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JP Morgan Technology & Telecom Conference



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Forward-Looking Statement Disclosure

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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 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 some 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; 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.



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Setting the Context

Setting the Context: The Market

Service Provider CapEx Spending Forecasts

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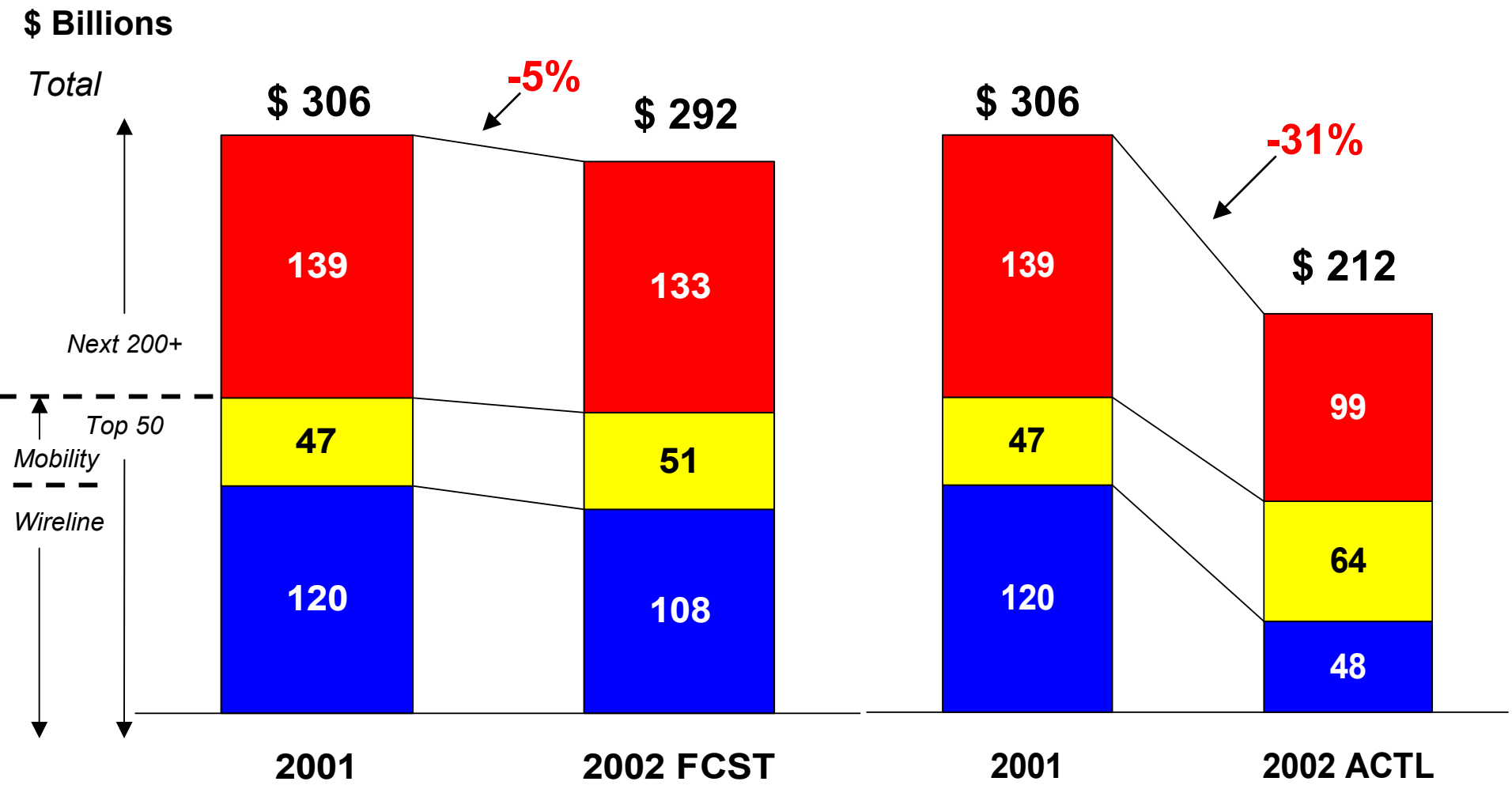

- *CapEx includes equipment, network construction and other non-network related capital expenditures.*
- *2002 Forecast as of Q1-01.*

Source: *Equity analyst reports and SP announcements*
Note: *Wireless CapEx broken out for major integrated service providers*

