Lucent Technologies



2004 JP Morgan Tech and Telecom Conference

May 5, 2004

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Lucent Technologies

Forward Looking Statement Disclosure

This presentation may include forward-looking statements about our expectations for our future performance. Actual results could differ materially from those suggested by our comments today. Additional information about factors that could affect future results are addressed in our SEC filings, including our Form 10-K, 10-Q, and 8-Ks.

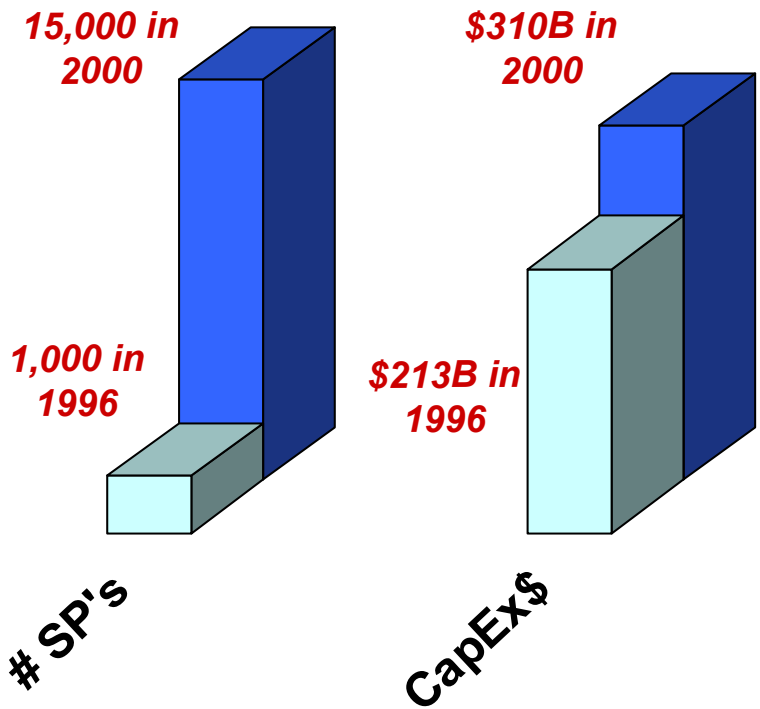
Lucent Technologies

- **Lucent**
  - From Restructuring…To Profitable Growth
- **Lucent – Areas of Focus**
  - Seizing Next-Gen Market Opportunities
  - Expanding the Revenue Base
- **Key Take-Aways**

1996 IPO to 2000

Unprecedented Growth

Telecommunications Market



Lucent

- ✓**Increased headcount**
  - •131,000 at IPO to 157,000 at peak*
- ✓**Expanded customer base**
  - •from hundreds to thousands*
- ✓**Introduced new products**
  - •more than 260
- ✓**Significant M&A activity**
  - •acquired 38 companies
- ✓**Grew revenue**
  - •from $20 billion to $38 billion*

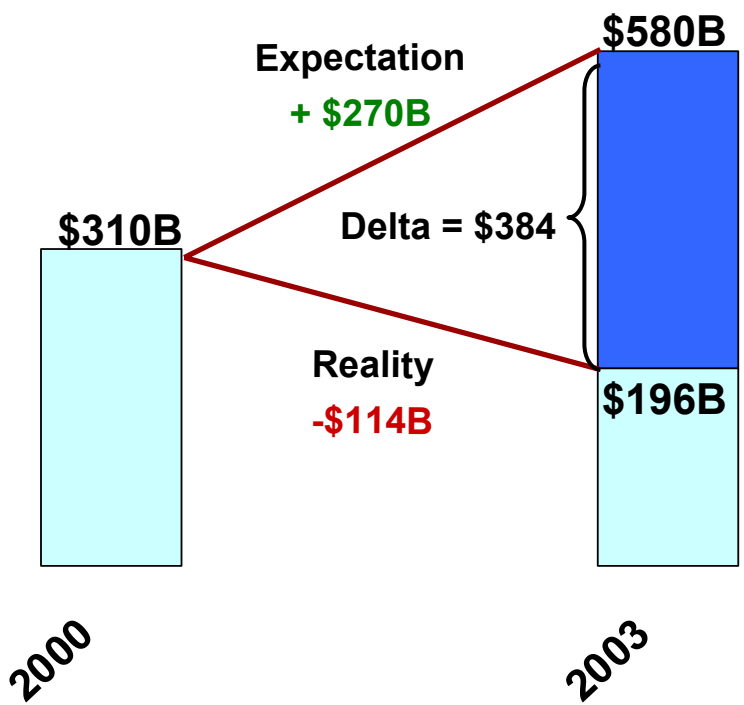
Deregulation, unlimited access to capital, and Internet boom led to the most intense growth period in the history of the telecommunications industry

