1st Quarter Fiscal Year 2004 Earnings Teleconference

January 21, 2004



1st Quarter Fiscal Year 2004 Earnings Teleconference

Introduction

John DeBono

Investor Relations Vice President

Q1 Fiscal 2004 Financial Review

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 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. A summary is included at the end of this presentation.

Any information contained herein should be read in conjunction with the January 21, 2004 Q1 earnings press release with accompanying financial tables.

1st Quarter Fiscal Year 2004 Earnings Teleconference

Opening Remarks

Pat Russo

Chairman & Chief Executive Officer

1st Quarter Fiscal Year 2004 Earnings Teleconference

Financial Review

Frank D'Amelio

Executive Vice President & Chief Financial Officer

Q1 Fiscal 2004 Financial Review

Quarterly Results Highlights

Lucent Technologies
Bell Labs Innovations

(in millions, except per share amounts)	Q104	Q403	Q1 vs. Q4
Revenues	2,259	2,027	11.4%
Gross Margin %	41%	43%	-2pts
Operating Expenses	648	524	124
Operating Income	271	339	(68)
EPS - basic	$0.08	$0.02	$0.06
EPS - diluted	$0.07	$0.02	$0.05

Continued to Generate Positive Momentum in Financial Results

Q1 Fiscal 2004 Financial Review

Significant Impact Items

(in millions)	Q104	Impact Per Diluted Share	Q403	Impact Per Diluted Share
Benefit from (provision for) income taxes	191	0.04	(150)	(0.04)
Gain on investment	64	0.01	-	-
Recovery of bad debts and customer financings	14	0.00	150	0.04
Legal settlements	(54)	(0.01)	(33)	(0.01)
Business restructuring (charges) reversals, net	(29)	(0.01)	42	0.01
Repurchases / retirements of debt and convertible securities	(4)	(0.00)	14	0.00
Certain adjustments to employee expenses, customer and supplier credits and a sales tax refund	-	-	88	0.02
Business disposition reserve	-	-	7	0.00
Asset impairment charge related to UMTS software development	-	-	(50)	(0.01)
Impairment of Goodwill	-	-	-	-
Amortization of Acquired Intangibles	-	-	-	-
Total	182	0.04	68	0.02
Weighted Average Common Shares - basic	4,180		4,155	
Weighted Average Common Shares - diluted	5,136		4,178	

Note: Not included in the Q4 figures is a $594M non-cash charge to equity related primarily to an increase in the minimum pension liability resulting from a decrease in the discount rate (from 6.5% to 5.75%) which is used to measure the obligation.

Q1 Fiscal 2004 Financial Review

Quarterly Segment Results

Lucent Technologies
Bell Labs Innovations

(in millions)	Q104	Q403	Q1 vs. Q4
Mobility Product Solutions:			
Revenues	960	634	51%
Segment Income	172	50	122
INS Product Solutions:			
Revenues	790	860	-8%
Segment Income	196	131	65
Services:			
Revenues	466	473	-1%
Segment Income	61	100	(39)

Reported Income in All Segments

Q1 Fiscal 2004 Financial Review

Quarterly Results Highlights

Lucent Technologies
Bell Labs Innovations

(in millions, except per share amounts)	Q104	Q403	Q1 vs. Q4
Revenues	2,259	2,027	11.4%
Gross Margin %	41%	43%	-2pts
Operating Expenses	648	524	124
Operating Income	271	339	(68)
EPS - basic	$0.08	$0.02	$0.06
EPS - diluted	$0.07	$0.02	$0.05

Q104 Gross Margin of 41%
Q403 Gross Margin of 43%, included 4 pt. benefit of certain significant items

Q1 Fiscal 2004 Financial Review

Operating Expenses

Lucent Technologies
Bell Labs Innovations

(in millions)	Q104	Q403	Q1 vs. Q4
All Other SG&A	341	334	7
Recovery of Bad Debts & Customer Financings	(14)	(124)	110
Total SG&A	327	210	117
R&D	292	335	(43)
Business Restructuring Charges (Reversals), Net	29	(21)	50
Total Operating Expenses	648	524	124