Setting the Context: The Company

Financial Metrics – Fiscal Q1-01

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	Q1-01*
Revenue	$4.3B
Targeted Quarterly EPS Breakeven Revenue	$5.0B
Gross Margin %	16%
Quarterly Operating expenses	$2.9B
Cash usage (operating activities)	($1.3B)**
Vendor finance commitments	$7.5B
Working Capital (A/R & Inventory)	$13.1B
Debt	$8.1B
Cash/(Net Debt)	($4.3B)
Days Sales Outstanding (DSO)	137
Inventory Turns	2.26

* excludes Agere and Power Systems

** excludes $0.6B related to receivable sales

Setting the Context: The Company

Macro Issues

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- Customer Focus
  - Business not properly aligned with market opportunities
- Operating Structure
  - Opportunities for improvement in supply chain and manufacturing processes
  - Workforce not properly sized with new revenue reality
- Liquidity
  - Operating losses using cash
- Control environment
  - Vendor finance commitments add to liquidity concerns
  - Dynamic environment necessitates re-evaluation of forecasting tools



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Actions and Results

Actions & Results: The Company

Customer Focus

- **To match the realignment of our customers' businesses, we restructured our operations to target the large service providers**

	Q1-01	Q2-03
Business Units	5 (product focused)	2 (customer focused)
Customers	Hundreds	Focus on Top 30
Countries (physical presence)	60+	20 Core Countries

Actions & Results: The Company

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Operating Structure

- **Through three separate restructuring actions (totaling about $14B), we revamped our supply chain, outsourced manufacturing and streamlined the workforce**

	Q1-01	Q2-03
Suppliers	40% of spend with over 1000 suppliers	**80% of spend with 60 key suppliers**
Repair Centers	16	**1**
Warehouses	540	**50, all owned by logistics partners**
U.S. Manufacturing Facilities*	15 (factories and SIC's)	**4 (3 SIC's)**
Employees	106,000	**38,500 (35,000 by 9/30/03)**

*** SIC: Systems Integration Center**

Actions & Results: The Company

Liquidity and Control Environment

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- **Ensured future liquidity**
  - **Raised $3.6B in two convertible offerings**
  - **Sold Optical Fiber Solutions business for $2.5B**
  - **Sold Power Systems for $2.5B**
  - **Monetized real estate assets totaling close to $1B**
  - **Retired over $1.6B in debt and convertible securities, lowering annual interest and dividend expense by $125M**
- **Dramatically improved control environment**
  - **Established a Corporate Credit Committee to review and approve all extensions of credit decisions**
  - **Developed new planning and sales forecasting tools**
  - **Consolidated data management systems**
  - **Streamlined cash management process**
  - **Sarbanes-Oxley section 302 compliant**

Actions & Results: The Company

Financial Metrics

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$ Billions, except DSO, Inventory Turns and Margin Points

