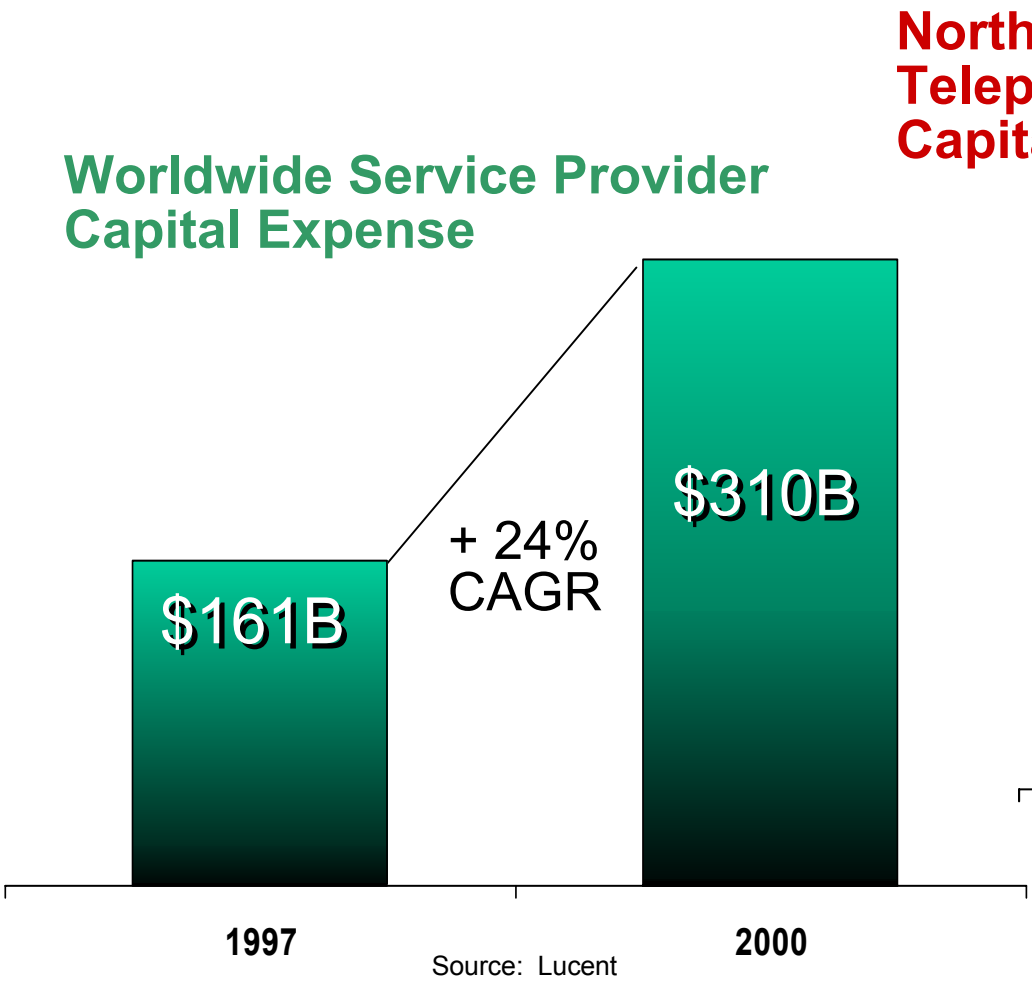
Lucent Technologies
Annual Meeting Of Shareowners

