

CONTROVERSIES

Costa Rica

Beginning in early October 2004, Alcatel-Lucent learned that investigations had been launched in Costa Rica by the Costa Rican prosecutors and the National Congress, regarding payments alleged to have been made by consultants on behalf of Alcatel CIT, a French subsidiary now called Alcatel-Lucent France ("CIT"), or other Alcatel-Lucent subsidiaries to various public officials in Costa Rica, two political parties in Costa Rica and representatives of Instituto Costarricense de Electricidad (ICE), the state-owned telephone company, in connection with the procurement by CIT of several contracts for network equipment and services from ICE. Upon learning of these allegations, Alcatel commenced an investigation into this matter.

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

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

French authorities are also conducting an investigation of CIT's payments to consultants in the Costa Rica matter.

Alcatel-Lucent is cooperating with the U.S., French and Costa Rican authorities in the respective investigations described above. Alcatel-Lucent reiterates that its policy is to conduct its business with transparency, and in compliance with all laws and regulations, both locally and internationally. Alcatel-Lucent will cooperate with all governmental authorities in connection with the investigation of any violation of those laws and regulations.

In connection with the Costa Rica allegations, on July 27, 2007, the Costa Rican Prosecutor's Office indicted eleven individuals, including the former president of Alcatel de Costa Rica, on charges of aggravated corruption, unlawful enrichment, simulation, fraud and others. Three of those individuals have since pled guilty. Shortly thereafter, the Costa Rican Attorney General's Office and ICE, acting as victims of this criminal case, each filed amended civil claims against the eleven criminal defendants, as well as five additional civil defendants (one individual and four corporations, including CIT) seeking compensation for damages in the amounts of US\$ 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 US\$ 71.6 million. No formal notice of a revised civil claim has so far been received by CIT. The trial of the criminal case started on April 14, 2010 and is ongoing.

Alcatel-Lucent entered into discussions with the Attorney General's Office directed to a negotiated resolution of the Attorney General's social damages claims and the moral damages claims of ICE. Those discussions resulted in a signed agreement entered into on January 20, 2010 under which the Attorney General's social damages claims were dismissed in return for a payment by CIT of approximately US\$ 10 million. That agreement was approved by the Court having jurisdiction over the Attorney General's claims on February 24, 2010 and payment was made shortly thereafter. ICE's claims are not included in the agreement with the Attorney General. To the extent that any of these claims are not resolved by agreement, Alcatel-Lucent intends to defend against them vigorously and to deny any liability or wrongdoing with respect to such claims.

Additionally, in August 2007, ICE notified CIT of the commencement of an administrative proceeding to terminate the 2001 contract for CIT to install 400,000 GSM cellular telephone lines (the "400KL GSM Contract"), in connection with which ICE is claiming compensation of US\$ 59.8 million for damages and loss of income. By March 2008, CIT and ICE concluded negotiations of a draft settlement agreement for the implementation of a "Get Well Plan," in full and final settlement of the above-mentioned claim. This settlement agreement was not approved by ICE's Board of Directors that resolved, instead, to resume the aforementioned administrative proceedings to terminate the operations and maintenance portion of the 400KL GSM Contract, claim penalties and damages in the amount of US\$ 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 US\$ 78.1 million in the aggregate, of which ICE has collected US\$ 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, US\$ 44.7 million. On September 17, 2008, the Costa Rican Supreme Court ruled on the appeal filed by CIT stating that: (i) the US\$ 15.1 million performance bond amount is to be reimbursed to CIT and (ii) the US\$ 44.7 million claim is to remain suspended until final resolution by the competent court of the case. Following a clarification request filed by ICE, the Court finally decided that the US\$ 15.1 million performance bond amount is to remain deposited in an escrow account held by the Court, until final resolution of the case. On October 8, 2008, CIT filed a claim against ICE requesting the court to overrule ICE's partial termination regarding the 400KL GSM Contract and claiming compensation for the damages caused to CIT. In January 2009, ICE filed its response to CIT's claim. At a court hearing on March 25, 2009, ICE ruled out entering into settlement discussions with CIT. On April 20, 2009, CIT filed a petition to the Court to recover the US\$ 15.1 million performance bond amount and offered the replacement of such bond with a new bond that will guarantee the results of the final decision of the Court. CIT appealed the Court's rejection of such petition and the appeal was resolved on March 18, 2010 in favor of CIT. As a consequence of this resolution, CIT will collect the aforementioned US\$ 15.1 million amount upon submission to the Court of a bank guarantee for an equivalent amount. A hearing originally scheduled for June 1, 2009 was suspended due to ICE's decision not to present to the Court the complete administrative file wherein ICE decided the partial termination of the 400KL GSM Contract. The preliminary court hearing, which commenced on October 6, 2009, recently concluded and the case will proximately be set for trial.