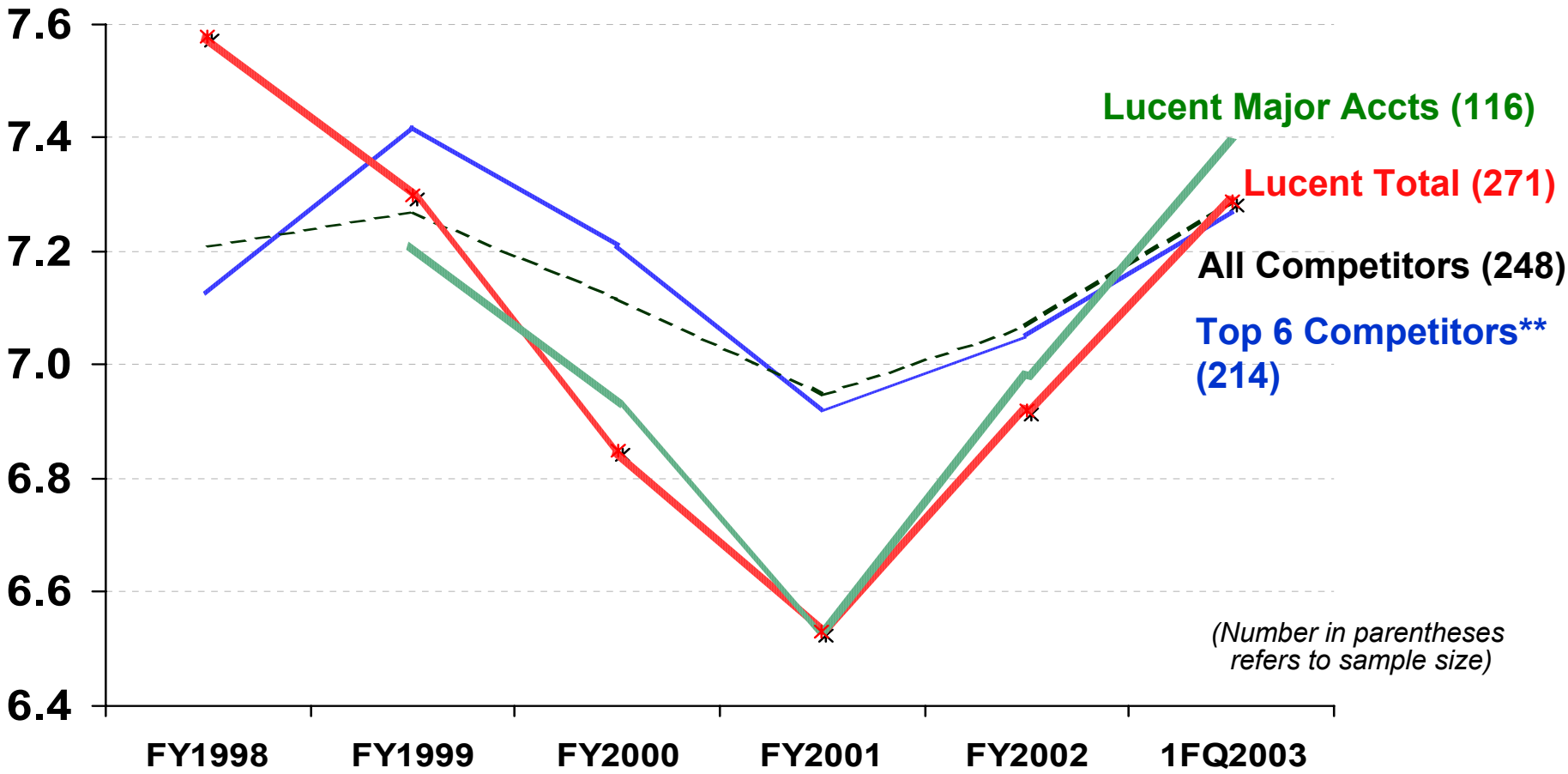
	From Q1-01	*	To Q2-03	Change
Revenue	4.3		2.4	-44%
Targeted Quarterly EPS Breakeven Revenue Target	5.0		~2.4	-52%
Gross Margin %	16%		32%	+ 16 pts
Operating expenses	2.9		0.7	-76%
Cash usage (operating activities)	(1.3)	**	(0.3)	-77%
Vendor finance commitments	7.5		0.6	-92%
Working Capital (A/R & Inventory)	13.1		2.5	-81%
Debt (includes Convertible Securities)	8.1		5.6	-31%
Cash/ (Net Debt)	(4.3)		(2.2)	-49%
Days Sales Outstanding (DSO)	137		58	-58%
Invetory Turns	2.3		6.8	+4.5 turns

* excludes Agere and Power Systems
** excludes $0.6B related to receivable sales

Actions & Results: The Company

Customer Loyalty Index

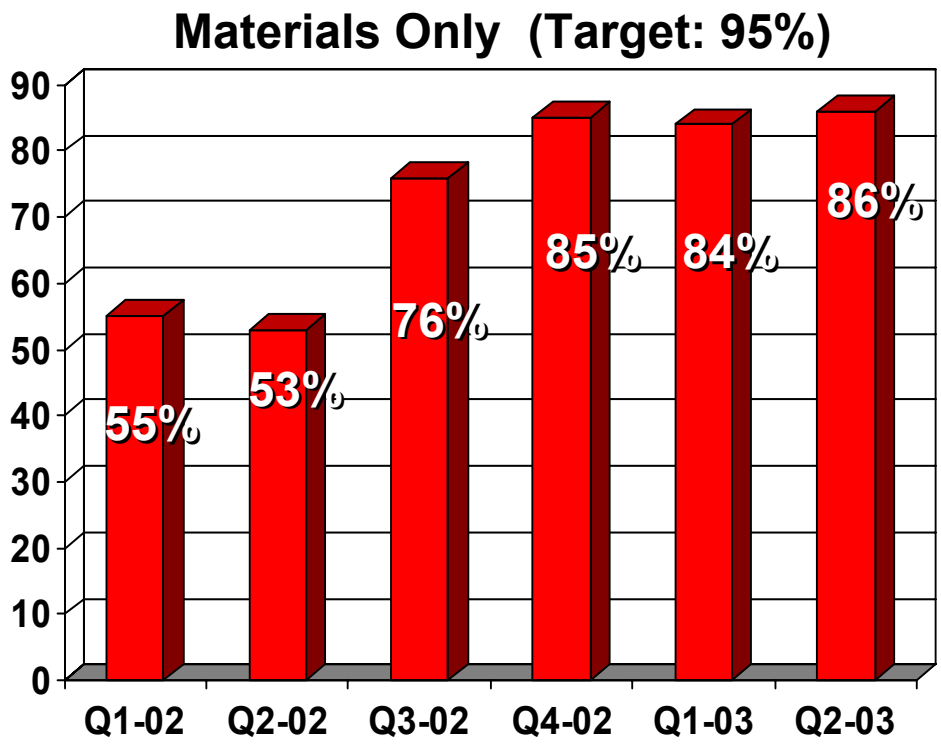
Lucent Customer Loyalty Index
versus competitors

