Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Lehman T-3 Conference
December 2003

Frank D'Amelio
Executive Vice President & Chief Financial Officer

Lucent Technologies

Forward Looking Statement Disclosure

Lucent Technologies
Bell Labs Innovations



This presentation includes some forward-looking statements about our expectations for our future performance. Actual results could differ materially from those suggested by my 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

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Fiscal Q1 2001 Macro Issues

- **Beginning in 2001…**
  - Significant industry downturn
  - CapEx reached dizzying peaks and then “fell off a cliff”
- **Service providers…**
  - Continued to bring costs down in line with reduced opportunity; operating margins squeezed
  - Less incentive to invest in networks; CapEx down
  - Focusing on improving balance sheet; paying down debt

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Fiscal Q1 2001 Macro Issues

- **Customer Focus**
  - Business not properly aligned with market opportunities
- **Operating Structure**
  - Opportunities for improvement in supply chain and manufacturing processes
  - Workforce not properly sized with new revenue reality
- **Liquidity**
  - Operating losses consuming cash
- **Control environment**
  - Vendor finance commitments add to liquidity concerns
  - Dynamic environment necessitates re-evaluation of forecasting tools

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Addressed through restructuring actions

❑ Customer Focus

- ✓ To match the realignment of our customers' business, we restructured our operations to target the large service providers

	Q101	Q403
Business Units	**5**	**2**
Customers	**Hundreds**	**Focus on Top 50**
Countries	**60+**	**20 Core Countries**

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Addressed through restructuring actions

❑ Operating Structure

- ✓ Revamped our supply chain, outsourced manufacturing and streamlined the workforce

	Q101	Q403
Suppliers	**40% of spend with 1,000 suppliers**	**80% of spend with 60 suppliers**
Repair Centers	**16**	**1**
Warehouses	**540**	**50 (owned by logistics partners)**
U.S. Factories	**15**	**4 SIC's**
Employees	**123,000**	**34,500**

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Addressed through restructuring actions

❑ Liquidity

- **Ensured future liquidity**
  - ✓ **Raised over $5.1B in three convertible offerings**
  - ✓ **Sold Optical Fiber Solutions business for $2.5B**
  - ✓ **Monetized real estate assets totaling close to $1B**
  - ✓ **Actively pursued and received approximately $1.2B in tax refunds**

❑ Control Environment

- **Dramatically improved control environment**
  - ✓ **Established a Corporate Credit Committee to review and approve all vendor finance decisions**
  - ✓ **Centralized credit team to perform periodic reviews of customer credit quality**
  - ✓ **Developed new planning and sales forecasting tools**
  - ✓ **Consolidated data management systems**
  - ✓ **Centralized collections function**

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



$ Billions, except DSO, Inventory Turns and Margin Points

12 Quarter Span

	From Q101 *	To Q403	Change
Revenue	$ 4.3	$ 2.0	-53%
Gross Margin Rate	15.7%	42.6%	26.9 pts
Operating Expense	$ 2.9	$ 0.5	-82%
EPS	$ (0.39)	$ 0.02	0.41
Vendor Finance Commitments	$ 7.5	$ 0.5	-93%
Cash Provided (Used) (Operating Activities)	$ (1.3)**	$ 0.1	-111%
Working Capital (A/R, Inventory, CIP and AP)	$ 12.5	$ 1.1	-91%
Days Sales Outstanding (DSO)	137	67	-51%
Inventory Turns	2.3	7.4	5.1
Headcount	123,000	34,500	-67%

Resulting in significant improvement in financial & operational results

* excludes Agere and Power Systems
** excludes $0.6B related to receivable sales

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



We've built a stronger financial model…with focus on continuous improvement

($ millions, except per share value)	Q403	Q303	Q4 vs. Q3
Revenues	2,027	1,965	3.2%
Gross Margin %	43%	29%	14 pts
Operating Expenses	524	842	(318)
Operating Income (Loss)	339	(269)	608
EPS	$0.02	($0.07)	$0.09

Improvement in all categories

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



We've built a stronger financial model…with focus on continuous improvement

($ millions)	Q403	Q303	Q4 vs. Q3
Mobility Solutions:			
Revenues	856	826	30
Segment Income (Loss)	141	(56)	197
Integrated Network Solutions:			
Revenues	1,112	1,059	53
Segment Income (Loss)	138	(47)	185
Service Revenues	460	439	21

Both Mobility & INS Segments Profitable in Q403



Improving Cash Flow from Operations

($ millions)	Q403	Q303	Q4 vs. Q3
Net Income (Loss)	99	(254)	353
Changes in Other Non-cash Items	50	(45)	95
Changes in Working Capital	268	286	(18)
Changes in Other Assets and Liabilities	(272)	(45)	(227)
Cash Flow (Used) from Operating Activities	145	(58)	203
Capital Spending	(65)	(38)	(27)
Restructuring - Cash Component	95	130	(35)
Cash Flow (incl. Capex, excl Restructuring)	175	34	141

