are expected to generate cost savings over the contract period, and cover: data processing services (back office) in finance, accounting and human resources, as well as IT services, support and maintenance of IT applications in the countries in which Alcatel-Lucent operates.

As part of an initial two-year transition and transformation phase, Alcatel-Lucent is committed to restructuring each of the three towers, which is estimated to cost €49 million. €38 million of these restructuring costs were incurred during 2014.

Overall, Alcatel-Lucent is committed to purchase approximately €757 million of Accenture goods and services until 2020. As of December 31, 2014, the remaining total purchase commitment was €635 million.

This commitment is included in the contractual payment obligations table above in the line "Unconditional purchase obligations" for the remaining balance as of December 31, 2014.

Outsourcing transaction with HCL Technologies

On July 1, 2014, in conjunction with the targeted cost savings of The Shift Plan, Alcatel-Lucent entered into a 7-year Master Service Agreement with HCL Technologies Limited regarding the transfer of a part of our R&D department for certain legacy technologies. This contract is expected to generate cost savings over the contract period, and covers: R&D development and maintenance, and human resources. As part of an initial three year transition and transformation phase, Alcatel-Lucent is committed to restructuring those activities, which is estimated to cost €40 million. Overall, Alcatel-Lucent is committed to purchase approximately €297 million of HCL services until 2021. As of December 31, 2014, the remaining total purchase commitment was €273 million.

This commitment is included in the contractual payment obligations table above in the line "Unconditional purchase obligations" for the remaining balance as of December 31, 2014.

Outsourcing transaction with Hewlett Packard

On October 29, 2009, Alcatel-Lucent entered into a major IT outsourcing transaction with Hewlett Packard Company (HP), with an effective date of December 1, 2009, and at the same time entered into a ten-year sales cooperation agreement with HP.

The IT outsourcing transaction provides for HP to transform and manage a large part of Alcatel-Lucent's IT infrastructure. As part of an initial 18-month transition and transformation phase (referred to as the "T&T phase"), HP invested its own resources to transform Alcatel-Lucent's global IT/IS platforms. As a result, Alcatel-Lucent is committed to restructuring its IT/IS operations, which is estimated to cost €200 million over ten years. These restructuring costs, which include severance costs and the costs of transferring certain legal entities and resources to HP, are recognized as incurred, starting in 2010. €8 million of these restructuring costs were incurred during 2014 (€94 million in 2013 and €31 million in 2012). In addition, in the fourth quarter of 2011 Alcatel-Lucent signed an amendment with HP relating to a supplemental €42 million of T&T costs that Alcatel-Lucent is to incur. €10 million of these supplemental costs were incurred during 2014 (€10 million in 2013 and €6 million in 2012).

As part of the transfer of resources, in 2010 we sold to HP IT infrastructure assets under a sale and finance leaseback arrangement, the payment obligations for which are included in "Finance lease obligations" in the contractual payments obligations table above representing a €3 million finance lease obligation as of December 31, 2014 (€10 million as of December 31, 2013 and €10 million as of December 31, 2012).

Also as part of the overall arrangement with HP, Alcatel-Lucent committed to purchase approximately €514 million of HP goods and services (this amount increased by €62 million as of 2011 because the duration of the commitment increased by one year, until 2014). Of the total amount of approximately €514 million in purchase commitment, €311 million represents Alcatel-Lucent's commitment to effect annual purchases over the five-year period from January 1, 2010 through December 31, 2014 in an annual amount equal to €62 million, which is the annual amount spent by Alcatel-Lucent for HP goods and services from November 1, 2008 through October 31, 2009, and €202 million represents Alcatel-Lucent's commitment to effect incremental purchases over the same five-year period of HP goods and services to be used in the context of customer networks. As of December 31, 2014, the remaining total purchase commitment was €0 million (€104 million as of December 31, 2013 and €226 million as of December 31, 2012). The finance lease obligations and the unconditional purchase commitments related to the HP outsourcing transaction are included in the contractual payment obligations table presented above, in the lines "Finance lease obligations" and "Unconditional purchase obligations".

The two following commitments were included in the HP agreement:

- a minimum value commitment regarding the amount of IT managed services to be purchased or procured by Alcatel-Lucent from HP and/or any HP affiliates over ten years, for a total amount of €1,408 million (which amount includes €120 million of the €200 million restructuring costs mentioned above) and with a remaining commitment of €519 million as of December 31, 2014 (€644 million as of December 31, 2013 and €778 million as of December 31, 2012); and
- a commitment to make certain commercial efforts related to the development of sales pursuant to the sales cooperation agreement, including through the establishment of dedicated teams, representing a minimum investment of €298 million over ten years (with a remaining commitment of €75 million as of December 31, 2014 (€90 million as of December 31, 2013 and €105 million as of December 31, 2012)).

These two commitments are included in the contractual payment obligations table above in the line “Unconditional purchase obligations” for the remaining balance as of December 31, 2014.