Increase in Operating Expenses primarily related to higher recoveries and reserve adjustments related to bad debt and customer financing in Q403

Q1 Fiscal 2004 Financial Review

Cash Flow

Lucent Technologies
Bell Labs Innovations

(in millions)	Q104	Q403	Q1 vs. Q4
Net Income	338	99	239
Changes in Other Non-cash Items	(49)	66	(115)
Changes in Working Capital	(43)	268	(311)
Changes in Other Assets and Liabilities	(503)	(288)	(215)
Cash (Used in) Provided by Operating Activities	(257)	145	(402)
Less: Capital Spending	(29)	(65)	36
Add back: Restructuring - Cash Component	57	95	(38)
Cash Flow (incl. Capex, excl Restructuring)	(229)	175	(404)

Unusual Items:	Q104	Q403	Q1 vs. Q4
Federal Tax Refunds	140	-	140

As of December 31, 2003, cash and short-term investments totaled $4.3 billion compared to $4.5 billion in the prior quarter

Q1 Fiscal 2004 Financial Review

Financial and Operating Metrics

Lucent Technologies
Bell Labs Innovations

(in millions, except ratios and headcount)	As of 12/31/2003	As of 9/30/2003	Change
Working Capital Metrics:			
Working Capital	1,157	1,104	5%
Days Sales Outstanding (DSO) (Q-over-Q)	63	67	-4 days
Inventory Turns (Q-over-Q)	7.8	7.4	+0.4 turns
Other Metrics:			
Vendor Finance Maximum Commitments	436	505	-14%
Headcount	33,000	34,500	-4%

Continued Improvements in Working Capital Metrics

Q1 Fiscal 2004 Financial Review

Debt and Convertible Securities

Lucent Technologies
Bell Labs Innovations

(in millions)	Q104	Q403	Q1 vs. Q4
Debt:			
2.75% Senior Convertible debt	1,631	1,631	-
7.75% Trust Preferred securities	1,152	1,152	-
8.0% Subordinated Convertible debt	817	-	817
Senior Debt	2,670	2,675	(5)
Other Debt	220	522	(302)
Total Debt	6,490	5,980	510
8.0% Convertible Preferred stock	-	868	(868)
Total Debt & Convertible securities	6,490	6,848	(358)

Q1 Fiscal 2004 Financial Review

Debt & Convertible Retirements

Lucent Technologies
Bell Labs Innovations

(in millions)	Q104	FY03	FY02	Total
8.00% Convertible Preferred/Sub Debt	58	835	175	1,068
7.75% Trust Preferred	-	598	-	598
Debt Obligations	5	519	-	524
Total	63	1,952	175	2,190
Common Shares Exchanged	2	563	58	623
Cash Used	$ 63	$ 487	$ -	$ 550

Recapitalization Actions, initiated in Q402, will result in
$135 million Reduction in Annual Interest and Dividend Requirements
(including incremental interest on May '03 convertible debt Issue)

Q1 Fiscal 2004 Financial Review

Key Takeaways

Lucent Technologies
Bell Labs Innovations

- **Financial Results**
  - Q104 revenues of $2.26 billion, up 11% sequentially
  - Gross margin rate at 41%, down 2 percentage points sequentially
    - Q403 gross margin included benefit of 4 points related to certain significant items
  - Second consecutive quarter of profitability, up $0.05 per diluted share
    - Significant items had a net favorable impact of $0.04 per diluted share in Q104 and $0.02 per diluted share in the prior quarter

- **Operating Improvements**
  - Operational improvements and restructuring actions of the last few years are flowing to the bottom line
  - Continue to manage cost and expense profile

- **Outlook**
  - Anticipate revenues to remain essentially flat, or increase slightly, in FY04
  - Expect to report a profit for FY04, excluding the impact from any revaluation of the warrants

1st Quarter Fiscal Year 2004 Earnings Teleconference

Executive Review

Pat Russo

Chairman & Chief Executive Officer

1st Quarter Fiscal Year 2004 Earnings Teleconference

Q&A Session

Q1 Fiscal 2004 Financial Review

Forward-Looking Statement Disclosure

Lucent Technologies
Bell Labs Innovations



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.