Unusual Items:	Q403	Q303	Q4 vs. Q3
Federal Tax Refunds	-	167	(167)

Reported Positive Cash Flow from Ops for Q403

Improving Balance Sheet

($ millions)	Q403	Q303	Q4 vs. Q3
Cash and Short-term Investments	4,507	4,928	(421)
Short-term Debt:			
Special Purpose Trust	80	101	(21)
Mortgage	34	279	(245)
Other	275	236	39
Long-term Debt:			
Trust Preferred	1,152	1,152	-
Special Purpose Trust	136	170	(34)
Convertible Senior Debt	1,631	1,631	-
Other	2,672	2,886	(214)
Total Debt	5,980	6,455	(475)
Convertible Preferred - Net of Fees	868	933	(65)
Total Debt & Convertible Preferred	6,848	7,388	(540)

Sequential Decreases in Cash, Total Debt & Convertible Securities

Primarily Due to Cash Used to Repurchase/Retire Certain Debt and Converts



Year over Year Financial Metrics

($ millions, except per share amounts)	FY 2003	FY 2002	FY03 vs. FY 02
Revenue	8,470	12,321	-31.3%
Gross Margin %	31%	13%	18pts
Total Expenses	2,874	8,531	(5,657)
Operating Income/(Loss)	(222)	(6,979)	6,757
Net Income/(Loss)	(770)	(11,753)	10,983
EPS	($0.29)	($3.49)	$3.20
Cash Usage (Operating Activities)	(948)	(756)	(192)

	As of September 30,		
	2003	2002	Change
Vendor Finance Maximum Commitments	505	1,342	-62%
Working Capital	1,104	1,722	-36%
Cash & Short-Term Investments	4,507	4,420	2%
Net Debt (including 8% PS)	2,341	2,366	-1%
Headcount	34,500	47,000	-27%



4Q03 Key Takeaways

❑ Financial Results

- ✓ **Revenue up 3% sequentially;** down 31% year over year
- ✓ **Gross margin increased to 43%;** up 14 points vs. 3Q03 and 18 points year over year
- ✓ **Reported profitability;** up $0.09 sequentially to $0.02 per share, improved significantly year over year

❑ Operating and Capital Structure Improvements

- ✓ **Restructuring efforts essentially complete**
  - **Achieved target headcount;** 34,500 employees at September 30th
  - **Continued expense reduction;** OPEX down $318M in Q403, decreased about $5.6B year over year (including significant-items).
- ✓ **Reduced annual fixed charges;** repurchased/retired debt and convertible securities of $500M during Q403, over $2B since Q402

❑ Outlook

- ✓ **Signs of stability in the overall telecom market but challenges remain**
- ✓ **Anticipate revenues to remain essentially flat, or increase slightly, in fiscal 2004**
- ✓ **Expect to achieve sustainable profitability sometime in fiscal 2004 at a gross margin rate of about 35%**

Lucent Technologies

Re-Directing Our Focus

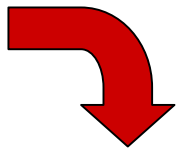
Lucent Technologies
Bell Labs Innovations



*Market showing **signs of stability***

- Rate of CapEx decline clearly decelerating
- 2004 overall CapEx expected to be relatively flat with "pockets of opportunities for growth"

NEVERTHELESS……



*Service providers still face a number of **challenges***

- Must continue to reduce the cost of their operations
- While simultaneously expanding their service offerings to increase revenues profitably
- While maintaining and improving security & reliability

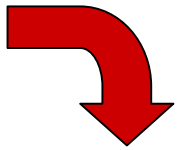
Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



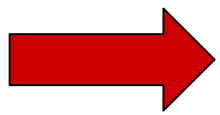
Service Provider Challenges …



*Create **pockets of opportunities** for companies like Lucent*

- ❑ Metro Optical Solutions
- ❑ Next-generation VoIP
- ❑ Mobile High-Speed Data
- ❑ Services
- ❑ Government
- ❑ Broadband Access

