Lucent's Vision

Lucent Technologies
Financial Analyst Meeting

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Market Environment

The market remains challenging

- **Business climate still uncertain**
  - **Showing some signs of stabilizing**
- **Capex still under pressure**
  - **But "capital intensity" (capex/revenue ratio) starting to return to pre-bubble levels or just below**
- **Majority of spending cut announcements already made**
  - **2001-2002 decline most acute**
  - **Expect a return to modest growth post-2004**



Market Environment

Service provider challenges

✓ **Reduce cost of operations**

- **Need to implement more intelligent automated operations support systems**
- **Optimize performance and utilization of current network capacity**
- **Leverage 3rd party software and services capabilities to improve efficiency**



Market Environment

Service provider challenges

✓ Reduce cost of operations

✓ **Expand service offerings to increase revenues profitably**

- **Develop and offer new services to enable profitable revenue growth in a changed business climate**
  - **High-speed mobile data services (e.g., CDMA 1xEV-DO, UMTS)**
  - **Managed data services for enterprise networks (e.g., managed LAN, managed firewall, network-based virtual routing)**
  - **Enabling IP services (e.g., IP Centrex, IP VPN)**



Market Environment

Service provider challenges

- ✓ Reduce cost of operations
- ✓ Expand service offerings to increase revenues profitably
- ✓ **Improve the security and reliability of their networks, and those of their enterprise customers**
  - **Utilize software and services that enhance security and reliability**
    - **Network operations software and management systems**
    - **Business continuity offerings (e.g., network-based storage)**
    - **Adopting best practices to protect networks**



Market Environment

These challenges are creating opportunities

- *3rd* generation mobile networking
- Metro optical and packet
- Circuit-to-packet
- Broadband access
- Advanced network and professional services
- Next-generation operations support systems
- Software and services that enhance network security and reliability

Service provider challenges

- ✓ Reduce cost of operations
- ✓ Expand service offerings to increase revenues profitably
- ✓ Improve the security and reliability of their networks, and those of their enterprise customers



Market Environment

The industry has changed dramatically

- **Significantly less total opportunity**
- **Drives the need for "consolidation" in some form**
- **Winners in this changed environment will be those able to:**
  - **Play to their strengths**
  - **Partner creatively to leverage others' skills and capabilities**
  - **Recognize the increasing value their customers place on services, software and network integration**



Lucent's Strategy To Achieve Profitable Growth

A three-prong strategy

- **We will continue to deliver world-class products based on Bell Labs technology to leverage and evolve existing investments to next-generation networks**
- **Over time, we intend to transform Lucent into the leading "network integrator" for service providers**
- **We will continue changing the way we do business**
  - **How we go to market**
  - **How we operate our business**



1. Leverage And Evolve Existing Network Investments

Bell Labs technology for service provider networks

- **We will provide solutions for the near and clear opportunities in the short term**
  - **Adding IP with packet and optical interfaces to 5ESS**
  - **Focus on metro optical, including Ethernet over SONET/SDH**
  - **Deploy and evolve CDMA2000**
- **We will develop and deploy these solutions with a clear path to next-generation networks, e.g.**
  - **Reposition 5ESS as media gateway**
  - **Softswitch applications**
  - **Optical ultra long-haul**
  - **Integrated data and optical technologies**
  - **3G/UMTS**



1. Leverage And Evolve Existing Network Investments

Software to simplify and protect networks

- **More than 50% of service providers today operate three or more independently-built networks**
- **We will provide and integrate world-class Lucent software to:**
  - **Optimize network performance and ease network integration (e.g., NAVIS iOperations)**
  - **Expand service capabilities (e.g., messaging and Enhanced Business Services)**
  - **Protect networks (e.g., security applications)**



2. Transform Lucent Into The "Network Integrator"

We define network integration on multiple levels

- ✓ **Integrating world-class products from Lucent and partners into best-in-class network solutions**
  - **Juniper IP routers into Lucent Integrated Network Solutions (e.g., IP Centrex, IP VPN, End-to-End Multiservice Network)**
  - **Sun server platform into Lucent Mobility Solutions**
  - **Cisco IP routers into end-to-end Lucent Mobility Solutions**
  - **More to come**