* Includes Avaya, Agere, OFS , Power

2001 to 2003
Focus on Restructuring

Telecommunications Market

Service Provider Capital Spending



Lucent

- ✓Launched Business Restructuring in 2001
- ✓Focused on the following key areas:
  - ➢Stabilizing the financial structure
  - ➢Streamlining the cost and expense structure to be in line with the new market dynamics
  - ➢Re-designing fundamental systems and processes

Year End 2000 – Biggest industry downturn in history began
Lucent shifted focus from aggressive growth to managing cash & risk

Financial Results

.....Then and Now

($ billions, except EPS)	13 Quarter Span From Q1-01 *	To Q2-04	Change
Revenue	$ 4.3	$ 2.2	-49.5%
Targeted Quarterly Breakeven	$ 5.0	<$2.4	-52%
Gross Margin Rate	15.7%	42.8%	27.1 pts
Operating Expenses **	$ 2.9	$ 0.6	-78.3%
EPS - diluted	$ (0.47) ***	$ 0.02	$ 0.49
Vendor Finance Commitments	$ 7.5	$ 0.3	-95.8%
Cash (Used in) Provided by Operating Activities	$ (1.3) ****	$ 0.4	$ 1.7
Working Capital (A/R, Inv, CIP and A/P)	$ 12.5	$ 1.3	-89.3%
Operating (Loss) Income	$ (0.5)	$ 0.3	-158.4%
Days Sales Outstanding (DSO)	137	65	-72 days
Inventory Turns	2.3	6.4	4.1 turns
Headcount	106,000	32,500	-69.3%

Significant improvement in financial & operational metrics

(*) excludes Agere and Power Systems (**) includes Bad Debt / Vendor Finance (***) loss from continuing operations (****) excludes $0.6B related to receivable sales

Fiscal Q204

Financial Results Highlights

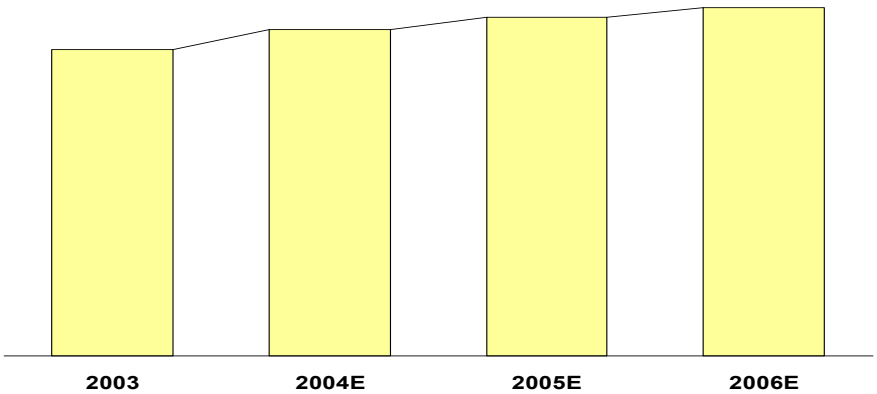
(in millions, except per share figures)	Q204	Q104	Q2 vs. Q1
Revenues	2,194	2,259	-2.9%
Gross Margin %	43%	41%	2 pts
Operating Expenses	623	648	(25)
Operating Income	315	271	44
Net Income	68	338	(270)
EPS - basic	$0.02	$0.08	($0.06)
EPS - diluted	$0.02	$0.07	($0.05)
Cash (Used in) Provided by Operating Activities	410	(257)	667

Three consecutive quarters of profitability

Shift in Focus
Profitable Growth

Telecommunications Market*

Aggregate Market is Stabilizing and Returning to Growth…



…While Dynamics Exist Due To

- ✓Shifts in Spending to Next Gen
- ✓Growth in Low Tele-Density Areas
- ✓Consolidation
- ✓Convergence
- ✓Regulatory Environment
- ✓Heightened Security Concerns

Lucent

- ✓**Seizing Next-Gen Market Opportunities**
  - ➢Metro Optical
  - ➢High Speed Wireless
  - ➢Broadband Access
  - ➢VoIP
- ✓**Expanding the Revenue Base**
  - ➢Services
  - ➢Government
  - ➢Outside the U.S.