On October 14, 2008, the Costa Rican authorities notified CIT of the commencement of an administrative proceeding to ban CIT from government procurement contracts in Costa Rica for up to 5 years. The administrative proceeding was suspended on December 8, 2009 pending the resolution of the criminal case mentioned above. In March 2010, CIT was notified of a new administrative proceeding whereby ICE seeks to ban CIT from procurement contracts, as a consequence of alleged material breaches under the 400KL GSM Contract (in particular, in connection with failures related to road coverage and quality levels).

If the Costa Rican authorities conclude criminal violations have occurred, CIT may be banned from participating in government procurement contracts within Costa Rica for a certain period. Alcatel-Lucent expects to generate approximately € 3 million in revenue from Costa Rican contracts in 2010. Based on the amount of revenue expected from these contracts, Alcatel-Lucent does not believe a loss of business in Costa Rica would have a material adverse effect on the Alcatel-Lucent group as a whole. However, these events may have a negative impact on the reputation of Alcatel-Lucent in Latin America.

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

On April 30, 2010 ICE filed a civil RICO claim in state court in Miami, Florida (USA). ICE claims that several different Alcatel-Lucent entities, along with a former employee, were engaged in a worldwide scheme of bribery and corruption, during which it made payments to senior officials of the Costa Rican government and ICE. ICE claims it was damaged from this conduct and seeks treble damages, disgorgement, and other damages and relief.

As previously disclosed in its public filings, Alcatel-Lucent has engaged in settlement discussions with the DOJ and the SEC with regard to the ongoing FCPA investigations. These discussions have resulted in December 2009 in agreements in principle with the staffs of each of the agencies. There can be no assurances, however, that final agreements will be reached with the agencies or accepted in court. If finalized, the agreements would relate to alleged violations of the FCPA involving several countries, including Costa Rica, Taiwan, and Kenya. Under the agreement in principle with the SEC, Alcatel-Lucent would enter into a consent decree under which Alcatel-Lucent would neither admit nor deny violations of the antibribery, internal controls and books and records provisions of the FCPA and would be enjoined from future violations of U.S. securities laws, pay US\$ 45.4 million in disgorgement of profits and prejudgment interest and agree to a three-year French anticorruption compliance monitor to evaluate in accordance with the provisions of the consent decree (unless any specific provision therein is expressly determined by the French Ministry of Justice to violate French law) the effectiveness of Alcatel-Lucent's internal controls, record-keeping and financial reporting policies and procedures. Under the agreement in principle with the DOJ, Alcatel-Lucent would enter into a three-year deferred prosecution agreement (DPA), charging Alcatel-Lucent with violations of the internal controls and books and records provisions of the FCPA, and Alcatel-Lucent would pay a total criminal fine of US\$ 92 million - payable in four installments over the course of three years. In addition, three Alcatel-Lucent subsidiaries - Alcatel-Lucent France, Alcatel-Lucent Trade International AG and Alcatel Centroatlamerica - would each plead guilty to violations of the FCPA's antibribery, books and records and internal accounting controls provisions. The agreement with the DOJ would also contain provisions relating to a three-year French anticorruption compliance monitor. If Alcatel-Lucent fully complies with the terms of the DPA, the DOJ would dismiss the charges upon conclusion of the three-year term.

Alcatel-Lucent has recognized a provision of € 110 million as of June 30, 2010 in connection with these FCPA investigations, which is equivalent to the sum of US\$ 45.4 million as agreed upon in the agreement in principle with the SEC and US\$ 92 million as agreed upon in the agreement in principle with the DOJ, discounted back to net present value and converted into Euros.