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Bell Labs Innovations



2004 Merrill Lynch Global Communications Investor Conference
March 16, 2004

Patricia Russo
Chairman and Chief Executive Officer

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Forward Looking Statement Disclosure

This presentation may include 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.

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Agenda

- **Lucent – Shift in Focus**
- Market Commentary
- Lucent – Areas of Focus
  - Seizing Next-Gen Market Opportunities
  - Expanding the Revenue Base
- Key Take-Aways

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Shift in Focus

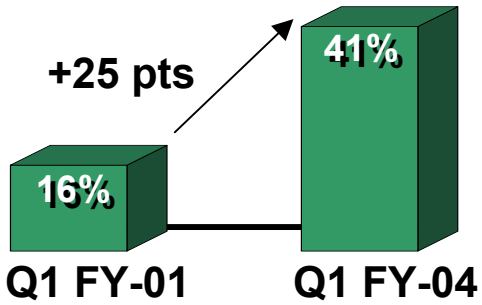
From Restructuring…

- ✓Improved and Streamlined Operations
- ✓Stronger Financial Structure
- ✓Reported Profitability

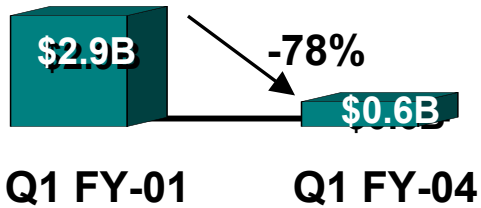
…To "Profitable Growth"

- ✓Seizing Next-Gen Market Opportunities
- ✓Expanding the Revenue Base
  - –Services
  - –Government
  - –Outside the U.S.

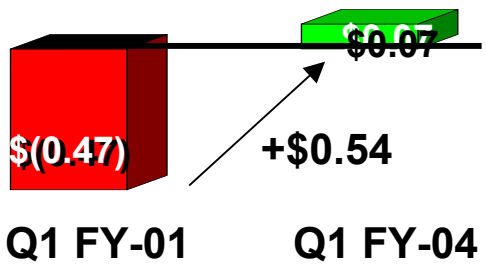
GROSS MARGIN RATE



OPERATING EXPENSES



EARNINGS (LOSS) PER SHARE*



* Q1 FY-01 EPS from continuing operations (excludes Agere and Power Systems)

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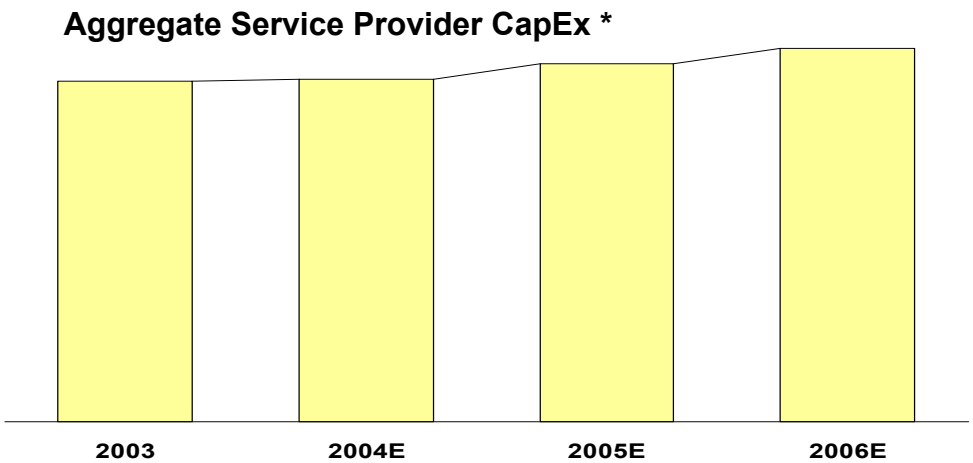
Market Dynamics

