4th Quarter and Fiscal Year-End 2003 Earnings Teleconference

October 22, 2003



Lucent Technologies
Bell Labs Innovations

4th Quarter and Fiscal Year-End 2003 Earnings Teleconference

Introduction



MaryAnn Niebojeski

Investor Relations Vice President

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 October 22, 2003 Q4 and fiscal year 2003 earnings press release with accompanying financial tables.

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Opening Remarks



Pat Russo

Chairman & Chief Executive Officer

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Financial Review



Frank D'Amelio

Executive Vice President & Chief Financial Officer

Q4 and Fiscal Year-End 2003 Financial Review

Quarterly Results Highlights

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($ 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

Note: Arrows indicate direction of sequential change

Improvement in all categories

Q4 and Fiscal Year-End 2003 Financial Review

Significant Impact Items

($ millions)	Q403	Per Share Impact	Q303	Per Share Impact
Recovery on bad debt and customer financings	150	0.04	-	-
Certain adjustments to employee expenses, customer and supplier credits and a sales tax refund	88	0.02	-	-
Restructuring (Charges) Reversals, Net	42	0.01	(14)	(0.00)
Repurchases / Retirements of Debt and Converts	14	0.00	(14)	(0.00)
Business Disposition Reserve	7	0.00	10	0.00
Impairment of Goodwill	-	-	(35)	(0.01)
Amortization of Acquired Intangibles	-	-	(5)	(0.00)
Legal Settlements	(33)	(0.01)	(33)	(0.01)
Asset impairment charge related to UMTS software development	(50)	(0.01)	-	-
Income Tax Benefit (Charges)	(150)	(0.04)	78	0.02
Total	68	0.02	(13)	(0.00)
Weighted Average Common Shares	4,155		4,121	

Note: Not included in the above amounts 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

Q4 and Fiscal Year-End 2003 Financial Review

Quarterly Segment Results

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($ 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

Q4 and Fiscal Year-End 2003 Financial Review

Annual Segment Results

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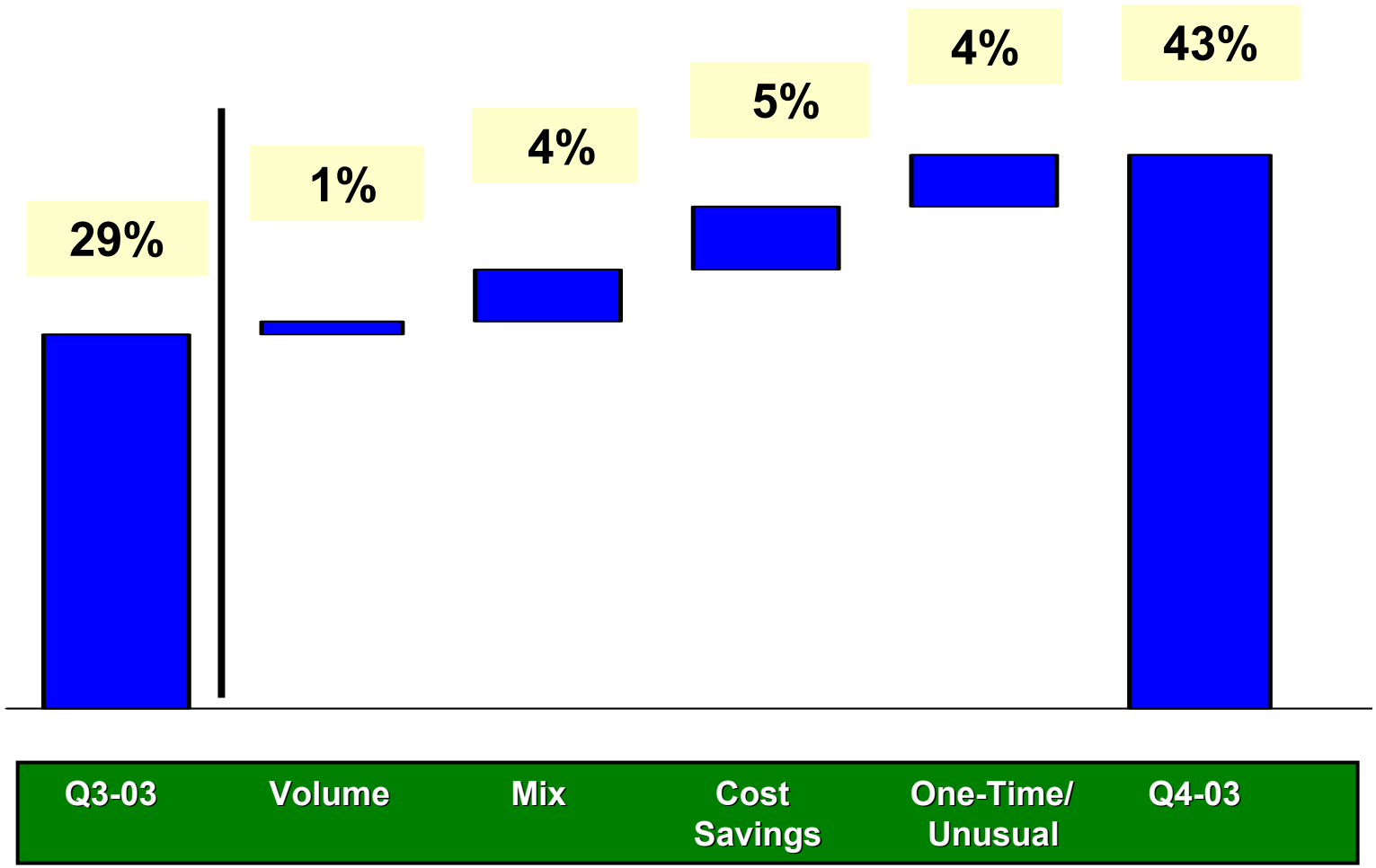
($ millions)	FY03	FY02	FY03 vs. FY02
Mobility Solutions:			
Revenues	4,001	5,535	(1,534)
Segment Income (Loss)	322	(587)	909
Integrated Network Solutions:			
Revenues	4,235	6,262	(2,027)
Segment Income (Loss)	(119)	(2,954)	2,835
Service Revenues	1,804	2,727	(923)

