2nd Quarter Fiscal Year 2004 Earnings Teleconference

April 20, 2004



Patricia Russo
Chairman and CEO

Frank D'Amelio
Executive Vice President and CFO

Lucent Technologies
Bell Labs Innovations

Q2 Fiscal 2004 Financial Review

Forward-Looking Statement Disclosure

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 April 20, 2004 Q2 earnings press release with accompanying financial tables.



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Patricia Russo – Opening Remarks

Chairman and CEO

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Frank D'Amelio – Financial Review

Executive Vice President and CFO

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Q2 Fiscal 2004 Financial Review

Quarterly Results Highlights

(in millions, except per share figures)	Q204	Q104	Q2 vs. Q1
Revenues	2,194	2,259	-2.9%
Gross Margin %	43%	41%	2pts
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)

Continued to benefit from Operational Improvements of the Past Few Years and Delivered Another Solid Earning Performance this Quarter



Q2 Fiscal 2004 Financial Review

Significant Impact Items

(in millions, except per share figures)	Q204	Impact Per Diluted Share	Q104	Impact Per Diluted Share
Bad debts and customer financings	110	0.03	14	0.00
Income taxes	55	0.01	191	0.04
Business restructuring	17	0.00	(29)	(0.01)
Shareowner lawsuit settlement	(192)	(0.04)	(54)	(0.01)
Pending SEC settlement	(25)	(0.01)	-	-
Debt and convertible securities retirements	(3)	(0.00)	(4)	(0.00)
Gain on sale of investment	-	-	64	0.01
Total	(38)	(0.01)	182	0.04
Weighted Average Common Shares - diluted	4,346		5,136	

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Q2 Fiscal 2004 Financial Review
Quarterly Segment Results

(in millions)	Q204	Q104	Q2 vs. Q1
Mobility:			
Revenues	951	960	-1%
Segment Income	378	172	206
INS:			
Revenues	738	790	-7%
Segment Income	65	196	(131)
Services:			
Revenues	479	466	3%
Segment Income	59	61	(2)

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Gross Margin Included Favorable Impact of Product Mix and Cost Reductions



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Operating Expenses

(in millions)	Q204	Q104	Q2 vs. Q1
All Other SG&A	414	341	73
Bad Debts & Customer Financings	(99)	(14)	(85)
Total SG&A	315	327	(12)
R&D	325	292	33
Business Restructuring	(17)	29	(46)
Total Operating Expenses	623	648	(25)

Q2 Fiscal 2004 Financial Review

Cash Flow

(in millions)	Q204	Q104	Q2 vs. Q1
Net Income	68	338	(270)
Changes in Other Non-cash Items	9	(122)	131
Changes in Working Capital	(173)	(43)	(130)
Changes in Other Op. Assets and Liabilities	506	(430)	936
Cash Provided by (Used in) Operating Activities	410	(257)	667
Less: Capital Spending	(32)	(29)	(3)
Add back: Restructuring - Cash Component	43	57	(14)
Cash Flow (incl. Capex, excl Restructuring)	421	(229)	650

Unusual Items:	Q204	Q104	Q2 vs. Q1
Federal Tax Refunds	36	140	(104)

As of March 31, 2004, Cash and Marketable Securities totaled $4.6 billion compared to $4.3 billion in the prior quarter



Q2 Fiscal 2004 Financial Review

Working Capital and Other Selected Metrics

(in millions, except ratios and headcount)	As of 3/31/2004	As of 12/31/2003	Change
Working Capital Metrics:			
Days Sales Outstanding (DSO)	65	63	2 days
Inventory Turns	6.4	7.8	-1.4 turns
Other Metrics:			
Vendor Finance Maximum Commitments	318	436	-27%
Headcount	32,500	33,000	-2%

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Selected Balance Sheet Items

(in millions)	Q204	Q104	Q2 vs. Q1
Cash	3,329	3,431	(102)
Short-Term Marketable Securities	821	846	(25)
Long-Term Marketable Securities	439	-	439
Total Cash and Marketable Securities	4,589	4,277	312
Debt and Convertible Securities:			
2.75% Senior Convertible debt	1,631	1,631	-
7.75% Convertible Securities	1,152	1,152	-
8.0% Subordinated Convertible debt	817	817	-
Senior Debt	2,536	2,670	(134)
Other Debt	137	220	(83)
Total Debt and Convertible Securities	6,273	6,490	(217)

[Approximately 15% of Total Debt and Convertible Securities Mature Prior to 2010, excluding potential put from 8% Convertible Debt]

Q2 Fiscal 2004 Financial Review
Recapitalization

(in millions)	Q204	Q104	FY03	FY02	Total
8.00% Convertible Preferred/Sub Debt	-	58	835	175	1,068
7.75% Convertible Securities	-	-	598	-	598
Other Debt Obligations	134	5	519	-	658
Total	134	63	1,952	175	2,324
Common Shares Exchanged	16	2	563	58	639
Cash Used	70	63	487	-	620

Recapitalization Actions, initiated in Q402, Reduce Fixed Charges by $145 million (including incremental interest from May '03 convertible debt issue)

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Patricia Russo – Executive Review

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Q&A Session

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Q2 Fiscal 2004 Financial Review
Key Takeaways

- **Financial Results**
  - Revenues of $2.2 billion, down 3% sequentially
    - Q104 revenue includes ~$150 million related to the resolution of prior network acceptance delay
  - Gross margin rate at 43%, up 2 percentage points sequentially
  - EPS of $0.02 per diluted share, down $0.05 from Q104 EPS of $0.07 per diluted share
    - Significant items had a net unfavorable impact of about $0.01 per diluted share in Q204 and a net favorable impact of about $0.04 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 while increasing investments in key areas for next-generation networks
- **Outlook**
  - Expect annual revenues to increase on a percentage basis in the low single digits for the fiscal year
  - Expect to report a profit for FY04, excluding any additional impact from a revaluation of the warrants



Q2 Fiscal 2004 Financial Review

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.