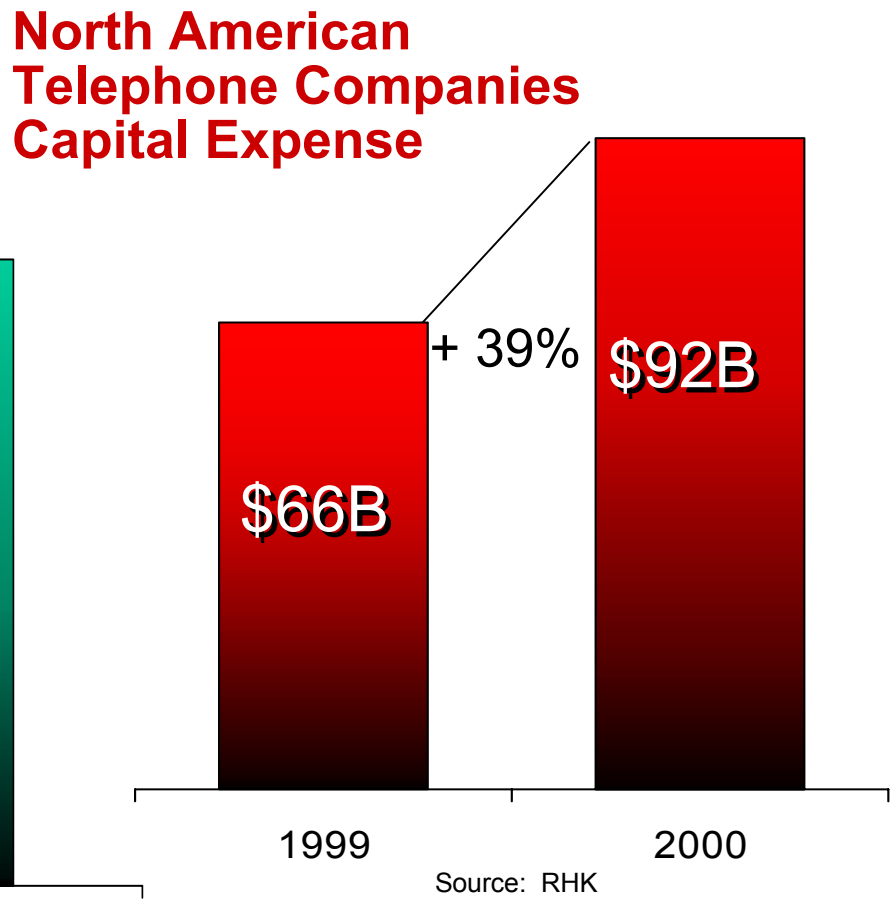
Wednesday, February 19, 2003
Dallas, TX

Lucent Technologies
Bell Labs Innovations

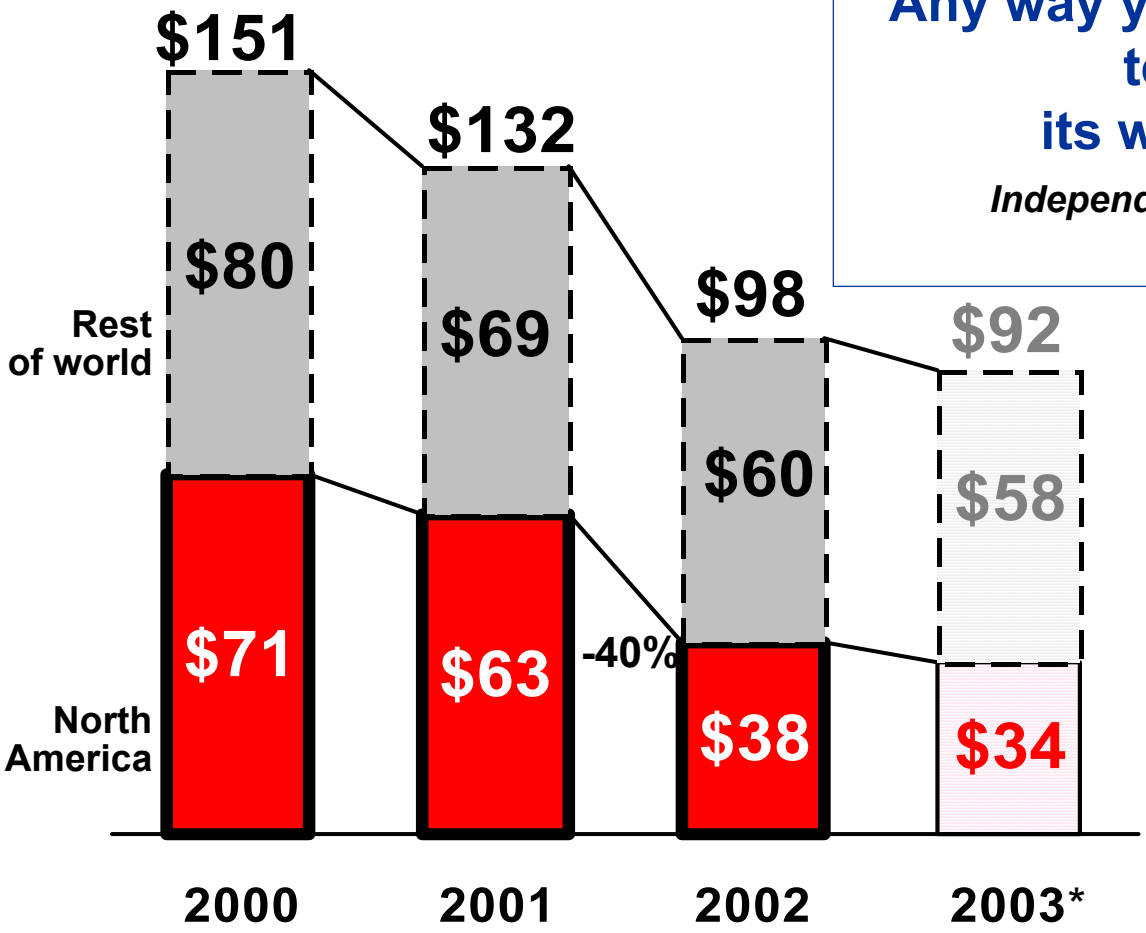


Lucent Was Created At A Time Of Unprecedented Acceleration In Service Provider Capital Spending





Since 2000, An Unprecedented Decline In The Communications Network Equipment Market...



"Any way you measure it… telecom suffered its worst year ever."

Independent analyst Jeff Kagan

1/5/03



Note: Equipment market equals Total Addressable Market less Services

* estimated

As A Result, We Have Transformed Lucent To Reflect These Changing Market Conditions

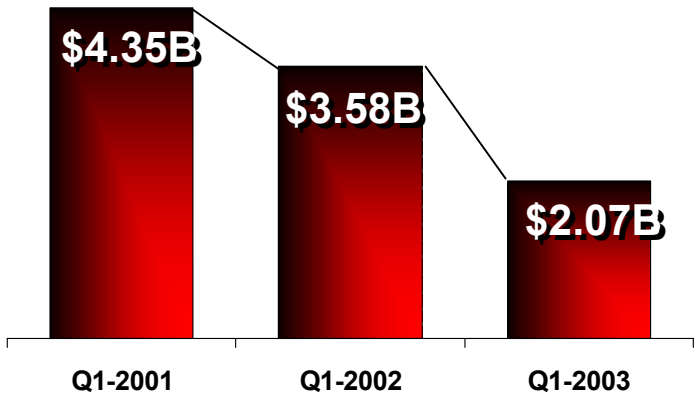
- We focused on our most important global customers
- We made fundamental changes in our operating model
  - Consolidated operations
  - Made dramatic improvements in our supply chain
  - Significantly improved our cost and capital structure
- Rationalized our product portfolio and retained an industry-leading set of products
- Intensified our focus on services
- Increased our focus on partnerships
- Continued to invest in research



Dramatic Restructuring Actions In Response To Changing Market Conditions

- During fiscal 2002, we:
  - Lowered SG&A and R&D expenses by $4.6B
  - Reduced cash used in operating activities and for capital expenditures by $3.6B
  - Reduced vendor financing commitments by $4B
  - Ended fiscal 2002 with $4.4B in cash and short-term investments
- Headcount reduced to 40,000 by end of Q1-03