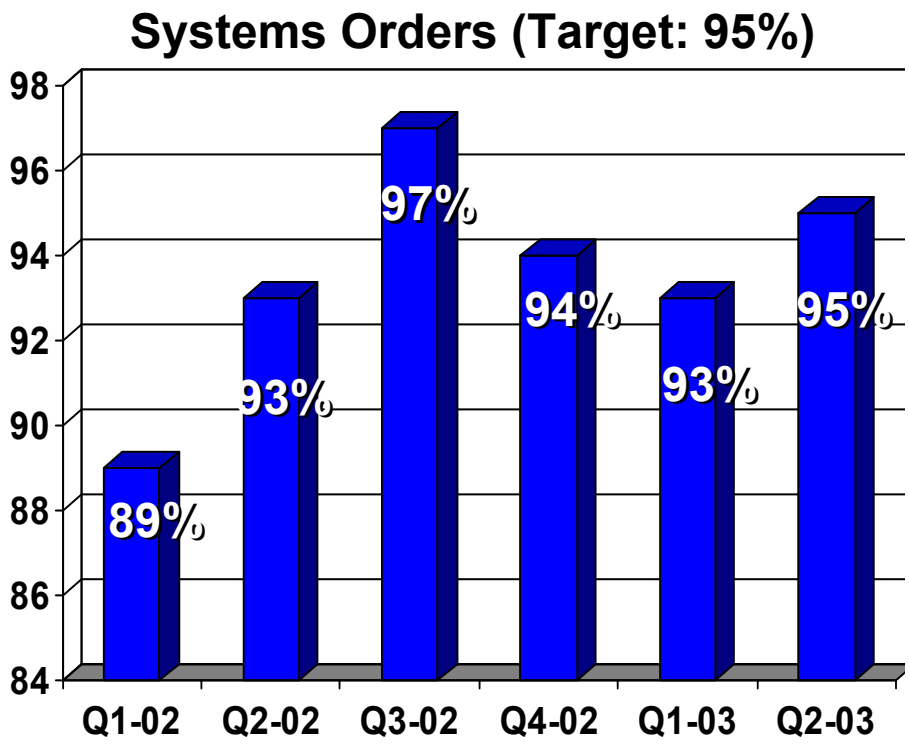


In FY1998, Lucent was BIC.
** Top 6 1FQ2003 Competitors: Samsung, Cisco, Alcatel, Ericsson, Nortel Networks and Siemens