Aggregate Market is Stabilizing…



✓ ***Ultimately returning to "pre-bubble" growth rates***

...But Dynamics Exist Due To

- ✓Shifts in Spending to Next Gen
- ✓Growth in Low Tele-Density Areas
- ✓Consolidation
- ✓Convergence
- ✓Regulatory Environment
- ✓Heightened Security Concerns

✓ ***Service providers face challenges….***

✓ ***But there are areas of growth***

* Source: Investment Analyst Reports & Internal Estimates – Updated Feb. 2004

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- Lucent – Shift in Focus
- Market Commentary
- **Lucent – Areas of Focus**
  - **Seizing Next-Gen Market Opportunities**
    - **Metro Optical**
    - **Mobile High Speed Data**
    - **Broadband Access**
    - **VoIP**
  - Expanding the Revenue Base
- Key Take-Aways

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Next-Gen Market Opportunities

Opportunity	Key Technology	'04-'06 CAGR[a]	*Lucent Solutions Include:*
Metro Optical	▪Next-Gen Sonet/SDH ▪Optical Cross Connect ▪Metro DWDM	~10%	**Metropolis® Family** **Lambda™ Family** **Movaz Partnership**
Mobile High-Speed Data	▪Spread Spectrum ▪UMTS/W-CDMA ▪3G CDMA	~20%[b]	**Flexent ® Base Stations** **CDMA2000™** **(1X, 1xEV-DO/DV)** **Novatel Wireless**
Broadband Access	▪DSL ▪FTTX ▪PON ▪Wireless Broadband	~15%	**Stinger® DSLAM, AnyMedia® Family** **Universal Gateways (APX ® and MAX TNT ®)**
Voice Over IP ("VoIP")	▪Media Gateways ▪Softswitch ▪IP Centrex ▪Feature Servers	> 50%	**Accelerate™ Portfolio** **Broadsoft Partnership** **Cisco Partnership** **Juniper Partnership**

- ✓ **Evolution to next generation equipment occurs at multiple layers in the network**
- ✓ **In addition, opportunities exist in Software and Services**

(a) Source: Dell' Oro, Gartner, RHK, Yankee Group and Synergy, Internal estimates
(b) Includes total next-gen growth rate for mobility

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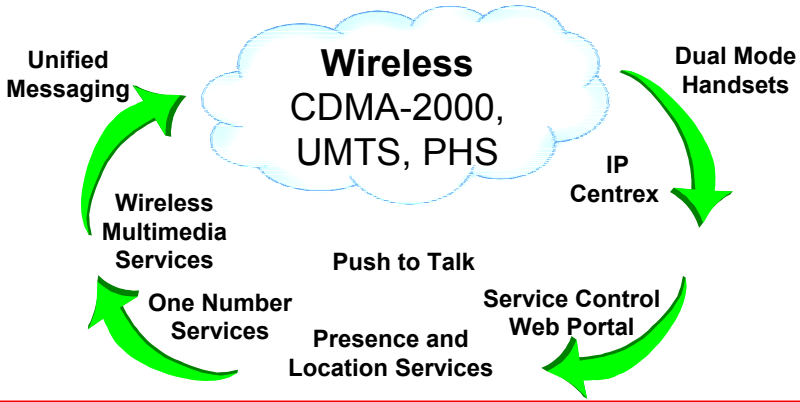
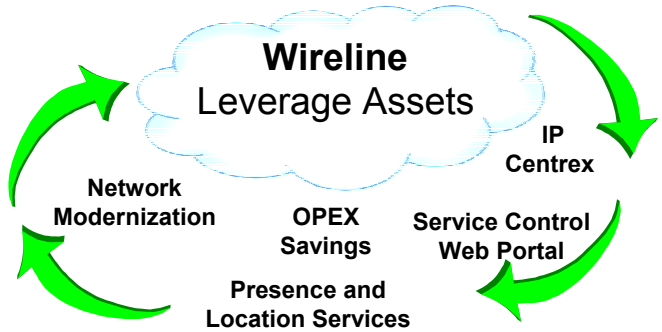
New Products and Solutions: VoIP





