

Lucent Integrated Network Solutions Strategy and Portfolio

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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 the industries in which we operate, our beliefs and our management's assumptions. 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; our ability to comply with covenants and restrictions in our credit facility; our ability to realize the benefits we expect from our new strategic direction and restructuring program; our ability to secure additional sources of funds on reasonable terms if our sources of liquidity are unavailable; 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 some of our products; the cost and other risks inherent in our long-term sales agreements; our product mix 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; and the social, political and economic risks of our foreign operations. 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 or revise any forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.

Lucent's INS Group Is …

Integrated Network Solutions Product Offerings

- Core and edge switching
- Edge and broadband access products
- Core and metro optical systems
- Softswitch and software platforms for revenue-generating services
- Network management software

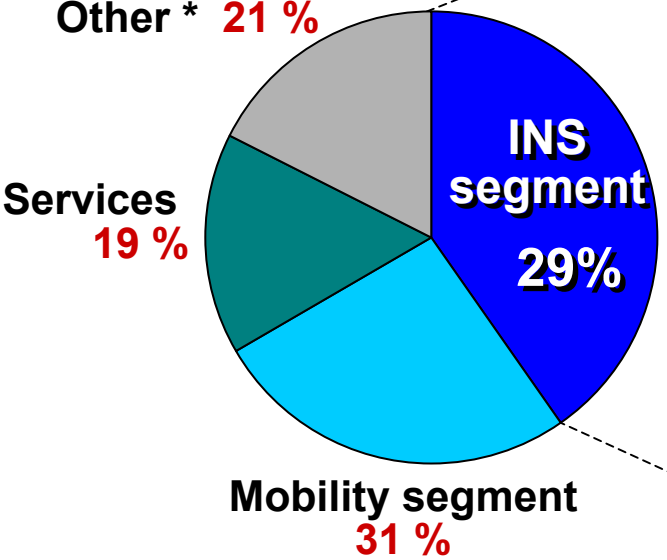
Integrated Network Solutions Target Customers

- Incumbent local service providers
- Long distance carriers
- PTTs
- Emerging service providers
- Backbone builders

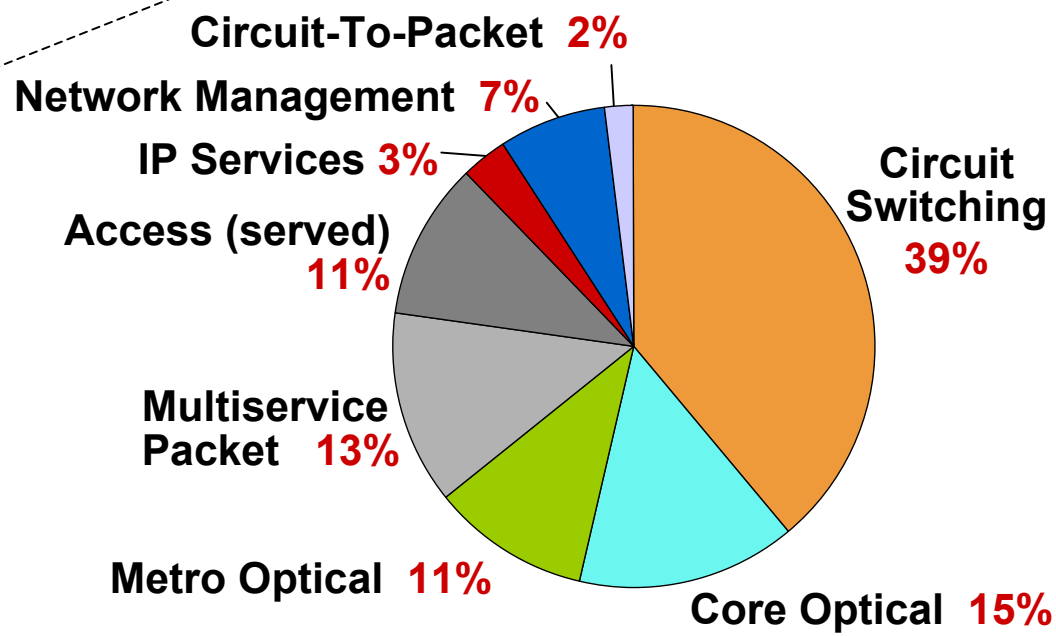
...in North America, Europe/Middle East/Africa, China, Asia/Pacific and Caribbean/Latin America