Other Commitments - Contract Manufacturers/Electronic Manufacturing Services (EMS) providers

Alcatel-Lucent outsources a significant amount of manufacturing activity to a limited number of electronic manufacturing service (EMS) providers. The EMSs manufacture products using Alcatel-Lucent’s design specifications and they test platforms in line with quality assurance programs, and standards established by Alcatel-Lucent. EMSs are required to procure components and subassemblies that are used to manufacture products based on Alcatel-Lucent’s demand forecasts from suppliers in Alcatel-Lucent’s approved supplier lists.

Generally, Alcatel-Lucent does not own the components and sub-assemblies purchased by the EMS and title to the products is generally transferred from the EMS providers to Alcatel-Lucent upon delivery. Alcatel-Lucent records the inventory purchases upon transfer of title from the EMS to Alcatel-Lucent. Alcatel-Lucent establishes provisions for excess and obsolete inventory based on historical trends and future expected demand. This analysis includes excess and obsolete inventory owned by EMSs that is manufactured on Alcatel-Lucent’s behalf, and excess and obsolete inventory that will result from non-cancellable, non-returnable (NCNR) component and sub-assembly orders that the EMSs have with their suppliers for parts meant to be integrated into Alcatel-Lucent products. In 2014, Alcatel-Lucent recorded a charge of €32 million for excess inventory commitments with our EMS providers compared to a charge of €26 million in 2013 (and a charge of €25 million in 2012).

Alcatel-Lucent generally does not have minimum purchase obligations in its contract-manufacturing relationships with EMS providers and therefore the contractual payment obligations table presented above under the heading “Contractual Obligations”, does not include any commitments related to EMS providers.

Guaranties provided in respect of some Alcatel-Lucent and Alcatel-Lucent USA Inc. debt instruments

Alcatel-Lucent USA Inc.’s subordinated guaranty of Alcatel-Lucent 6.375% Notes due 2014

The guaranty linked to the 6.375% notes has been released as part of the full repayment of these notes in April 2014.

Alcatel-Lucent USA Inc.’s senior guaranty of Alcatel-Lucent 8.50% Senior Notes due 2016

On November 15, 2013, Alcatel-Lucent USA Inc., as well as other subsidiaries of Alcatel-Lucent, issued a full and unconditional guaranty of Alcatel-Lucent’s 8.50% Senior Notes due 2016 (the principal amount of which was €192 million on December 31, 2014). The guaranty is given on a senior unsecured basis and will rank *pari passu* in right of payment with all existing and future senior indebtedness of Alcatel-Lucent USA Inc. and senior in right of payment to all its existing and future indebtedness that is by its terms expressly subordinated to the guaranty. The guaranty will be effectively subordinated in right of payment to all debt secured by the assets of Alcatel-Lucent USA Inc.

Alcatel-Lucent USA Inc.’s senior guaranty of Alcatel-Lucent Revolving Credit Facility

On December 17, 2013, Alcatel-Lucent USA Inc., as well as other subsidiaries of Alcatel-Lucent, issued a full and unconditional guaranty of Alcatel-Lucent’s €504 million Revolving Credit Facility (which was undrawn on December 31, 2014). The guaranty is given on a senior unsecured basis and will rank *pari passu* in right of payment with all existing and future senior indebtedness of Alcatel-Lucent USA Inc. and senior in right of payment to all its existing and future indebtedness that is by its terms expressly subordinated to the guaranty should the Revolving Credit Facility be drawn. The guaranty will be effectively subordinated in right of payment to all debt secured by the assets of Alcatel-Lucent USA Inc.

Alcatel-Lucent’s senior guaranties of certain Alcatel-Lucent USA Inc. Senior Notes

Alcatel-Lucent USA Inc. issued (i) in August 2013 8.875% Senior Notes due January 1, 2020 (the principal amount of which was €412 million on December 31, 2014), (ii) in November 2013 6.750% Senior Notes due November 15, 2020 (the principal amount of which was €824 million on December 31, 2014) and (iii) in December 2013, 4.625% Senior Notes due July 1, 2017 (the principal amount of which was €535 million on December 31, 2014). These Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by Alcatel-Lucent and other subsidiaries of Alcatel-Lucent. Alcatel-Lucent’s guaranty will rank *pari passu* in right of payment with all existing and future senior indebtedness of Alcatel-Lucent and senior in right of payment to all its existing and future indebtedness that is by its terms expressly subordinated to the guaranty. The guaranty will be effectively subordinated in right of payment to all debt secured by the assets of Alcatel-Lucent.

Specific commitments

Alcatel-Lucent USA Inc.’s Separation Agreements

Alcatel-Lucent USA Inc. is party to various agreements that were entered into in connection with the separation of Alcatel-Lucent USA Inc. and former affiliates, including AT&T, Avaya, LSI Corporation (formerly Agere Systems, before its merger with LSI corporation in April 2007) and NCR Corporation. Pursuant to these agreements, Alcatel-Lucent USA Inc. and the former affiliates agreed to allocate certain liabilities related to each other’s business, and have agreed to share liabilities based on certain allocations and thresholds. Alcatel-Lucent USA Inc. has a provision of

€6 million as of December 31, 2014 for a claim asserted by NCR Corporation relating to NCR Corporation's liabilities for the environmental clean-up of the Fox River in Wisconsin, USA. Future developments in connection with the Fox River claim may warrant additional adjustments of existing provisions. We are not aware of any material liabilities to Alcatel-Lucent USA Inc.'s former affiliates as a result of the separation agreements that are not otherwise reflected in the 2014 consolidated financial statements. Nevertheless, it is possible that potential liabilities for which the former affiliates bear primary responsibility may lead to contributions by Alcatel-Lucent USA Inc. beyond amounts currently reserved.