* Source: Investment Analyst Reports & Internal Estimates

Focus on Profitable Growth

Next-Gen Market Opportunities

Opportunity	Key Technology	'04-'06 CAGR[(a)]	Lucent Solutions Include:
Metro Optical	▪Next-Gen Sonet/SDH ▪Optical Cross Connect ▪Metro DWDM	~10%	▪**Metropolis® Family** ▪**LambdaUnite™** ▪**LambdaXtreme™** ▪**Movaz Partnership**
Mobile High-Speed Data	▪UMTS/W-CDMA ▪3G CDMA (1X, EV-DO, EV-DV) ▪UMTS PC cards	~20%[(b)]	▪**Flexent® Base Stations built on common platform supporting CDMA/WCDMA** ▪**Novatel Wireless**
Broadband Access	▪DSL ▪FTTX ▪Wireless Broadband	~20%	▪**Stinger® DSLAM** ▪**AnyMedia® Family** ▪**Universal Gateways (APX® and MAX TNT®)**
Voice Over IP ("VoIP")	▪Media Gateways ▪Softswitch ▪IP Centrex ▪Feature Servers	~50%	▪**Accelerate™ Portfolio** ▪**Juniper Partnership** ▪**Cisco Partnership** ▪**Broadsoft Partnership**

✓ **Evolution to next generation equipment occurs at multiple layers in the network**

✓ **In addition, opportunities exist in Software and Services**

(a) Source: Dell' Oro, Gartner, RHK, Yankee Group and Synergy, Internal estimates
(b) Includes total next-gen growth rate for mobility

Focus on Profitable Growth

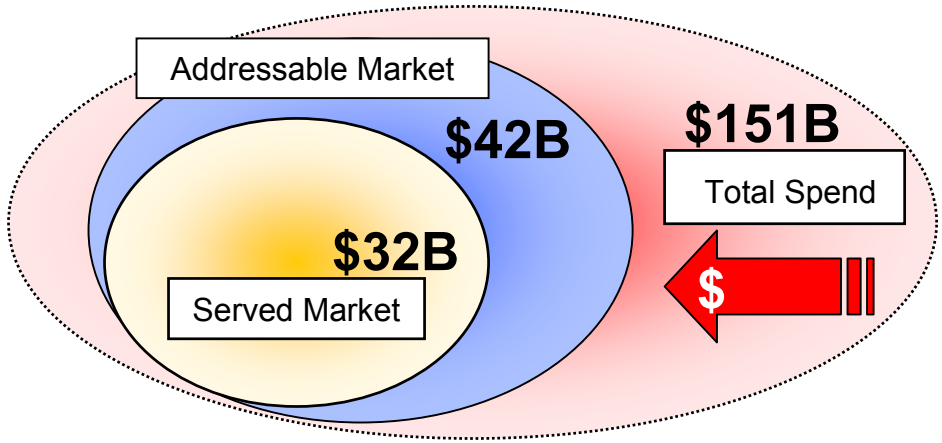
Expanding the Revenue Base

Lucent Worldwide Services

- **Large, highly fragmented market**
- **LWS gaining traction**

- Strengthened Multivendor Capability
- Best-in-Class Customer Satisfaction
- Powered by Bell Labs
- Established Dedicated Services Sales Team
- Partnering (e.g. Enterasys)

Telecom Infrastructure Services Market 2003*



Publicly Announced Contracts

- **$250M in Managed Services Contracts in Last 12 Months, Including……**
  - ✓T-Systems
  - ✓Telecom New Zealand
- **Signed Contracts in Every Region**

Professional Services | *Managed Services* | *Deployment Services* | *Maintenance Services*

*Source: Booz Allen

Focus on Profitable Growth

Expanding the Revenue Base

Re-Emphasis on Government

- Seasoned team with over 400 dedicated employees
- Bell Labs – key differentiator
- Early success, including……
  - ✓2 contracts in Iraq
  - ✓3 DARPA contracts

- **Large but fragmented market with no clear market leaders**
- **Addressable market in the "tens of billions"**
- **Over 150 federal programs Lucent can participate in**

Opportunities Outside the U.S.

- Existing Global Customer Relationships & Market Presence
- Focus on emerging markets
- 17 Non-U.S. contracts with >$300M value announced at CeBIT 2004, including……
  - ✓T-Com
  - ✓KPN

- **2Q04 Non U.S. Revenue 40% of Total (3rd consecutive quarter)**
- **1/3 of headcount outside the U.S.**
  - **Over 3,000 in China**
  - **Over 1,000 in India**
- **Established Corporate Leader of Global Business Development**

Focus on Profitable Growth

Worldwide Customer Announcements

Next-Gen Optical

- **Deutsche Telekom, Telefonica, 360 Networks, Zheijiang Telecom, Verizon, AT&T, BellSouth**