INS Addressable Segments In The 2002 Global Service Provider Market

WW Service provider equipment
$167 B market



INS segment
$48 B market



** Includes fiber optics, submarine optical, applications software and non-served access markets (e.g., CMTS, WLL)*

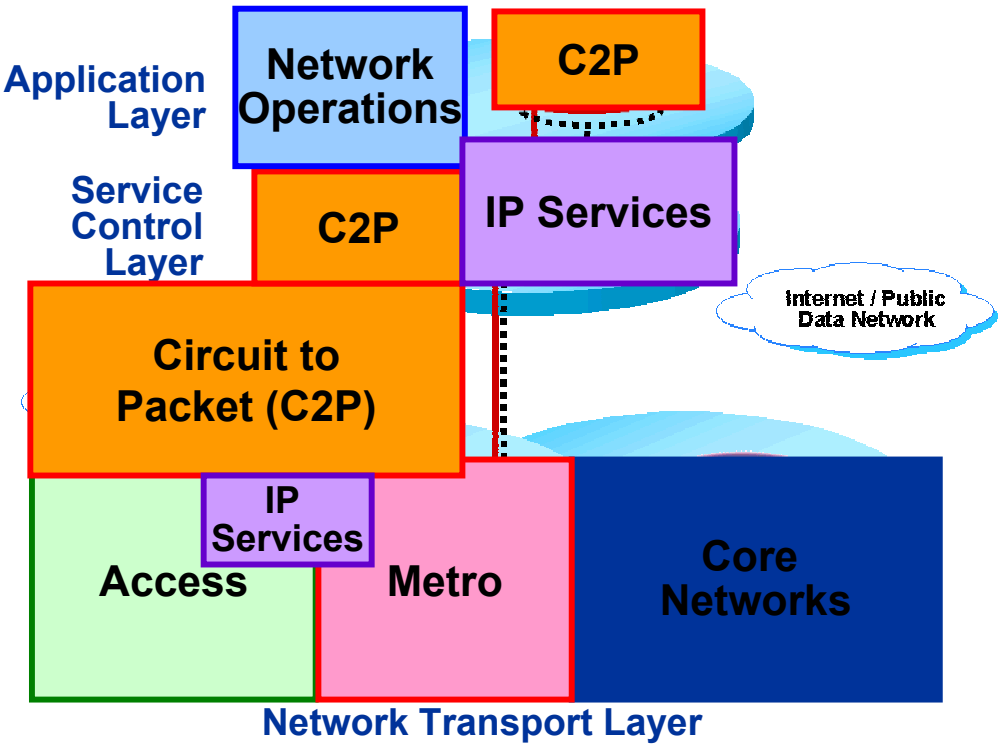
Sources: Dell'Oro, IDC, Synergy, Gartner, RHK, Infonetics, Yankee, Internal Estimates

Service Provider Requirements — Today

- Practical ways to generate new revenue opportunities, while reducing network costs and complexity
- Growth platforms to capture new revenues and reduce costs
- A rich set of high-margin, easy-to-use services for end users and enterprises
- Networks that are "service aware" – able to tailor the network experience to the individual enterprise, customer and application



Lucent's Response: Service Intelligent Architecture



Core: Provides more capacity, speed, reliability, flexibility in transporting services at lower operations expense, while evolving to all-optical core

Metro: Busts the metro networking bottleneck by efficiently unlocking capacity for services

Access: Scales last mile/km on-ramp solutions to the Service Intelligent Network

IP Services: Delivers value-added, customized services: VPNs, MVPNs, Managed Security

Network Operations: Provides unified network management for end-to-end provisioning, monitoring, and fault management

Circuit-to-Packet (C2P): Adds new service capabilities and efficiencies to PSTN through open packet technology, new service enhancement and cost reduction