Actions & Results: The Company

On-Time Delivery





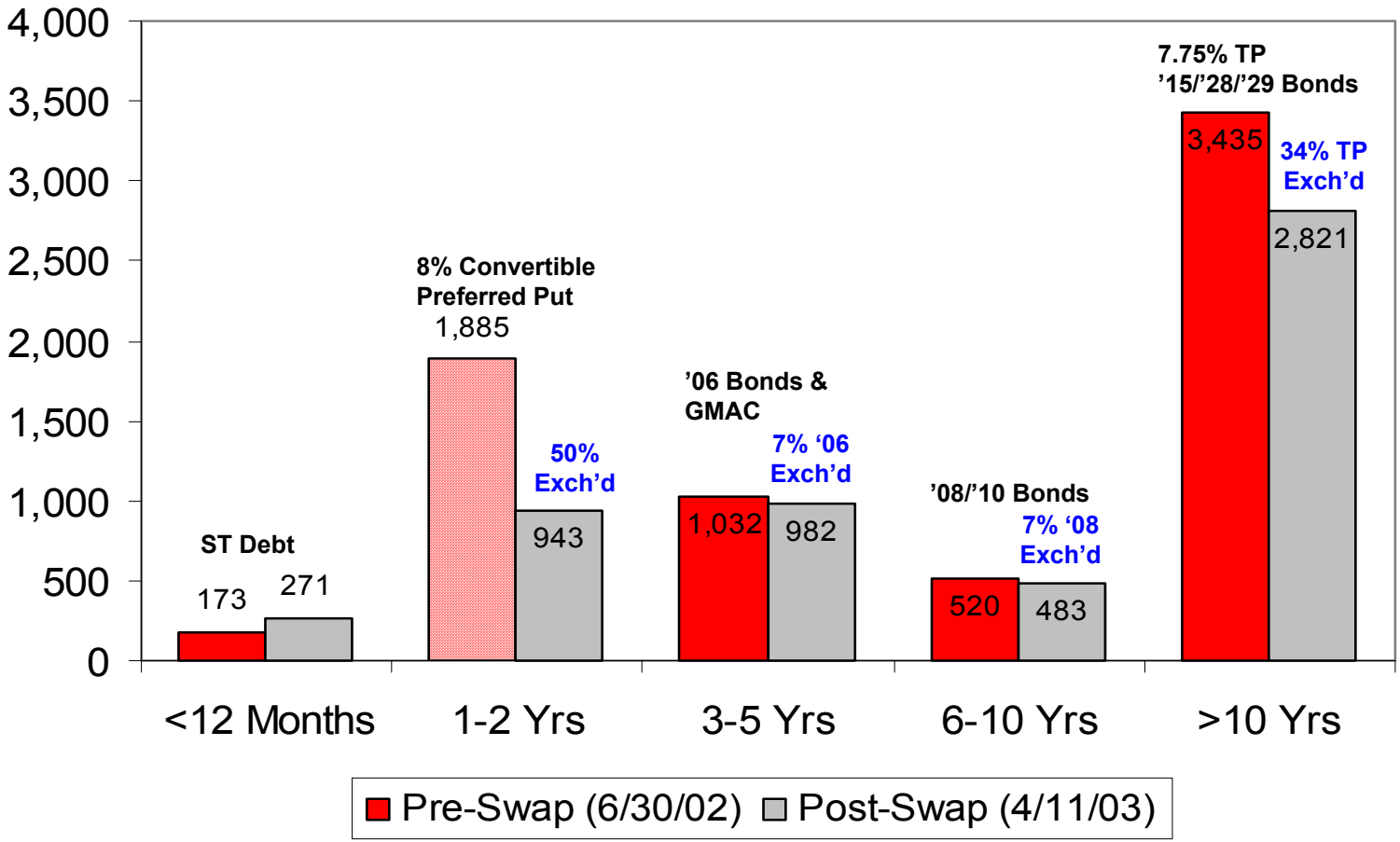
Actions & Results: The Company

Cash & Debt Summary

($ millions)	Q203	Q103	Q2 vs. Q1
Cash and Short-term Investments	3,439	3,738	(299)
Short-term Debt:			
Other	271	193	78
Long-term Debt:			
Trust Preferred	1,152	1,532	(380)
Other	3,170	3,234	(64)
Total Debt	4,593	4,959	(366)
Convertible Preferred - Gross	973	1,318	(345)
Total Debt & Convertible Preferred	5,566	6,277	(711)

Actions & Results: The Company

Debt Maturity Profile



- **Swap activity has greatly reduced the risk associated with the put of the 8% Convertible Preferred in FY04**
- **Total Reduction in Liabilities was 23%**

Actions & Results: The Company

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Macro Results

- **Customer Focus**
  - **Embedded relationships with world's largest telecommunications service providers**
- **Operating Structure**
  - **Dramatic improvement in supply chain and manufacturing processes**
  - **Significant progress in realigning workforce and cost structure with market opportunity**
- **Liquidity**
  - **Sufficient liquidity to fund operations through current downturn in the telecommunications market**
- **Control environment**
  - **Vendor finance commitments no longer an issue**
  - **Planning process redesigned to provide quicker and more accurate forecasts and action planning**

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Key Takeaways

- **Improvement in financial results**
  - **Gross margin at 32% in Q203, highest in 10 quarters**
  - **Recapitalization efforts continue to improve quality of balance sheet**
- **Continued operating progress**
  - **Supply chain efficiencies generating tangible positive results**
  - **Staff reduction on plan**
- **2003 Outlook**
  - **Financially planning for approximately 20-25% year-over-year revenue decline**
  - **Reducing quarterly breakeven revenue to about $2.4B**
  - **Continue to target return to profitability by end of fiscal 2003**
- **Sufficient liquidity to fund operations and restructuring**
  - **Cash at the end of fiscal 2003 projected at more than $2.5B**
- **These actions have created a financial foundation off of which we will continue to provide world class networking solutions to our customers**