Alcatel-Lucent USA Inc.'s Guarantees and Indemnification Agreements

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

Alcatel-Lucent USA Inc. remains secondarily liable for approximately U.S.$7 million of lease obligations as of December 31, 2014 (U.S.$23 million of lease obligations as of December 31, 2013 and U.S.$47 million of lease obligations as of December 31, 2012), that were assigned to Avaya, LSI Corporation and purchasers of other businesses that were divested. The remaining terms of these assigned leases and the corresponding guarantees range from one month to eight years. The primary obligor of the assigned leases may terminate or restructure the lease before its original maturity and thereby relieve Alcatel-Lucent USA Inc. of its secondary liability. Alcatel-Lucent USA Inc. generally has the right to receive indemnity or reimbursement from the assignees and we have not reserved for losses on this form of guarantee.

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

Letter of Indemnity in favor of Louis Dreyfus Armateurs.

During the first half of 2011, we provided a letter of Indemnity (LOI) in favor of Louis Dreyfus Armateurs (LDA), our co-venturer in Alda Marine, our jointly-controlled entity, pursuant to which we agreed to indemnify LDA in respect of any losses arising out of exposure of crews to radiation from the nuclear power plant at Fukushima, in connection with the repairs conducted by Alcatel-Lucent during the second quarter of 2011 on a submarine cable system, which required the use of vessels managed by LDA.

Our aggregate potential liability under this LOI may not exceed €50 million, as increased annually by the lower of (i) 5% and (ii) the percentage rate of revaluation of crew salaries awarded by LDA. This LOI expires on April 15, 2081.

As the levels of radiation measured during the repairs were always below the critical level as defined by the IRSN (Institut de Radioprotection et de Sûreté Nucléaire), the risk of payment pursuant to the indemnity is considered remote as of December 31, 2014.

c/ Off balance sheet commitments - commitments received

(In millions of euros)	2014	2013	2012
Guarantees received or security interests received on lendings	-	46	46
Counter-guarantees received on guarantees given on contracts	1	1	1
Other commitments received	90	94	119
Total	**91**	**141**	**166**

NOTE 29 RELATED PARTY TRANSACTIONS

Related parties are mainly:

- shareholders of Alcatel-Lucent;
- jointly-controlled entities (accounted for using equity method);
- investments in associates (accounted for using equity method);
- non-consolidated entities; and
- key management personnel.

To the Group's knowledge, The Capital Group Companies, Inc. is the only shareholder holding more than 5% of the parent company's share capital as of December 31, 2014.

Transactions with related parties (as defined by IAS 24 "Related Party Disclosures") during 2014, 2013 and 2012 were as follows:

(In millions of euros) *Revenues*	2014	2013	2012
Non-consolidated affiliates	5	15	36
Joint operations	9	5	-
Joint ventures	-	-	-
Equity affiliates	2	9	8
Cost of sales			
Non-consolidated affiliates	(32)	(48)	(61)
Joint operations	(7)	(5)	-
Joint ventures	-	-	(26)
Equity affiliates	(98)	(104)	(114)
Research and development costs			
Non-consolidated affiliates	-	-	(8)
Joint operations	-	-	-
Joint ventures	-	-	-
Equity affiliates	-	-	-

Outstanding balances arising from related party transactions at December 31, 2014, 2013 and 2012 were as follows:

(In millions of euros) *Other assets*	2014	2013	2012
Non-consolidated affiliates	6	7	16
Joint operations	2		
Joint ventures	-	-	3
Equity affiliates(1)	11	21	11
Other liabilities			
Non-consolidated affiliates	(5)	(10)	(10)
Joint operations	(6)		
Joint ventures	-	-	-
Equity affiliates(1)	(22)	(17)	(12)
Cash (financial debt), net			
Non-consolidated affiliates	-	-	-
Joint operations	-	(2)	-
Joint ventures	-	-	8 (1)
Equity affiliates	-	-	-

(1) Loan to a co-venturer (refer to Notes 15 and 24a).

Members of the Board of Directors and members of the Group's executive committee are those present during the year and listed in the Corporate Governance section of the Annual Report. In 2014, 2013 and 2012, compensation, benefits and social security contributions attributable to members of the Board of Directors and to the executive committee members (Key management personnel) were as follows:

Recorded expense in respect of compensation and related benefits attributable to Key management personnel during the year

(In millions of euros) *Short-term benefits*	2014	2013(1)	2012
Fixed remuneration	4	5	8
Variable remuneration (2)	3	2	1
Directors' fees	1	1	1
Employer's social security contributions	2	2	2
Termination benefits and retirement indemnities	-	3	2
Other benefits			
Post-employment benefits	1	(1)(3)	4
Share-based payments	5	8	12
Total	**16**	**20**	**30**

(1) The 2013 French exceptional additional income tax on personal income above €1 million has been reported as an operating expense in the 2013 income statement (above figures do not include the potential impact of such exceptional tax).

