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

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
- 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



Lucent Integrated Network Solutions

- Pinpointed R&D on clearest, most immediate and most profitable opportunities in core areas of strength
  - Optical
  - Circuit and packet switching
  - Software
- Retained long-term positioning in other key segments
  - Broadband access
  - Circuit-to-packet
  - Edge access



- Focus on needs of large service providers
  - Maintain direct channel to “Top 50” customers
  - Leverage global business partners to reach others
- Partnership with industry leaders in areas outside our core strengths to bring compelling value to customers
  - Juniper partnership to help service providers evolve networks

INS Is Positioned To Succeed

- Even with today's challenges, INS is still addressing a $40B market opportunity in 2003
- Developing leading-edge INS products in the areas where our customers are investing
- INS is pursuing the opportunity with:
  - Competitive optical, circuit and packet switching product portfolio for service providers
  - Globally deployed solutions capability
  - Competitive network management systems
  - Most extensive services capability to manage and integrate service provider networks
  - Deep, long-term customer relationships with leading service providers worldwide



Lucent Mobility Solutions

- Strategic focus on building a world-class, cost-effective 3G platform
  - Leverage spread-spectrum expertise: CDMA2000, UMTS
  - Common platform
  - Packet core
- Provide a total, integrated solution
  - High-reliability, high-quality network
  - Applications to devices
  - Industry-leading services and support
- Make the market for high-speed data
- Partnering for end-to-end applications with the most competitive solutions available
  - Integrators, devices
  - Cisco partnership



Lucent Mobility: How We Win!

- Intense focus – 3G spread-spectrum, end-to-end solution
- Demonstrated differentiation
  - Network reliability, quality, and performance
  - Leadership in 3G spread-spectrum
  - Services: network design, optimization and tools
  - Innovation: network evolution/migration and Intellectual Property
  - Customer's customer – end-user experience
- Best-in-class CDMA2000 & UMTS OneBTS platform
  - Leading the competition
- Leverage CDMA2000 worldwide footprint
- Driving financial results



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
- Integrating and managing multivendor networks
- Integrating software and services to optimize network performance and expand capabilities

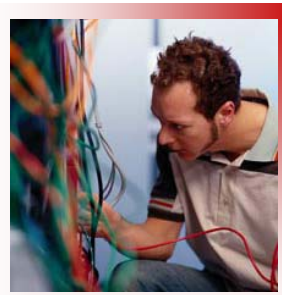
- ✓ Continue to deliver world-class products based on Bell Labs technology to leverage and evolve existing investments to next-generation networks
- ✓ Over time, transform Lucent into the leading "network integrator" for service providers
- ✓ Continue changing the way we do business

8% Compound Annual Growth Rate 2003-2005*

Telecom Infrastructure Services Market:

Deployment Services

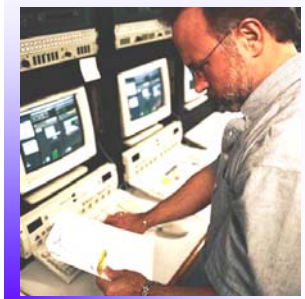
Engineering/Installation (E&I), site acquisition, plant construction





Network Professional Services

Network planning, network design and optimization, network and software integration, technical consulting



Maintenance Services

Remote Technical Support (RTS), field maintenance, repairs and replacements, telephone support

Managed Services

Network operations outsourcing, customer care, billing, maintenance outsourcing



** source: Booz-Allen Analysis*

Lucent Worldwide Services Today

- Leading provider of infrastructure services (~7% global market share)
- Significant multivendor revenues
- Broad installed base product footprint
- Breadth of services capability superior to most competitors
- Deep expertise and leading-edge Bell Labs tools
- Base of high-end professional services, integration and engineering business





LWS Strategy

- Leverage our expertise, tools,software and intellectual property to differentiate Lucent services
- Dedicate increased sales energy to pursue major opportunities and penetrate new markets and geographies through services-led sales
- Expand and increase emphasis on professional services capabilities
- Leverage deployment, maintenance, and professional services capabilities to create the Managed Services market