Potential Market Scenarios

- **Continued belt-tightening** – Carriers restrict spending to required maintenance or projects with short-term financial return
  - New services postponed
  - Investment in next-generation equipment severely curtailed
- **Consolidation** – Carriers consolidate because of continued weakness in the industry
  - Increased spending on products that help integrate networks
  - Modest roll-out of next-generation services where increased scale improves economics
- **Back to Basics** – Improved industry conditions encourage carriers to modestly increase spending to improve quality or lower cost of traditional services
  - Including equipment for accelerated traffic growth at dramatically lower costs

Potential Market Scenarios – cont'd

- **New Service/New Revenue** – Modest increase in spending with focus on new services
  - Improved industry conditions encourage carriers to increase spending to develop profitable new services
  - Including equipment with expanded functionality
- **Packet Push** – Radical decrease in traditional spending with rapid push to packet-centric networks
  - Carrier spending driven by aggressive investment in data services
  - Produces significant growth in metro optical markets

Implications And Outcomes For Lucent



- Invest in products/offers that play well across all scenarios:
  - Network Operations Software
  - Metro Optical
  - C2P
  - Services
  - Multiservice Edge
- Cap or exit products that play poorly in most scenarios or are at end of life cycle:
  - LambdaManager, LambdaRouter, Wavestar Bandwidth Manager
  - Next-Gen DSLAM, B-STDX
- Invest wisely in disruptive technologies:
  - MPLS
  - C2P, including Softswitch and next-gen gateways

2002 Core Optical Network Market

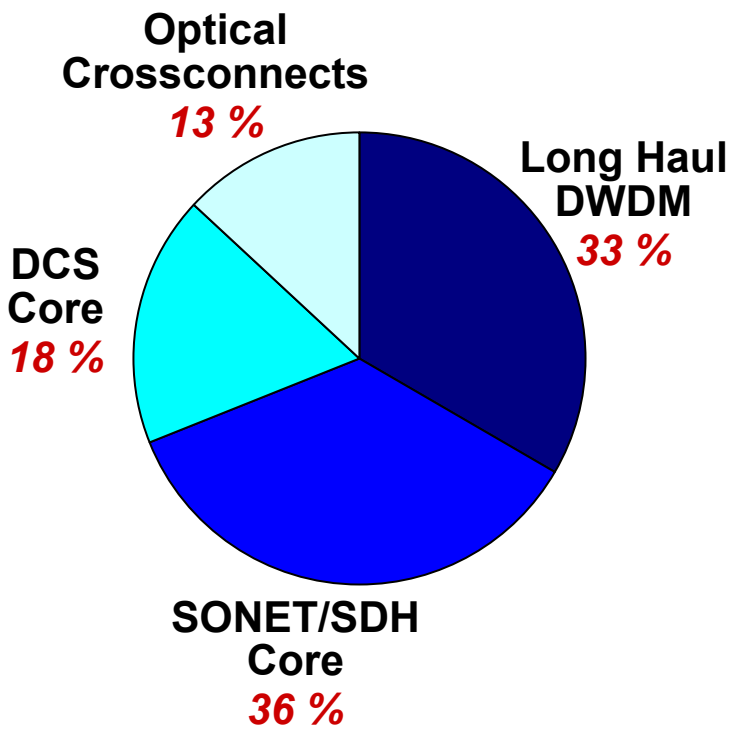
Market Dynamics

- Long Haul DWDM market has pulled back 50+ percent in 2002
- Traditional SONET/SDH market has pulled back more than 50 percent from peak in 2Q00

Key Lucent Offers

- LambdaUnite - Next-generation system that bridges or unites 10G/40G traffic across core and metro networks
- LambdaXtreme - Lowest cost/Gb for long-haul and ultra-long haul 10G and 40G systems