(2) Including retention bonuses.

(3) The positive effect is mainly due to the French Auxad pension plan amendment (refer to Note 23e).

NOTE 30 EMPLOYEE BENEFIT EXPENSES AND AUDIT FEES

a/ Employee benefit expenses

(In millions of euros)	2014	2013	2012
Wages and salaries [1]	4,148	4,630	4,970
Restructuring costs [2]	256	302	378
Post-retirement benefit plan amendments [3]	(112)	(133)	(204)
Financial component of pension and post-retirement benefit costs [4]	44	84	127
Net employee benefit expenses	**4,336**	**4,883**	**5,271**

(1) Including social security expenses and operational pension costs. This is reported in Income (loss) from operating activities before restructuring costs, impairment of assets, gain/(loss) on disposal of consolidated entities, litigations and post-retirement benefit plan amendments.

(2) See Note 25d.

(3) See Note 23e.

(4) See Note 7.

b/ Audit fees

	Deloitte & Associés (Deloitte Touche Tohmastu network)				Ernst & Young (Ernst & Young network)			
(in thousands of euros)	2013		2014		2013		2014	
1. Audit								
Audit fees (statutory audit, audit of consolidated financial statements and certification)	**7,270**	*63%*	**7,372**	*81%*	**7,121**	*7,%*	**6,795**	*78%*
Issuer	2,365	*20%*	2,438	*27%*	2,445	*25%,*	2,398	*27%*
Consolidated entities	4,905	*42%*	4,934	*54%*	4,676	*48%,*	4,397	*50%*
Audit-related fees	**3,874**	*33%*	**1,638**	*18%*	**2,447**	*25%,*	**1,723**	*20%*
Issuer	578	*5%*	140	*2%*	2,123	*22%,*	1,289	*15%*
Consolidated entities	3,296	*28%*	1,498	*16%*	324	*3%,*	434	*5%*
Sub-total	**11,144**	*96%*	**9,010**	*99%*	**9,568**	*97%,*	**8,518**	*97%*
2. Other services (not audit-related)								
Tax services	101	*1%*	123	*1%*	64	*1%,*	122	*1%*
Other services	325	*3%*	25	*0%*	212	*2%,*	98	*1%*
Sub-total	**426**	*4%*	**148**	*1%*	**276**	*3%,*	**220**	*3%*
TOTAL	**11,570**	*100%*	**9,158**	*100%*	**9,844**	*100%,*	**8,738**	*100%*

NOTE 31 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 (see Note 25e) or will not result in any significant costs to the Group, Alcatel-Lucent is involved in the following legal proceedings.

a/ Governmental actions and investigations

Costa Rican Actions

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 made by consultants allegedly on behalf of Alcatel CIT, a French subsidiary now called Alcatel-Lucent France (CIT), or other Alcatel-Lucent subsidiaries to various public officials in Costa Rica, two political parties in Costa Rica and representatives of Instituto Costarricense de Electricidad (ICE), the state-owned telephone company, in connection with the procurement by CIT of several contracts for network equipment and services from ICE. Upon learning of these allegations, Alcatel commenced an investigation into this matter.

In connection with the Costa Rica allegations, on July 27, 2007, the Costa Rican Prosecutor's Office indicted eleven individuals, including the former president of Alcatel de Costa Rica, on charges of aggravated corruption, unlawful enrichment, simulation, fraud and others. Three of those individuals have since pled guilty. Shortly thereafter, the Costa Rican Attorney General's Office and ICE, acting as victims of this criminal case, each filed amended civil claims against the eleven criminal defendants, as well as five additional civil defendants (one individual and four corporations, including CIT) seeking compensation for damages in the amounts of U.S.$52 million (in the case of the Attorney General's Office) and U.S.$20 million (in the case of ICE). The Attorney General's claim supersedes two prior claims, of November 25, 2004 and August 31, 2006. On November 25, 2004, the Costa Rican Attorney General's Office commenced a civil lawsuit against CIT to seek pecuniary compensation for the damage caused by the alleged payments described above to the people and the Treasury of Costa Rica, and for the loss of prestige suffered by the Nation of Costa Rica (social damages). The ICE claim, which supersedes its prior claim of February 1, 2005, seeks pecuniary compensation for the damage caused by the alleged payments described above to ICE and its customers, for the harm to the reputation of ICE resulting from these events (moral damages), and for damages resulting from an alleged overpricing it was forced to pay under its contract with CIT. During preliminary court hearings held in San José during September 2008, ICE filed a report in which the damages allegedly caused by CIT are valued at U.S.$71.6 million.