Lucent revenues reflect recent market trends



Q1-FY03 Lucent Results Highlights

($ millions)	Q4-02	Q1-03	Q1 vs. Q4
Revenues	2,277	2,075	-8.9%
Gross Margin %	-14.8%	21.9%	36.7 pts.
Operating Expenses	2,450	766	(1,684)
Operating Loss	(2,786)	(312)	2,474
EPS	($0.84)	($0.11)	$0.73

- Gross Margin % includes $700 of charges in Q4-02 (31 pts.)
- Operating Expenses includes $1,288 of charges and asset impairments in Q4-02

Arrows indicate direction of sequential change

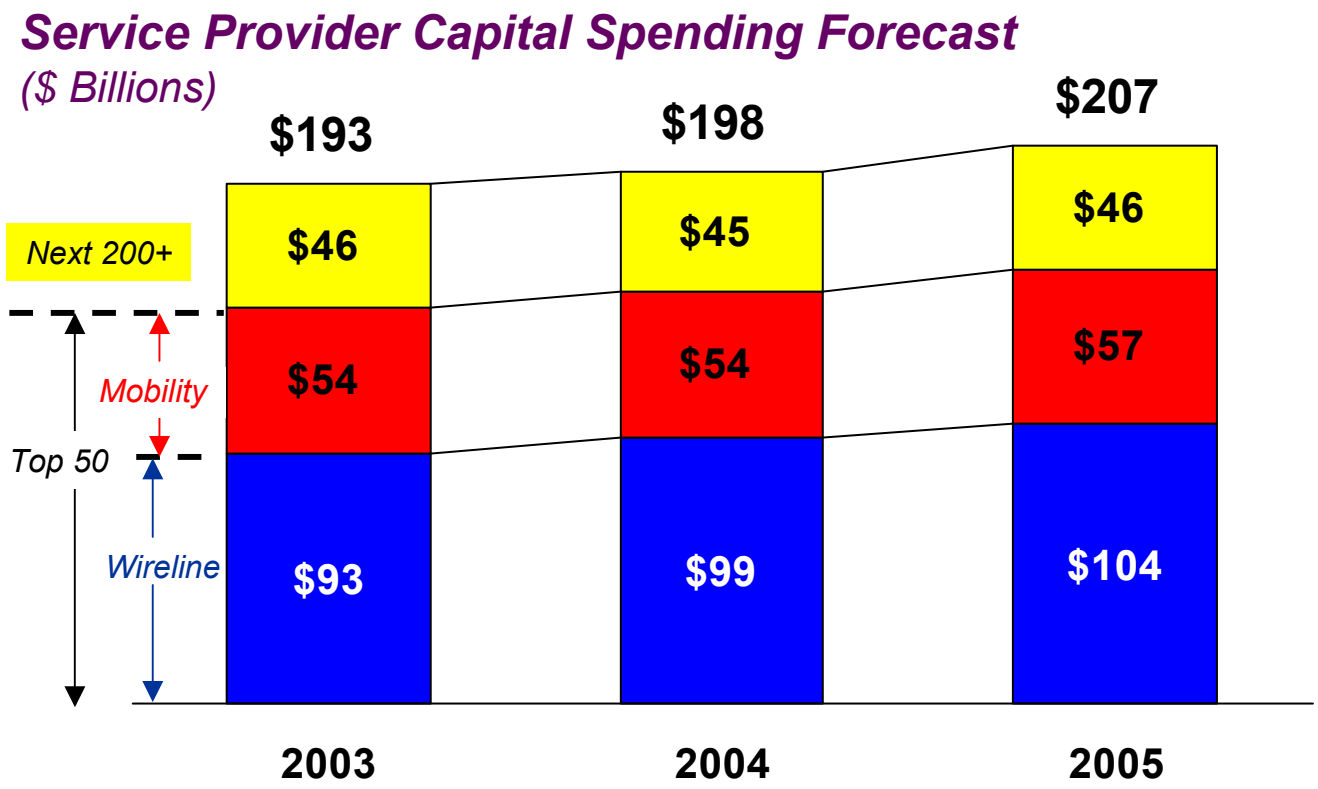
We Are Making Progress On The Path To Profitability