$7.1 B market



Sources: Dell'Oro, RHK, internal estimates

2002 Core Data Networking Market

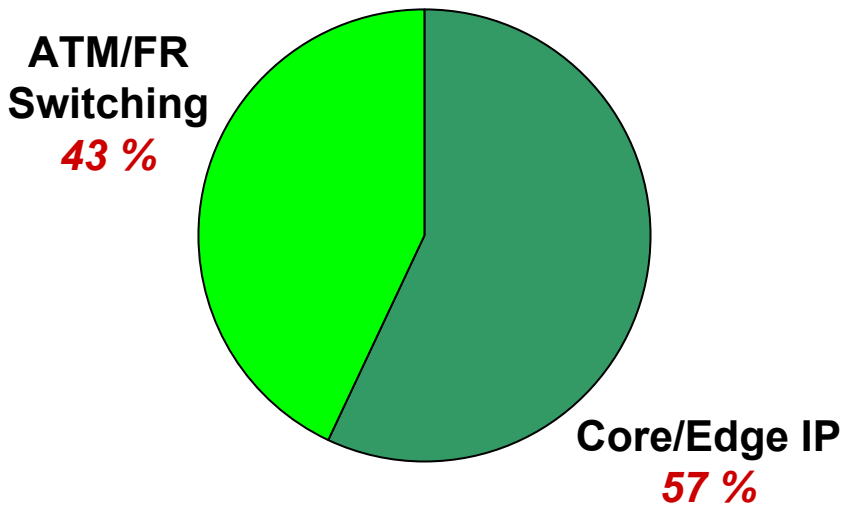
Market Dynamics

- Market was stable through 2000 but has contracted by 30% since 2Q01

Key Lucent Offers

- GX 550 - Industry leading 25 Gbps switching in the core and at the edge of larger networks
- CBX 500 - Widely deployed 5 Gbps multiservice edge switch
- TMX 880 - Protects customer investment in today's revenue-generating Frame Relay and ATM services and enables migration from ATM to MPLS core network

$6.2 B market



Source: Synergy

2002 Metro Optical Market

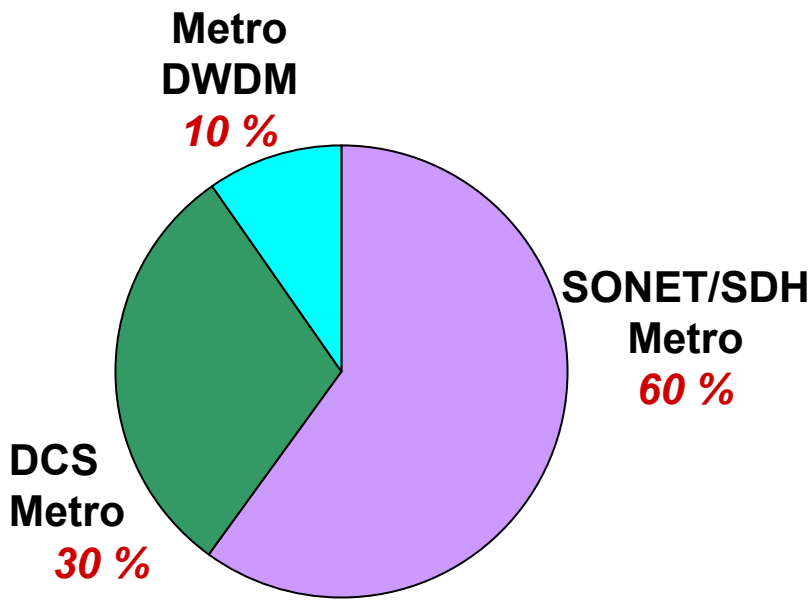
Market Dynamics

- Metro market down 40 percent in 2002
- SONET/SDH Metro best performing segment
- Metro expenditures still expected to increase long-term

Key Lucent Offers

- Metro DMX and Metro DMXpress integrate cross-connect and SONET ADM functions with 50 percent footprint reduction; provides TDM plus IP/Ethernet transport
- MetroEON is high-capacity metro ring using Bell Labs patented technology; scales DWDM costs to Metro market realities