Alcatel-Lucent settled the Attorney General's social damages claims in return for a payment by CIT of approximately U.S.$10 million. ICE argued that their civil claims are not included in the settlement with the Attorney General, and proceeded to take such civil claims to trial with the criminal claims. The trial of the criminal case, including the related civil claims, started on April 14, 2010. On April 5, 2011, the trial was closed by the Tribunal. The Tribunal rendered its verdict on April 27, 2011, and declined on procedural grounds to rule on ICE's related civil claims against Alcatel-Lucent. The Tribunal issued its full written ruling on May 25, 2011. The corresponding reserve previously booked for an amount of approximately €2 million was fully reversed during the second quarter 2011. In December 2012, the Court of Appeals (which found all of the individual defendants not guilty on procedural grounds) reversed the lower criminal court's decision not to rule in the matter of ICE's claim against Alcatel-Lucent and remanded that matter for resolution. In the beginning of 2013, ICE filed an extraordinary appeal on cassation before the Costa Rican Supreme Court seeking to obtain confirmation of the lower criminal court's decision which referred the parties to a civil court. In 2014, the Supreme Court reversed the Court of Appeals' decision to render invalid certain key evidence against some of the individual defendants and ordered the Court of Appeals to issue a new decision. The lower criminal court will decide on Alcatel-Lucent's claim against ICE for legal costs.

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 which resolved, instead, to resume the aforementioned administrative proceedings to terminate the operations and maintenance portion of the 400KL GSM Contract, claim penalties and damages in the amount of U.S.$59.8 million and call the performance bond. CIT was notified of the termination by ICE of this portion of the 400 KL GSM Contract on June 23, 2008. ICE has made additional damages claims and penalty assessments related to the 400KL GSM Contract that bring the overall exposure under the contract to U.S.$78.1 million in the aggregate, of which ICE has collected U.S.$5.9 million.

In June 2008, CIT filed an administrative appeal against the termination mentioned above. ICE called the performance bond in August 2008, and on September 16, 2008 CIT was served notice of ICE's request for payment of the remainder amount of damages claimed, U.S.$44.7 million. On September 17, 2008, the Costa Rican Supreme Court ruled on the appeal filed by CIT stating: (i) that the U.S.$15.1 million performance bond amount was to be reimbursed to CIT and (ii) to suspend the U.S.$44.7 million claim until final resolution by the competent court of the case. Following a clarification request filed by ICE, the Court finally decided that the U.S.$15.1 million performance bond amount was to remain deposited in an escrow account held by the Court, until final resolution of the case. On October 8, 2008, CIT filed a claim against ICE requesting the court to overrule ICE's partial termination of the 400KL GSM Contract and claiming compensation for the damages caused to CIT. In January 2009, ICE filed its response to CIT's claim. At a court hearing on March 25, 2009, ICE ruled out entering into settlement discussions with CIT. On April 20, 2009, CIT filed a petition to the Court to recover the U.S.$15.1 million performance bond amount and offered the replacement of such bond with a new bond that would guarantee the results of the final decision of the Court. CIT appealed the Court's rejection of such petition and the appeal was resolved on March 18, 2010 in favor of CIT. As a consequence of this decision, CIT can collect the aforementioned U.S.$15.1 million amount upon submission to the Court of a bank guarantee for an equivalent amount. Preliminary court hearings on CIT's substantive case were held between October 2009 and October 2010. The case is expected to be set for trial in 2015.

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. In March 2010, CIT was notified of a new administrative proceeding whereby ICE seeks to ban CIT from procurement contracts, as a consequence of alleged material breaches under the 400KL GSM Contract (in particular, in connection with failures related to road coverage and quality levels). The administrative proceeding was suspended on December 8, 2009 pending the resolution of the criminal case mentioned above.

On May 3, 2012, ICE filed before the Tribunal Contencioso Administrativo y Civil de Hacienda of Costa Rica a new claim against a number of Alcatel-Lucent legal entities with regards to the corruption matter that was investigated by and settled with the Costa Rican and United States authorities. ICE subsequently reformulated its claim, requesting U.S.$18 million for pecuniary losses and an undetermined amount for moral damages.

The Tribunal, at a hearing on March 15, 2014, ruled in favor of Alcatel-Lucent, confirming that the claim had already been settled. Alcatel-Lucent had not booked a reserve for this claim. ICE appealed in cassation before the Supreme Court. The Court has not yet issued a pronouncement as to the admissibility of the appeal.

Alcatel-Lucent generated €2 million in revenue from Costa Rican contracts in 2014. Based on the amount of revenue expected from these contracts, Alcatel-Lucent believes that the loss of business in Costa Rica, if it were to occur, would not have a material adverse effect on the Alcatel-Lucent group as a whole.

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

Investigation and action in France

French authorities are carrying out investigations into certain conduct by Alcatel-Lucent subsidiaries in Nigeria and French Polynesia.

With respect to Nigeria, French authorities requested that Alcatel-Lucent produce further documents related to payments made by its subsidiaries to certain consultants in Nigeria. Alcatel-Lucent responded to the request and is continuing to cooperate with the investigating authorities.