High-speed Wireless

- **Verizon Wireless, Sprint PCS, KTF (Korea),**
- **UMTS/W-CDMA build in Spain; trials with AT&T Wireless (Miami) and China Netcom (Shanghai)**
- **UMTS PC card wins, with Novatel, at seven of the top eight service providers in Europe: Telefonica Moviles; Telecom Italia; T-Mobile; Orange; E-Plus; mm02; Hutchison ("3" HSD service)**
- **Advanced 3G network management software with Telefonica Moviles**

Broadband Access

- **TPSA, France Telecom (Uni2), Bell Canada, Sprint LTD, Brazil Telecom**

VoIP, Wireline/Wireless Convergence

- **KPN, T-Com, Shandong Netcom, eircom, Phonom, Qwest, Choice One**

Services

- **Managed services contracts in North America, Australia, New Zealand, South America, Europe**

Government

- **2 contracts in Iraq and 3 DARPA contracts**

Outside the U.S.

- **China Unicom, China Telecom, Deutsche Telekom, TPSA, Telefonica Moviles, VIVO, and more . . .**

✓Seizing Next-Gen Market Opportunities

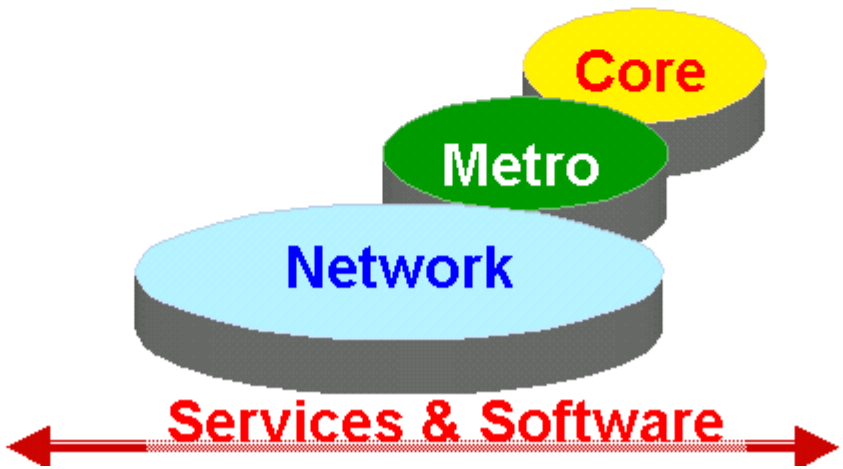
✓Expanding the Revenue Base

Focus on Profitable Growth

Announced Contract Wins*

Demonstrating Breadth and Depth

	Optical			Switching		Data	Access		S/W		Wireless			Services	
	Switching/ X-connect	LH/ULH	Metro	Voice	C2P/ VoIP	MSS/ IP	DSLAM	NG-DLC	Apps	OSS	CDMA/ 2000	UMTS/ W-CDMA	Core	Mgd	Prfsnl
North America	●● ●		●● ●●		●● ●		●●				●● ●		●		●●
Rest of World	●● ●● ●●	●● ●●	●● ●● ●	●● ●● ●	●● ●● ●	●●	●● ●● ●	●●	●● ●	● ●● ●●	●● ●● ●● ●●	●● ●● ●●	●● ●●	●● ●	●● ●●



*FYQ203 – FYQ204

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Key Takeaways

- **Aggregate market is stabilizing and underlying dynamics generating new revenue opportunities**

- **Lucent is capitalizing on these opportunities**
  - ✓ **Technology leadership through Bell Labs innovation**
  - ✓ **Strong product, software and services solutions**
  - ✓ **Taking advantage of next generation opportunities and expanding revenue sources**
  - ✓ **Improved financial and operating structure provides leverage to the bottom line as we grow revenue**

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Forward-Looking Statement Disclosure

This presentation contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, the industries in which we operate, our beliefs and our management's assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of us. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. These risks and uncertainties include: the failure of the telecommunications market to improve or improve at the pace we anticipate; continued negative cash flow; our ability to secure additional sources of funds on reasonable terms; our credit ratings; our ability to compete effectively; our reliance on a limited number of key customers; our exposure to the credit risk of our customers; our reliance on third parties to manufacture most of our products; the cost and other risks inherent in our long-term sales agreements; our product portfolio and ability to keep pace with technological advances in our industry; the complexity of our products; our ability to retain and recruit key personnel; existing and future litigation; our ability to protect our intellectual property rights and the expenses we may incur in defending such rights; changes in environmental health and safety laws; changes to existing regulations or technical standards; the social, political and economic risks of our foreign operations; and the costs and risks associated with our pension and postretirement benefit obligations. For a further list and description of such risks and uncertainties, see the reports filed by us with the Securities and Exchange Commission. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements after the publication or distribution of this presentation, whether as a result of new information, future events, changes in assumptions, or otherwise.