Lucent is Ready…



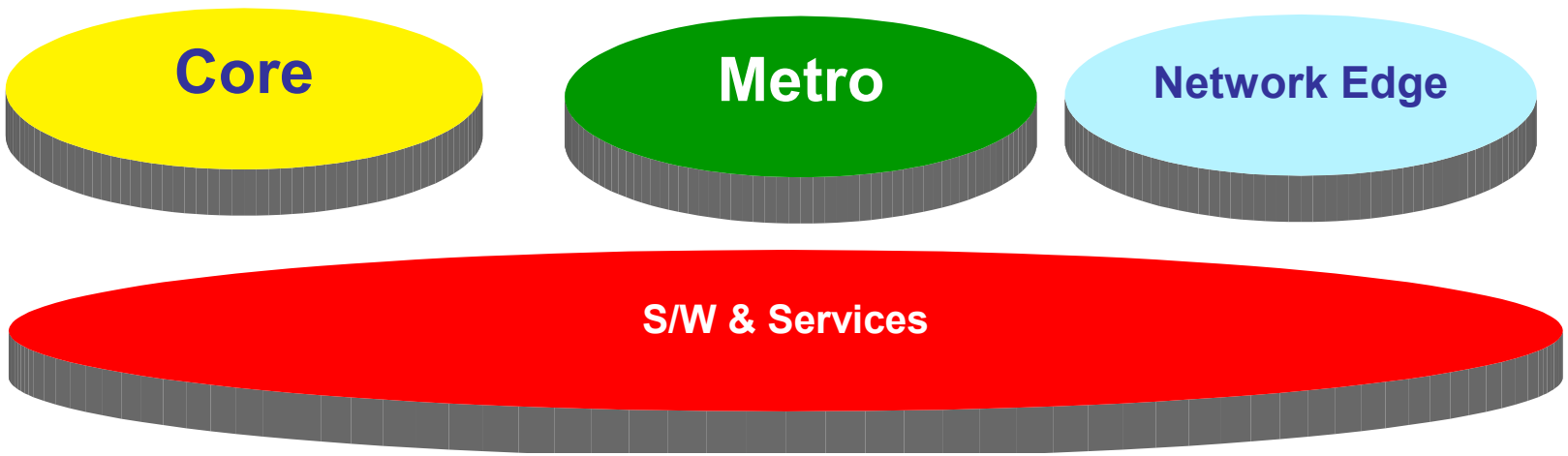
Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations

Highlighting 2003 Contract Awards

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



Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Product portfolio positioned to take advantage of market opportunities

❑ Focused on today's "Pockets of Opportunity"

- **Metro Optical Solutions**
- Next-generation VoIP
- Mobile High-Speed Data
- Services
- Government
- Broadband Access

Metropolis® Portfolio and LambdaUnite®

More than 80 customers for Lucent's Metropolis® portfolio

Recent wins with…

✓**AT&T**
Multi-year agreement for Metropolis® DMX Access Multiplexer and Metropolis® DMXtend Access Multiplexer

✓**Verizon**
Agreement to help evolve next-gen SONET network

✓**Dacom in South Korea**
Metropolis EON Metro DWDM contract

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Product portfolio positioned to take advantage of market opportunities

❑ Focused on today's "Pockets of Opportunity"

- Metro Optical Solutions
- **Next-generation VoIP**
- Mobile High-Speed Data
- Services
- Government
- Broadband Access

Accelerate™

Voice over IP Solutions *for next-generation converged voice and data networks and services*

Portfolio today includes*; Lucent Softswitch, the Lucent 5E-XC™ switch products and applications, the iGEN™ Compact Switch, new Lucent intelligent media gateway, and more…*

Recent wins with…

✓**Qwest**
Deployment of Accelerate™ portfolio products, including the 5E-XC™ switch

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Product portfolio positioned to take advantage of market opportunities

- Focused on today's "Pockets of Opportunity"
  - Metro Optical Solutions
  - Next-generation VoIP
  - **Mobile High-Speed Data**
  - Services
  - Government
  - Broadband Access

Global leader in CDMA & spread spectrum

Major Wireless Announcements…

✓***Sprint***
New $1B new contract including Flexent® CDMA Modular Cell 4.0

✓***KTF (Korea)***
$80M contract to supply 3G CDMA2000 1xEV-DO network

✓***AT&T Wireless***
UMTS equipment trial in Miami

✓***Verizon***
Deployment of 3G CDMA2000 1xEV-DO network in Washington, D.C.

✓***China Unicom***

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Product portfolio positioned to take advantage of market opportunities

- Focused on today's "Pockets of Opportunity"
  - Metro Optical Solutions
  - Next-generation VoIP
  - Mobile High-Speed Data
  - **Services**
  - Government
  - Broadband Access

Lucent Worldwide Services

Including over $250M in Managed Services wins in FY'03

Recent LWS wins with…

✓***Telecom New Zealand***

$100M to manage 3G CDMA20001X mobile voice and data network

✓***O2***

LWS to analyze performance of GSM & GPRS networks in Europe to help optimize e-mail, and messaging (SMS & MMS)

✓***Telemar (Brazil)***

Three-year agreement to provide managed services for optical network in Sao Paulo area

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Product portfolio positioned to take advantage of market opportunities

❑ Focused on today's "Pockets of Opportunity"

- Metro Optical Solutions
- Next-generation VoIP
- Mobile High-Speed Data
- Services
- **Government**
- Broadband Access

Stepping up efforts and renewing focus

Recent Wins…

✓***U.S. Department of the Army***

$50M contract to provide network integration and professional services for a major data infrastructure upgrade in North America and Asia.