$5.1 B market



Sources: Dell'Oro, RHK, internal estimates

2002 Access Market

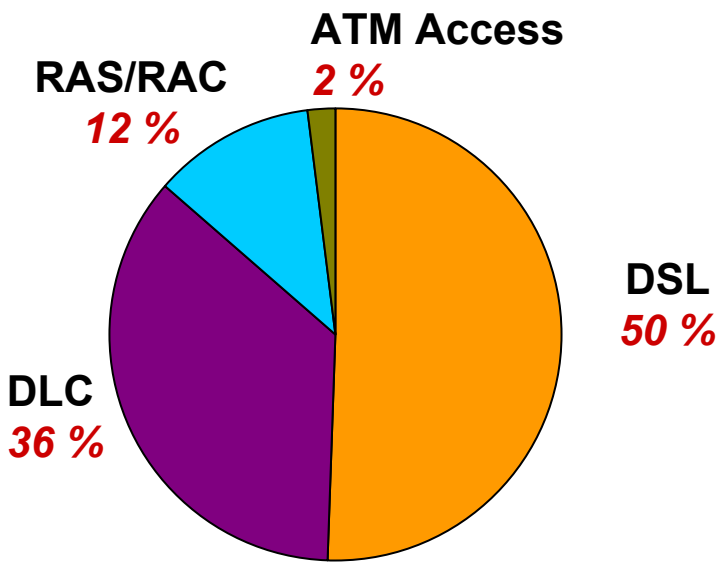
Market Dynamics

- Access market overall down 15 percent in 2002
- ATM Access market peaked in 2Q00
- RAS/RAC market peaked in 2Q00, has declined 30 percent to $610M in 2002
- DSL market flattened in 1Q01 and pulled back 15% in 2Q01; now somewhat stable at $2.6B
- DLC market now $1.9B, outperforming other segments

Key Lucent Offers

- PSAX products still lead ATM Access market
- APX and MAX Universal Gateways hold #1 share in growing segment
- Stinger DSLAM still technology leader, #2 in total share
- AnyMedia Access System (next-gen DLC) deployed by 100+ customers worldwide

$5.2 B market



Sources: Synergy, Gartner, Dell'Oro

2002 IP Services Market

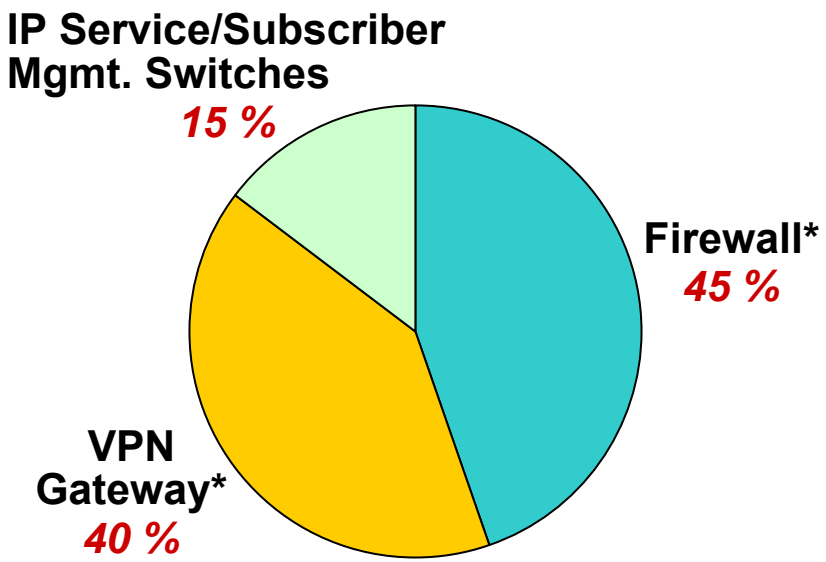
Market Dynamics

- Small market is still nascent, and down from 2001, but growth expected
- VPN Gateways are increasing share at expense of firewalls

Key Lucent Offers

- SpringTide 7000 remains most scalable carrier-class IP service switch
- Lucent Managed Firewalls and Access Point routers sold as part of Lucent IP Services solutions