Continue Changing The Way We Do Business

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

- ✓ Continue to deliver world-class products based on Bell Labs technology to leverage and evolve existing investments to next-generation networks
- ✓ Over time, transform Lucent into the leading “network integrator” for service providers
- ✓ Continue changing the way we do business

Continue Changing The Way We Do Business

Aggressively use reseller partners to extend sales reach

- Program now spans entire Lucent product portfolio
  - 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 FY-03
  - Plan to grow revenues at double-digit rates for next few years

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



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

Continue Changing The Way We Do Business

Continue to change the way we operate the business

- Bell Labs more closely linked with customers today, and new product development architecture is speeding the process while 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

Continue Changing The Way We Do Business

Bell Labs is more closely linked with customers than ever

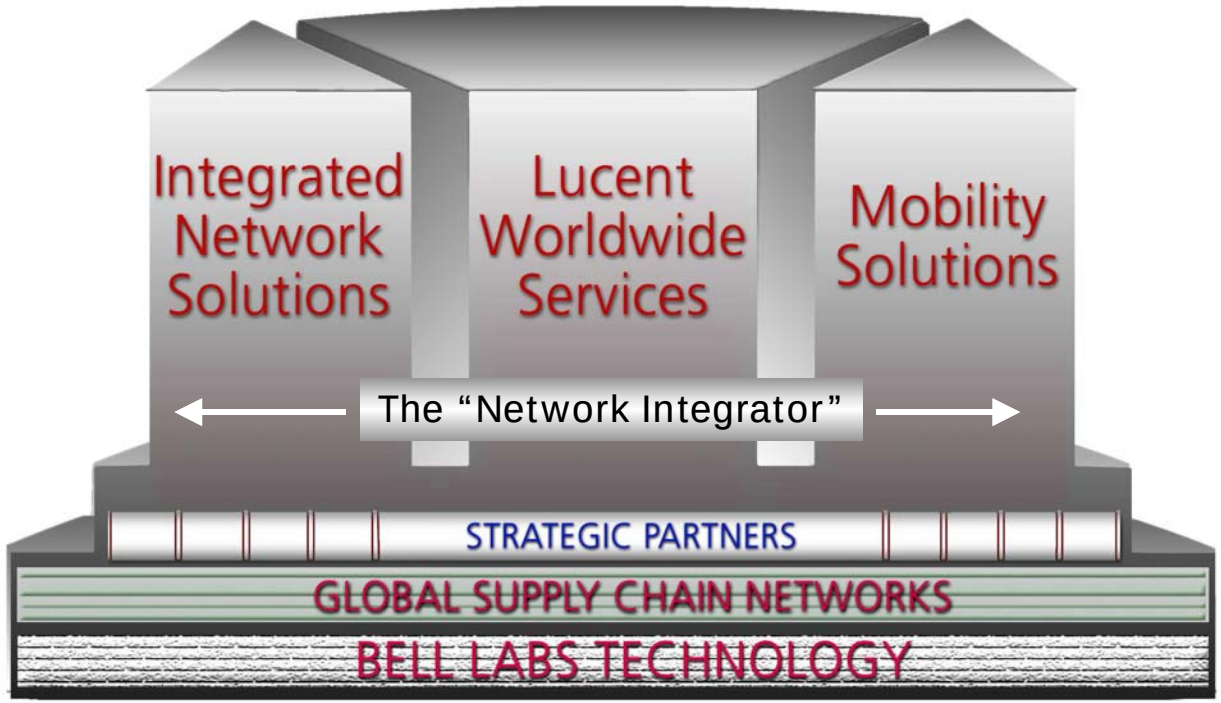
- Significantly improved our processes to integrate Bell Labs technologies into solutions for our customers
- Bell Labs technologies continue to shape the evolution of communications networks
- New focus on leveraging Bell Labs technology as a differentiator for Lucent Worldwide Services
- Investment in long-term research focused on high-impact opportunities

Continue Changing The Way We Do Business

Supply chain improvements help customers

- A single global Supply Chain Networks organization is moving Lucent from vertical manufacturing to virtual infrastructure excellence
- Focused supply chain optimizes products, solutions and services

A Model For Success



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