The investigation with respect to French Polynesia concerns the conduct of Alcatel-Lucent's telecommunication submarine system subsidiary, Alcatel-Lucent Submarine Networks (ASN), and certain former employees of Alcatel-Lucent in relation to a project for a telecommunication submarine cable between Tahiti and Hawaii awarded to ASN in 2007 by the state-owned telecom agency of French Polynesia (OPT). On September 23, 2009, four of those former employees were placed under formal investigation on suspicion of being accomplices to alleged favoritism in connection with the award by OPT of this public procurement project. On November 23, 2009, ASN was placed under formal investigation on suspicion of benefitting from favoritism. In March 2011, several current or former public officials of French Polynesia were placed under formal investigation on suspicion of either favoritism or being accomplices to favoritism. In a decision dated February 6, 2014, the investigating magistrate determined that ASN has to stand trial for allegedly benefitting from favoritism.

If ASN were convicted of a criminal violation, the French courts could, among other things, fine ASN and/or ban it from participating in French public procurement contracts for a certain period. ASN generated less than half a million euros of revenues from French public procurement contracts in 2014. Accordingly, Alcatel-Lucent does not believe that a loss of business as a result of such a ban would have a material effect on the Alcatel-Lucent group as a whole.

Investigations in Nigeria

On February 21, 2013, we were advised that the Nigerian anticorruption authorities had commenced an investigation regarding the alleged mismanagement of the National Rural Telephony Project and the involvement of Alcatel-Lucent Nigeria Ltd (ALU Nigeria) and other vendors in such project. Our Chinese joint venture, Alcatel-Lucent Shanghai Bell (ASB), entered into a contract with the Nigerian government for Phase I of this project on June 5, 2002. By an amendment dated April 4, 2003, the contract was assigned to a consortium including ASB and a state-owned Chinese engineering company named China National Machinery and Equipment Import and Export Corporation (CMEC). ALU Nigeria was not a party to the consortium, but acted as a subcontractor for the project. Phase I of this project was accepted by the Nigerian government. On December 27, 2006, ASB and CMEC entered into a contract with the Nigerian government for Phase II of this project, and our portion of the contract was assigned to CMEC on February 1, 2007. Phase II of the project was never performed due to a lack of financing. We still do not have any more detail as to the nature of the alleged mismanagement. We are cooperating with this investigation and conducting an internal review into this matter.

b/ Other proceedings

Legal proceeding on the pension fund in the Netherlands

Upon termination of the administration agreement relating to the pension fund for the Alcatel-Lucent employees in the Netherlands on December 31, 2011, the pension fund administrator filed a claim against our Dutch subsidiary with the District Court in The Hague for up to €182 million in damages to compensate it for the wind-up costs allegedly to be incurred due to such termination. On October 11, 2012, the District Court dismissed the claim entirely. The pension fund filed an appeal with the Court of Justice in The Hague on January 8, 2013, increasing its principal claim to a maximum amount of €276 million, and asserting several alternative claims for lower amounts, the lowest amount being €14 million. On September 9, 2014, the Court of Justice upheld the District Court's decision to dismiss the lawsuit. On December 9, 2014 the pension fund filed a cassation request (to set aside the decision) with the Dutch High Council. A decision by the Council is not expected before the end of 2015. No reserve has been booked in this matter.

c/ Effect of the various proceedings

Governmental investigations and legal proceedings are subject to uncertainties and the outcomes thereof are difficult to predict. Consequently, Alcatel-Lucent is unable to estimate the ultimate aggregate amount of monetary liability or financial impact with respect to these matters. Because of the uncertainties of government investigations and legal proceedings, one or more of these matters could ultimately result in material monetary payments by Alcatel-Lucent beyond those to be made by reason of the various settlement agreements described in this Note 31.

Except for these governmental investigations and legal proceedings and their possible consequences as set forth above, the Company is not aware, as of the date this document is being published, of any legal proceeding or governmental investigation (including any suspended or threatened proceeding) against Alcatel-Lucent and/or its subsidiaries that could have a material impact on the financial situation or profitability of the Group.

No significant new litigation has been commenced since December 31, 2014.

NOTE 32 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There were no events that have a material impact on the financial status that occurred between the statement of financial position date and February 5, 2015, the date when the Board of Directors authorized the consolidated financial statements for issue.