2. Transform Lucent Into The "Network Integrator"

We define network integration on multiple levels

- ✓ Integrating world-class products
- ✓ **Integrating and managing multivendor networks**
  - **LWS has strong global customer relationships, unique experience and capabilities, and a new leader – John Meyer**
  - **Focusing on integration expertise and a growing portfolio of professional services**
  - **LWS currently manages all or part of 30 networks for customers around the world**



2. Transform Lucent Into The "Network Integrator"

We define network integration on multiple levels

- ✓ Integrating world-class products
- ✓ Integrating and managing multivendor networks
- ✓ **Integrating software and services to optimize network performance and expand capabilities**
  - **1,800 LWS professionals deliver planning, design, optimization and integration services**
    - **Powered by Bell Labs expert software tools**
  - **Lucent Navis® – unified network management**
  - **VitalSuite® – network performance management**
  - **Network security and reliability services**



3. Continue Changing The Way We Do Business

From how we market to how we operate

- **We will continue to expand the way we go to market**
  - **Aggressively use reseller partners to extend sales reach**
  - **Strategic alliances to creatively partner with other leaders in new market spaces**
  - **Increase our government business**
- **We will continue to change the way we operate the business**



3. Continue Changing The Way We Do Business

Aggressively use reseller partners to extend sales reach

- **Program now spans entire Lucent product portfolio with a new leader – Frank Farese**
  - **Resellers operating in more than 50 countries**
  - **Top offers from our Global BusinessPartners include:**
    - Metropolitan Optical Networking
    - Broadband Access for Service Providers
    - Small Switch Applications
    - Network Performance/IP Address Management
    - Wireless Infrastructure
- **Growth of 15%-20% in FY03**
  - **Plan to grow revenues at double-digit rates for next few years**



3. Continue Changing The Way We Do Business

Alliances to creatively approach new markets

- **Strategic alliances with select industry leaders in networking, storage, software and consulting**
  - **EMC, Hewlett-Packard, IBM, Microsoft, Cisco, Sun, Juniper**
  - **Accenture, CapGemini/Ernst and Young, Deloitte Consulting**





















3. Continue Changing The Way We Do Business

Expanding our government business

- **New challenges in a changed world**
  - **Long history of successful efforts**
- **Very big opportunity – U.S. government is world's largest purchaser of network infrastructure**
  - **Aggressively pursuing business with the government**
  - **300 people dedicated to government market today, will expand resources**
- **Strong Bell Labs connection to the government**



3. Continue Changing The Way We Do Business

From how we market to how we operate

- We will continue to change the way we go to market
- **We will continue to change the way we operate the business**
  - **Bell Labs is more closely linked with customers than ever before**
  - **New Product Development architecture is speeding the process, responding more to customers**
  - **Significant improvements in our supply chain networks are differentiating Lucent with customers, driving innovation across the design process, and improving margins**



3. Continue Changing The Way We Do Business

Supply chain improvements help customers

- **A focus on time-to-value for our customers**
- **Order completion intervals down 15% vs. FY02-Q4**
- **Customer satisfaction and loyalty ratings improved significantly**
  - **On-time delivery at best-in-class 96% for system orders**
  - **Jumped to 84% from 50% on materials-only orders**



3. Continue Changing The Way We Do Business

One global Supply Chain Networks organization moving Lucent from vertical manufacturing to virtual infrastructure excellence

- **Transferred more than 90% of manufacturing spend and portion of development expense from fixed to variable costs**
- **Accelerate the use of lower-cost engineering centers (India, China, Brazil, lower-cost NAR)**
- **Inventory turns up to 6.8, from 2.3**
- **Reduced indirect spending by $1.7B through improved procurement and fiscal management**



3. Continue Changing The Way We Do Business

Focused supply chain optimizes products, solutions and services

- **Reduced number of suppliers by more than half, now spend about 80% with 60 key partners**
- **Implemented sourcing strategies from R&D concept through product realization**
- **Standardized product platforms, yielding cost benefits and making us more flexible**