- Q1-FY03 financial results were in line with guidance
  - Revenue down 9%
  - Gross margin improved
  - Continued to reduce expenses
- Continued operating and capital structure improvements
  - Staff reductions ahead of plan
  - Further reduced vendor financing commitments
  - Repurchased over $1.5B of convertible securities
- We have sufficient liquidity to fund our plans and operations



While The Market Remains Tough, We See Potential For Some Relief On The Horizon

- Growth in wireline could resume as soon as 2004, returning to an annual rate of about 5 to 7%
- Small increase in mobility expected in 2005



Source: Investment Analyst Reports – Updated October 2002 & Internal Estimates

We Have A Clear Purpose

Transforming the way the world communicates...



...constantly creating new possibilities to connect people to information, entertainment and each other

We Intend To Be A World-Class Supplier Of Networking Solutions For Service Providers

We are focused on leveraging our strengths to support our customers' needs

- Our embedded base and long-standing customer relationships
- Our understanding of wireline and wireless networks and how to evolve them
- Our technology base and Bell Labs expertise, plus our portfolio that includes industry-leading products
- Our worldwide, multivendor services capability

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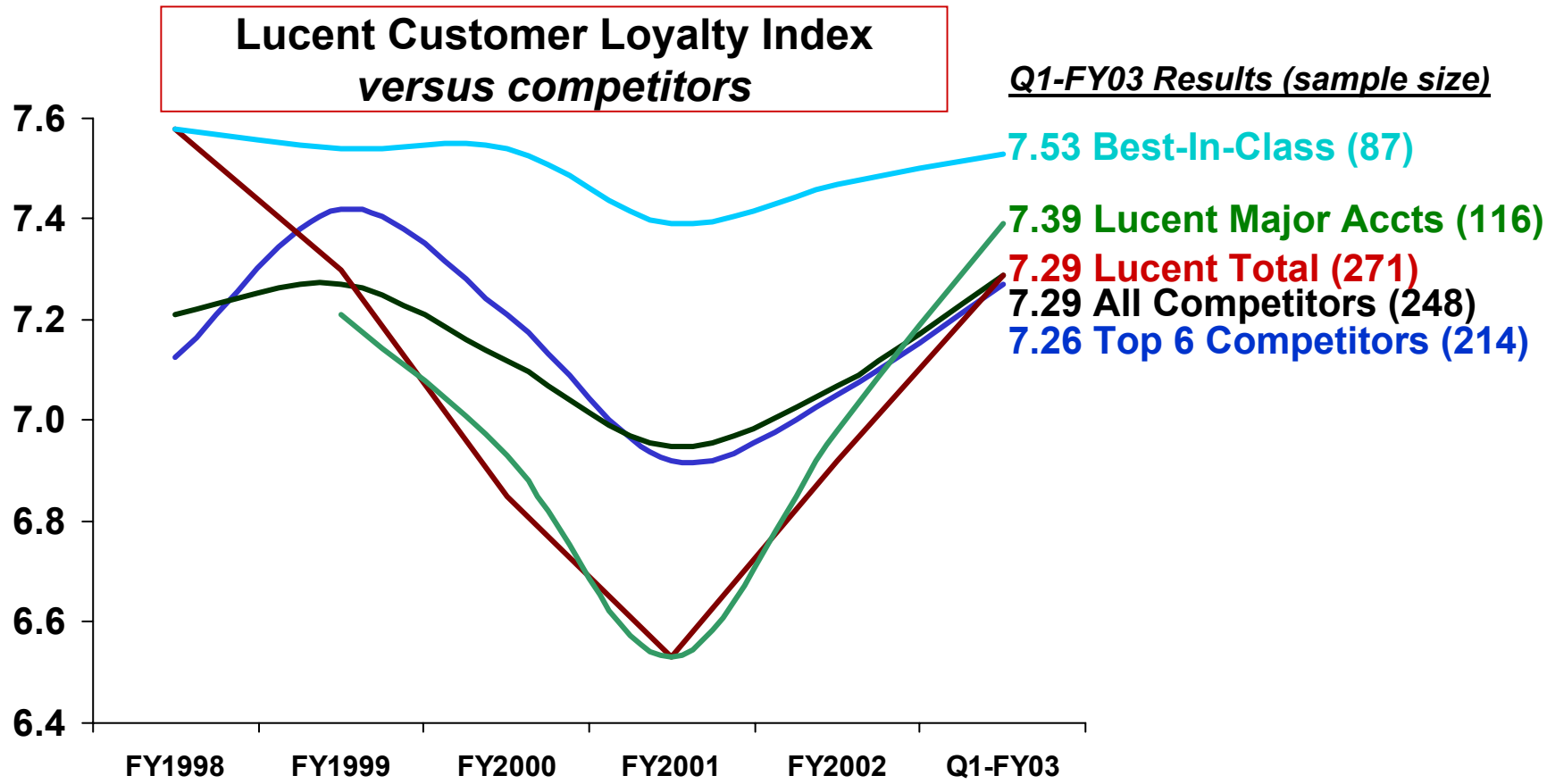
We Have A Strategy To Capture More Of The Market