NOTE 33 MAIN CONSOLIDATED COMPANIES

Company	Country	% interest	Consolidation method
Alcatel-Lucent [(2) (3)]	**France**		**Parent company**
Operating companies [(1)]			
Alcatel-Lucent Australia Limited	Australia		Full consolidation
Alcatel-Lucent Austria AG	Austria		Full consolidation
Alcatel-Lucent Bell NV	Belgium		Full consolidation
Alcatel-Lucent Brasil S/A	Brazil		Full consolidation
Alcatel-Lucent Canada Inc.	Canada		Full consolidation
Alcatel-Lucent Deutschland AG	Germany		Full consolidation
Alcatel-Lucent España S.A.	Spain		Full consolidation
Alcatel-Lucent India Limited	India		Full consolidation
Alcatel-Lucent International	France		Full consolidation
Alcatel-Lucent Italia S.p.A.	Italy		Full consolidation
Alcatel-Lucent Mexico S.A. de C.V.	Mexico		Full consolidation
Alcatel-Lucent Nederland B.V.	The Netherlands		Full consolidation
Alcatel-Lucent Polska Sp Z.o.o.	Poland		Full consolidation
Alcatel-Lucent Portugal, S.A.	Portugal		Full consolidation
Alcatel-Lucent Schweiz AG	Switzerland		Full consolidation
Alcatel-Lucent Shanghai Bell Co., Ltd	China	50	Full consolidation [(4)]
Alcatel-Lucent Submarine Networks	France		Full consolidation
Alcatel-Lucent Telecom Limited	U.K.		Full consolidation
Alcatel-Lucent USA Inc.	U.S.A.		Full consolidation
Holdings			
Financial Holdings			
Alcatel-Lucent Holdings Inc.	U.S.A.		Full consolidation
Alcatel-Lucent Participations	France		Full consolidation
Coralec	France		Full consolidation
Florelec	France		Full consolidation
Financial Services			
Electro Banque	France		Full consolidation
Electro Ré	Luxemburg		Full consolidation

(1) Percentages of interest equal 100% unless otherwise specified.

(2) Publicly traded.

(3) The activities of Alcatel-Lucent, as the parent company, are included under the business segment “Other”.

(4) Entity fully controlled by the Group holding 50% plus one share.

NOTE 34 QUARTERLY INFORMATION (UNAUDITED)

Consolidated income statements

(In millions of euros – except per share data) **2014**	Q1	Q2	Q3	Q4	Total
Revenues	2,963	3,279	3,254	3,682	13,178
Cost of sales	(2,007)	(2,211)	(2,149)	(2,403)	(8,770)
Gross profit	**956**	**1,068**	**1,105**	**1,279**	**4,408**
Administrative and selling expenses	(389)	(403)	(408)	(421)	(1,621)
Research and development costs	(547)	(543)	(541)	(584)	(2,215)
Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities, impairment of assets and post-retirement benefit plan amendments	**20**	**122**	**156**	**274**	**572**
Restructuring costs	(67)	(275)	(75)	(157)	(574)
Litigations	4	-	1	2	7
Gain/(loss) on disposal of consolidated entities	(16)	(3)	(1)	40	20
Impairment of assets	-	-	-	-	-
Post-retirement benefit plan amendments	-	-	103	9	112
Income (loss) from operating activities	**(59)**	**(156)**	**184**	**168**	**137**
Finance costs	(78)	(76)	(71)	(66)	(291)
Other financial income (loss)	(4)	(114)	(57)	(36)	(211)
Share in net income (losses) of associates & joint ventures	2	5	1	7	15
Income (loss) before income tax and discontinued operations	**(139)**	**(341)**	**57**	**73**	**(350)**
Income tax (expense) benefit	55	37	5	219	316
Income (loss) from continuing operations	**(84)**	**(304)**	**62**	**292**	**(34)**
Income (loss) from discontinued operations	16	3	(66)	(2)	(49)
NET INCOME (LOSS)	**(68)**	**(301)**	**(4)**	**290**	**(83)**
Attributable to:					
- Equity owners of the parent	**(73)**	**(298)**	**(18)**	**271**	**(118)**
- Non-controlling interests	5	(3)	14	19	35
Earnings (loss) per share (in euros)					
Basic earnings (loss) per share:					
—from continuing operations	(0.04)	(0.11)	0.02	0.10	(0.02)
—from discontinued operations	0.01	0.00	(0.03)	0.00	(0.02)
—attributable to the equity owners of the parent	(0.03)	(0.11)	(0.01)	0.10	(0.04)
Diluted earnings (loss) per share					
—from continuing operations	(0.04)	(0.11)	0.02	0.08	(0.02)
—from discontinued operations	0.01	0.00	(0.03)	0.00	(0.02)
—attributable to the equity owners of the parent	(0.03)	(0.11)	(0.01)	0.08	(0.04)

(In millions of euros – except per share data)