Q4 and Fiscal Year-End 2003 Financial Review

Gross Margin Walk



Significant improvement, Sustainable Cost Savings

Q4 and Fiscal Year-End 2003 Financial Review

Operating Expenses

($ millions)	Q403	Q303	Q4 vs. Q3
Bad Debt & Customer Financing	(124)	(32)	(92)
Amortization of Intangible Assets	-	5	(5)
All Other SG&A	334	439	(105)
Total SG&A	210	412	(202)
R&D	335	382	(47)
Impairment of Goodwill	-	35	(35)
Restructuring Charges (Reversals), Net	(21)	13	(34)
Total Operating Expenses	524	842	(318)

Continued Reductions in Expenses

Q4 and Fiscal Year-End 2003 Financial Review

Cash Flow

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($ 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)

Positive Cash from Operations

Q4 and Fiscal Year-End 2003 Financial Review

Cash & Debt Summary

($ 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 both Cash and Total Debt and Convertible Securities Primarily Due to Cash Used to Repurchase/Retire Certain Debt and Converts

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Debt and Convertible Repurchases/Retirement

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($ millions)	Q403	Q303	Q203	Q103	Q402	Total
8.00% Convertible Preferred	68	30	345	392	175	1,010
7.75% Trust Preferred	-	-	380	218	-	598
Debt Obligations	432	35	52	-	-	519
Total	500	65	777	610	175	2,127

Common Shares Exchanged (in millions)	621
Cash Used	$487

Will Continue to Opportunistically Re-capitalize the Balance Sheet

Actions Resulted in $130 million Reduction in Annual Interest and Dividend Requirements (including incremental interest on May '03 convertible debt Issue)

Vendor Finance Review

($ millions)	Q403	Q303	Q4 vs. Q3
Drawn commitments	442	573	(131)
Available - not drawn	49	58	(9)
Not available	14	1	13
Total	505	632	(127)
Reserves	415	505	(90)

Q4 and Fiscal Year-End 2003 Financial Review

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%

Q4 and Fiscal Year-End 2003 Financial Review
Key Takeaways

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- **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 $318 million in Q403, decreased about $5.6 billion year over year (including significant-items).
  - **Reduced annual fixed charges;** repurchased/retired debt and convertible securities of $500 million during Q403, over $2 billion 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 2004 with a gross margin of about 35%**

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Executive Review



Pat Russo

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Q&A Session

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Closing Remarks



Pat Russo

Chairman & Chief Executive Officer

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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" and 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 forecast 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 net losses may reduce or impair our legally available surplus; our ability to realize the benefits we expect from our strategic direction and restructuring program; 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 as a result of our vendor financing arrangements and accounts receivable; 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 law; 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 Lucent with the Securities and Exchange Commission. Except as otherwise required under 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, whether as a result of new information, future events, changes in assumptions or otherwise.