3. Continue Changing The Way We Do Business

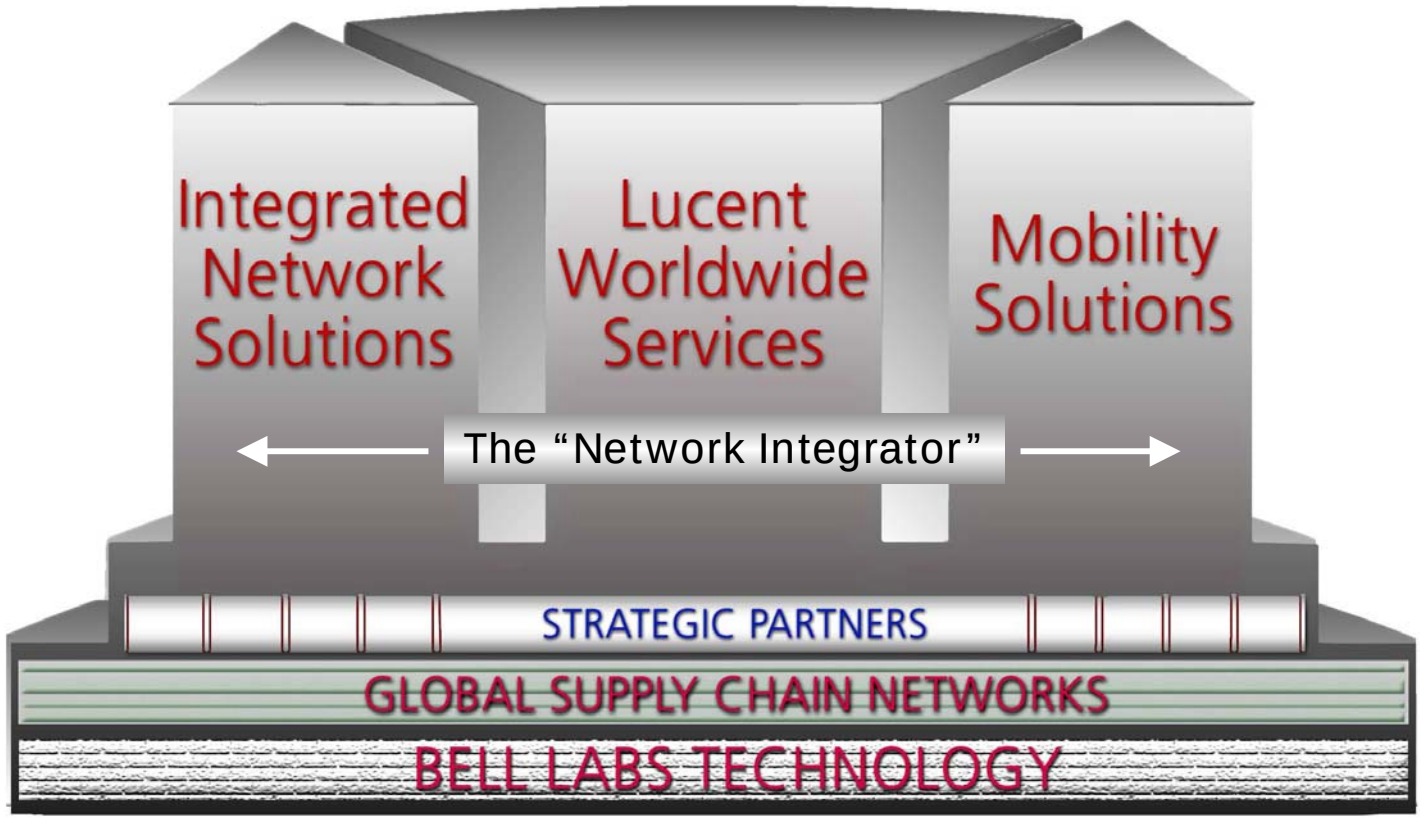
Building supply chain agility through tighter integration with our partners

- **Quote-to-cash/SAP deployed globally**
- **Agile and reliable partners network**
- **Focus on continued margin management by fully understanding key drivers and prioritizing initiatives – increase shareowner value**

We're committed to making operational excellence a strategic differentiator for Lucent



A Model For Success



Key Takeaways

- Lucent will continue to have a robust wireless and wireline portfolio
- As value of services, software and network integration increases, we will transform Lucent into the leading “network integrator” for service providers
- Bell Labs technology, deep customer relationships and a proven record give us a unique position in the service provider market
- We will continue to partner creatively and selectively to offer integrated network solutions in new market space
- Intense drive on operational excellence will improve both profitability and customer satisfaction