2013 (1)	Q1	Q2	Q3	Q4	Total
Revenues	3,078	3,452	3,520	3,763	13,813
Cost of sales	(2,208)	(2,377)	(2,401)	(2,505)	(9,491)
Gross profit	**870**	**1,075**	**1,119**	**1,258**	**4,322**
Administrative and selling expenses	(490)	(469)	(472)	(431)	(1,862)
Research and development costs	(578)	(582)	(554)	(554)	(2,268)
Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities, impairment of assets and post-retirement benefit plan amendments	**(198)**	**24**	**93**	**273**	**192**
Restructuring costs	(120)	(188)	(113)	(97)	(518)
Litigations	(2)	(1)	1	-	(2)
Gain/(loss) on disposal of consolidated entities	2	-	-	-	2
Impairment of assets	-	(552)	-	4	(548)
Post-retirement benefit plan amendments	55	40	-	40	135
Income (loss) from operating activities	**(263)**	**(677)**	**(19)**	**220**	**(739)**
Finance costs	(98)	(109)	(90)	(95)	(392)
Other financial income (loss)	(53)	(72)	(128)	(65)	(318)
Share in net income (losses) of associates & joint ventures	2	1	2	2	7
Income (loss) before income tax and discontinued operations	**(412)**	**(857)**	**(235)**	**62**	**(1,442)**
Income tax (expense) benefit	52	(26)	62	85	173
Income (loss) from continuing operations	**(360)**	**(883)**	**(173)**	**147**	**(1,269)**
Income (loss) from discontinued operations	(9)	(4)	(21)	9	(25)
NET INCOME (LOSS)	**(369)**	**(887)**	**(194)**	**156**	**(1,294)**
Attributable to:					
— Equity owners of the parent	**(353)**	**(885)**	**(200)**	**134**	**(1,304)**
— Non-controlling interests	(16)	(2)	6	22	10
Earnings (loss) per share (in euros) (2)					
Basic earnings (loss) per share:					
—from continuing operations	(0.14)	(0.37)	(0.07)	0.05	(0.53)
—from discontinued operations	(0.01)	(0.00)	(0.01)	0.00	(0.01)
—attributable to the equity owners of the parent	(0.15)	(0.37)	(0.08)	0.05	(0.54)
Diluted earnings (loss) per share:					
—from continuing operations	(0.14)	(0.37)	(0.07)	0.05	(0.53)
—from discontinued operations	(0.01)	(0.00)	(0.01)	0.00	(0.01)
—attributable to the equity owners of the parent	(0.15)	(0.37)	(0.08)	0.05	(0.54)

(1) 2013 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) As a result of the capital increase of Alcatel-Lucent in 2013 via an offering of preferential subscription rights to existing shareholders, the calculation of basic and diluted earnings per share has been adjusted retrospectively. Number of outstanding ordinary shares has been adjusted to reflect the proportionate change in the number of shares.

(In millions of euros – except per share data) 2012[1]	Q1	Q2	Q3	Q4	Total
Revenues	3,048	3,379	3,428	3,909	13,764
Cost of sales	(2,147)	(2,338)	(2,509)	(2,759)	(9,753)
Gross profit	**901**	**1,041**	**919**	**1,150**	**4,011**
Administrative and selling expenses	(573)	(535)	(536)	(517)	(2,161)
Research and development costs	(595)	(575)	(581)	(579)	(2,330)
Income (loss) from operating activities before restructuring costs, litigations, gain/(loss) on disposal of consolidated entities and post-retirement benefit plan amendments	**(267)**	**(69)**	**(198)**	**54**	**(480)**
Restructuring costs	(74)	(105)	(60)	(240)	(479)
Litigations	1	-	1	-	2
Gain/(loss) on disposal of consolidated entities	-	-	-	11	11
Impairment of assets	-	-	-	(894)	(894)
Post-retirement benefit plan amendments	-	30	5	169	204
Income (loss) from operating activities	**(340)**	**(144)**	**(252)**	**(900)**	**(1,636)**
Finance costs	(65)	(69)	(71)	(74)	(279)
Other financial income (loss)	(53)	(239)	(57)	(45)	(394)
Share in net income (losses) of associates & joint ventures	1	-	1	3	5
Income (loss) before income tax and discontinued operations	**(457)**	**(452)**	**(379)**	**(1,016)**	**(2,304)**
Income tax, (charge) benefit	81	80	26	(610)	(423)
Income (loss) from continuing operations	**(376)**	**(372)**	**(353)**	**(1,626)**	**(2,727)**
Income (loss) from discontinued operations	633	(29)	27	8	639
NET INCOME (LOSS)	**257**	**(401)**	**(326)**	**(1,618)**	**(2,088)**
Attributable to:					
• **Equity owners of the parent**	**259**	**(396)**	**(316)**	**(1,558)**	**(2,011)**
• Non-controlling interests	**(2)**	**(5)**	**(10)**	**(60)**	**(77)**
Earnings (loss) per share (in euros) [2]					
Basic earnings (loss) per share:					
—from continuing operations	(0.16)	(0.15)	(0.14)	(0.65)	(1.11)
—from discontinued operations	0.27	(0.02)	0.01	0.00	0.27
—attributable to the equity owners of the parent	0.11	(0.17)	(0.13)	(0.65)	(0.84)
Diluted earnings (loss) per share:					
—from continuing operations	(0.16)	(0.15)	(0.14)	(0.65)	(1.11)
—from discontinued operations	0.21	(0.02)	0.01	0.00	0.22
—attributable to the equity owners of the parent	0.09	(0.17)	(0.13)	(0.65)	(0.84)

(1) 2012 amounts are re-presented to reflect the impacts of discontinued operations (see Note 9).

(2) As a result of the capital increase of Alcatel-Lucent in 2013 via an offering of preferential subscription rights to existing shareholders, the calculation of basic and diluted earnings per share has been adjusted retrospectively. Number of outstanding ordinary shares has been adjusted to reflect the proportionate change in the number of shares.