✓***Bechtel National (Iraq)***

$25M contract to assist in repair of Iraq's communications network, including installation and deployment of 240K lines serving Baghdad region

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Product portfolio positioned to take advantage of market opportunities

- Focused on today's "Pockets of Opportunity"
  - Metro Optical Solutions
  - Next-generation VoIP
  - Mobile High-Speed Data
  - Services
  - Government
  - **Broadband Access**

Continued Progress in International Markets

Recent Wins…

✓***Bell Canada***
Supply next-gen broadband access equipment AnyMedia® Access System

✓***Poland***
AnyMedia Access System

✓***Sweden***
Stinger FS DSLAM

✓***Brazil Telecom***
100,000 Stinger DSL Concentrators



Partnerships, Strategic Alliances and Global Business Partners

- ✓ Developing partnerships, in line with our strategy of providing end-to-end carrier grade solutions
- ✓ Establishing strategic alliances to extend reach and creatively approach new markets
- ✓ Using global business partners to complement direct sales force

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Continuing the Momentum – Recent Customer Announcements

- Agreement with **Verizon** to help evolve Next-Gen SONET
- Selected by **AT&T** to provide Next-Gen SONET throughout network
- Trial 3G-WCDMA Network in Miami with **AT&T Wireless**
- Agreement with **Qwest Communications** to pave way for VoIP
- Deployment of Advanced Mobile Network for **Moscow Cellular Communications**
- Won expansion contract with **China Unicom**
- Selected by **T-Systems** to expand Capacity of its Telekom Global Net Optical Backbone in North America
- Next Generation Broadband Solutions to **Portugal Telecom**
- Optical Expansion Contract with **Beijing Communication Corp.**
- Selected by **Imtech Telecom** to manage Network Operations for EuroFiber

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Telecommunications…a fundamental necessity in the world today and tomorrow, it will ultimately stabilize and return to growth

Market recovery…"when, not if"

- As the overall economy strengthens we will see businesses investing again
- Demand for services, high-speed wireless data, VoIP and broadband access, will ultimately drive the demand for infrastructure
- New products and technologies as well as further expansion into low Tele-density areas will eventually result in increased spending

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations



Creating new possibilities to enhance people's lives by transforming the way the world communicates

- ❑ Broadening the revenue base
  - Services
  - Low Tele-density areas outside the United States
  - Government
  - New Products
- ❑ Tapping deeper into our innovation engine…Bell Labs
- ❑ Continuing to use partners where appropriate
- ❑ Expanding our use of business channels
- ❑ Drawing on our expertise in software, networking and services

Lucent Technologies

Re-Directing Our Focus

Lucent Technologies
Bell Labs Innovations

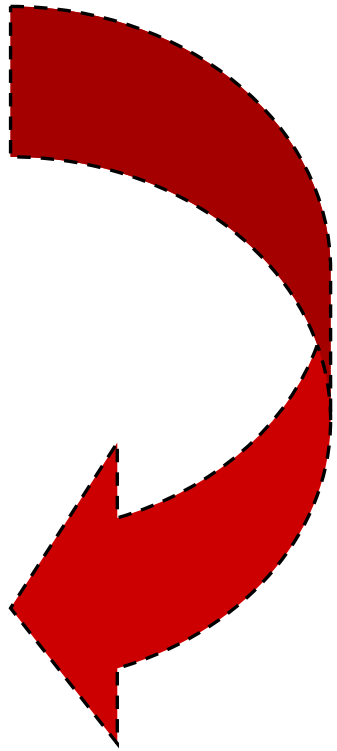
Lucent…Ready to leverage top line recovery to bottom line growth

TOP LINE REVENUE RECOVERY

IMPROVING GROSS MARGIN

STABLE OPERATING EXPENSES

EPS GROWTH



Lucent Technologies

Key Takeaways

Lucent Technologies
Bell Labs Innovations



Still facing challenges, but reasons to look ahead with "some cautious optimism"

- ❑ Restructuring essentially complete
- ❑ Seeing signs of stability in the overall telecom market
- ❑ Financial and operational model dramatically improved with a focus on sustaining and improving results
- ❑ Product portfolio well positioned to capitalize on pockets of opportunity for growth