- Expanding worldwide services capability to deliver complete multivendor solutions to service providers
- Increasing our focus on software that can help operate and evolve networks
- Developing new, leading-edge technology, building on our strengths in mobility, optical, circuit and packet switching, and network operations software
- Cultivating partnerships
  - To provide leading-edge technology that completes our offers (e.g., Sun Microsystems, EMC, Cisco)
  - To sell through other business channels as appropriate
- Striving for operational excellence has reduced costs – thereby raising gross margins – while also improving customer service levels

Our Customer Loyalty Scores Are Increasing

- We exceeded our target for FY-02 and raised the bar for FY-03
- Improved on-time delivery significantly



Our Products Lead In The Markets Where We Have Focused

Stinger FS, LS, RT and MRT



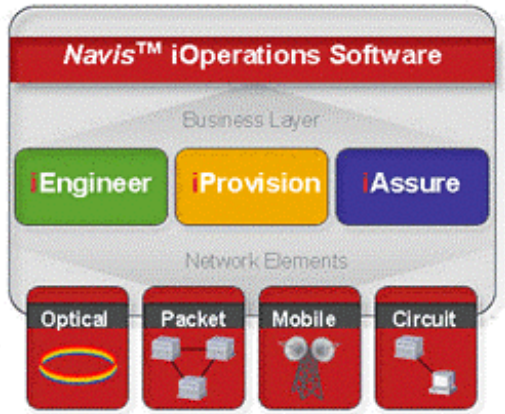


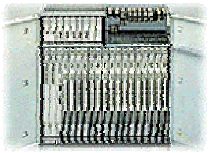
OneBTS



Softswitch MSC

Navis NOS





AnyMedia

APX 1000, APX 8000 MAX TNT





Softswitch



5E-XC



GX550, CBX500 and PSAX Multiservice Switches



iMerge

We're Winning Business Worldwide

- In Q1-FY03 we announced 20 new contracts worth over $1.5 billion

























Summing Up...

- We are making good progress on the path to profitability
- We have transformed Lucent in many ways to align with changing market conditions, while improving customer satisfaction
- We are leveraging our unique combination of strengths to deliver value to customers and distinguish ourselves from competition
- We're increasing our focus on software to help operate and evolve networks
- We have extended our strategy to increase focus on services
  - Strengthening our ability to offer complete, globally deployed multivendor solutions
- Selective partnerships will play a role in executing our strategy and extending our sales reach

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