$1.5 B market



**Includes enterprise market*

Sources: Synergy, IDC

2002 Circuit-To-Packet Market

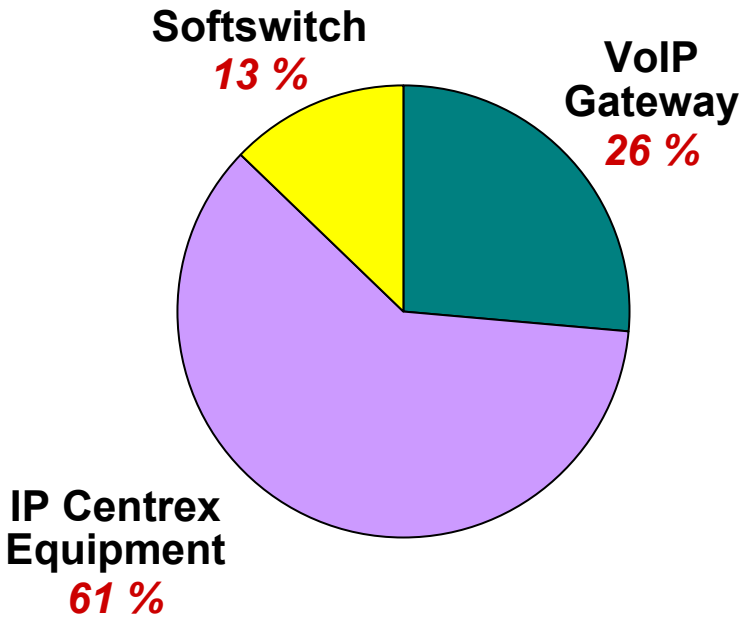
Market Dynamics

- Small convergence market still nascent, down 50 percent from 2001
- Service providers seeking to leverage embedded circuit switch investment
- PSTN is not going away!

Key Lucent Offers

- Lucent IP Centrex offer in full deployment by SBC
- Lucent Softswitch in full deployment at Tiscali France and Spain

$1.0 B market



Sources: Synergy, internal estimates

2002 Network Operations Software Market

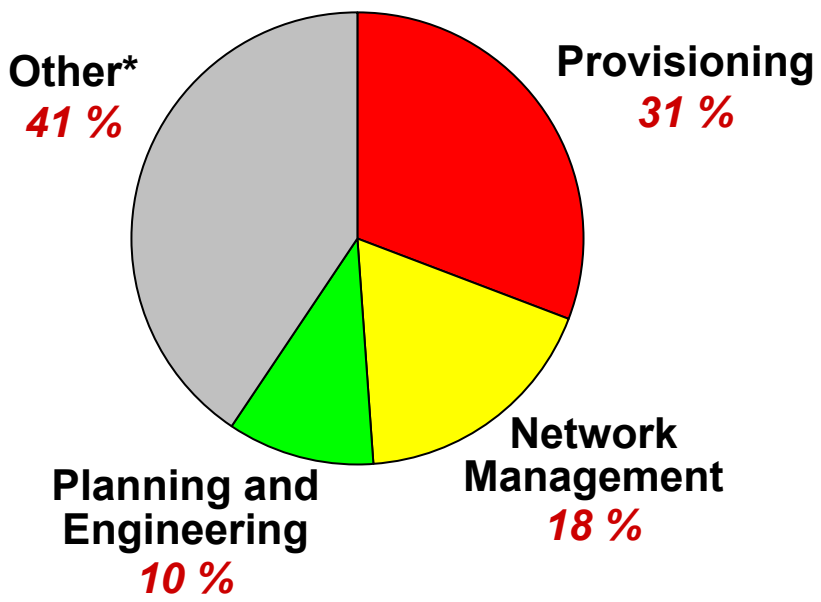
Market Dynamics

- Market is more stable than equipment segments

Key Lucent Offers

- NAVIS iOperations – a portfolio of offerings covering engineering, provisioning and assurance, for both traditional and packet networks
- Synergy between VitalSuite enterprise and service provider offerings
- 120+ service provider customers worldwide

$3.4 B market



*Includes inventory management, workforce management, enterprise message collection

Sources: Gartner, Dataquest

Lucent Intends To Be The Partner Of Choice For Leading Service Providers, Differentiated By:

- A network vision of service intelligence at every layer, delivering service richness of the Internet with reliability of classic voice networks
- The most complete portfolio of products targeted at service providers
- The industry's most complete network management systems and most extensive services capability to integrate and manage networks
- Globally deployed solutions capability
- Largest in-house research and development program focused on service providers

We're Aligned And Positioned To Succeed

- Even with today's challenges, INS is still addressing a $48 B market opportunity in 2002
- INS is pursuing that opportunity with:
  - The most complete and competitive product portfolio for service providers
  - A globally deployed solutions capability
  - The industry's most complete network management system and most extensive services capability to manage and integrate service provider networks
  - Deep, long-term customer relationships with leading service providers worldwide