- **Market Drivers**
  - ✓ Subscriber Growth, Personal Organizer, Short Message & Push to Talk, Gaming & Wireless Multimedia
  - ✓ Presence and Location
  - ✓ Interactive Directions
- **Lucent Advantages**
  - ✓ Market Leader in Spread Spectrum and Wireless Softswitch
  - ✓ Carrier-grade, integrated solution of systems, software and professional services
  - ✓ Partnerships

- **Market Drivers**
  - ✓ Office Consolidation and Replacement
  - ✓ Network Optimization and Lower OPEX
  - ✓ Advanced Services to POTS Endpoints
  - ✓ Speed Transition to Next Generation, Increase Revenues
- **Lucent Advantages**
  - ✓ 5ESS® /5E-XC™: Over 300M Ports Deployed worldwide
  - ✓ Over 35M Universal Gateway Ports Deployed
  - ✓ AnyMedia® : Over 4.5M voice lines and 1.2M ADSL ports
  - ✓ Intelligent Media Gateway Simplifies and Reduces Cost of Conversion to VoIP

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Demonstrated Global Market Leadership

- No. 1 supplier of spread-spectrum networks
  - **More than 90,000 base stations deployed worldwide**
  - **More than 50,000 base stations support 3G services**
  - **Lucent and Novatel Wireless are the world's leading providers of UMTS/W-CDMA wireless PC modem cards**
- No.1 in optical switching, no. 2 in total SONET/SDH
  - **More than 100 customers worldwide for Metropolis DMX**
  - **15 customers for LambdaUnite**
- No. 2 in multiservice switching
  - **China Unicom to deploy Lucent/Juniper core solution**
  - **More than a dozen voice-enabled PSAX customer wins**
- No. 2 in universal port gateways
  - **Shipped 35 million remote access concentrator ports to date**
  - **Shipped 5 million VoIP ports so far**
  - **Every day, over 30 million Internet connections are made over Lucent remote access equipment**

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  - Seizing Next-Gen Market Opportunities
  - **Expanding the Revenue Base**
    - **Services Strategy**
    - **Re-emphasis on Government**
    - **Opportunities Outside the U.S.**
- Key Take-Aways

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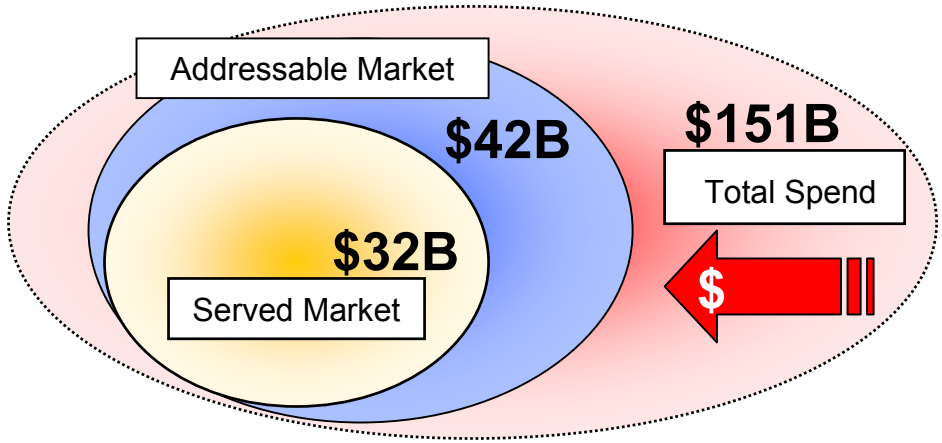
Expanding the Revenue Base

Lucent Worldwide Services

- **Large, highly fragmented market**
- **LWS gaining traction**
  - Strengthened Multivendor Capability
  - 33 Managed Services Clients
  - 2,350 New/renewed Maintenance Contracts
  - Best-in-Class Customer Satisfaction
  - Powered by Bell Labs
  - Established 100+person Dedicated Services Sales Team
  - Partnering

Telecom Infrastructure Services Market 2003*



2003 Publicly Announced Contracts

- **$250 Million in Managed Services Contracts**
- **Signed Contracts in Every Region**
- **$100 Million in Government Contracts**

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*Source: Booz Allen

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Expanding the Revenue Base

➢Re-Emphasis on Government

- Significant Market Opportunity
- Intensified Focus with Dedicated Team
- Efforts Resulting in Early Success

✓Large but fragmented market with no clear market leaders

✓Addressable market in the "tens of billions"

✓Seasoned Government Sector Team

- **Over 400 dedicated employees**

✓Bells Labs – key differentiator

➢Opportunities Outside the U.S.

- Existing Global Customer Relationships & Market Presence
- Growth in China, India, Eastern Europe
- Dedicated Resources

✓1Q04 Non U.S. Revenue 40% of Total

✓1/3 of headcount outside the U.S.

- **Over 3,000 in China**
- **Over 1,000 in India**

✓Jim Brewington Heading Global Business Development Effort

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Worldwide Customer Announcements

Services

- **New managed services contracts in North America, Australia, New Zealand, South America, Europe**

Government

- **Bechtel (Iraq) and DARPA contracts**

Outside the U.S.

- **Moscow Cellular, China Telecom, CODETEL (Dominican Republic)**

VoIP, Wireline/Wireless Convergence

- **Qwest, Choice One, eircom, Phonom**

Broadband Access

- **Bell Canada, Sprint LTD, Brazil Telecom, Portugal Telecom**

Optical

- **Verizon, AT&T, BellSouth, Deutsche Telekom, Shandong Unicom, Zheijiang Telecom and GEFC (China)**

High-speed Wireless

- **Verizon Wireless, Sprint PCS, China Unicom, Reliance (India) and KTF (Korea),**
- **UMTS/W-CDMA build in Spain; UMTS/W-CDMA trials with AT&T Wireless (Miami) and China Netcom (Shanghai)**

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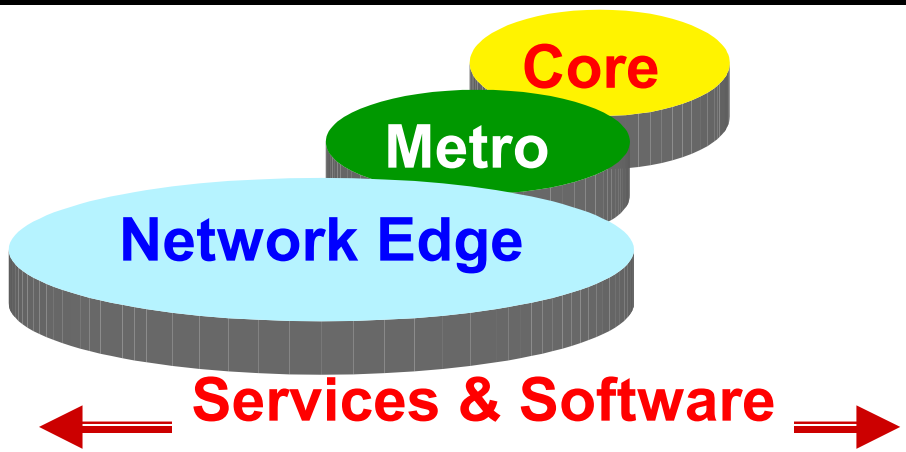
2003 Announced Contract Wins*

Demonstrating Breadth and Depth

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



*calendar year 2003

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Key Takeaways

- **Aggregate market stabilizing and underlying dynamics generating new revenue opportunities**
- **Lucent is capitalizing on these opportunities**
  - ✓ **Technology leadership through Bell Labs innovation**
  - ✓ **Strong product, software and services solutions**
  - ✓ **Taking advantage of next generation opportunities and expanding revenue sources**
  - ✓ **Improved financial and operating structure ready to leverage top line recovery to bottom line growth**

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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," 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.