

Financial Picture

Frank D'Amelio
Chief Financial Officer

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Lucent Technologies
Bell Labs Innovations

Q1-FY03 Results Highlights

($ millions)	Q103	Q402	Q1 vs. Q4	
Revenues	2,075	2,277	↓	-8.9%
Gross Margin %	21.9%	-14.8%	↑	36.7 pts.
Operating Expenses	766	2,450	↓	(1,684)
Operating Loss	(312)	(2,786)	↓	2,474
EPS	($0.11)	($0.84)	↓	$0.73

Gross Margin % includes $700M of charges in Q402

Operating Expenses includes significant charges and asset impairments in Q402

Arrows indicate direction of sequential change

Segment Results

($ millions)	Q103	Q402	Q1 vs. Q4
Mobility Solutions			
Revenue	1,008	923	85
Segment Income/(Loss)	13	(827)	840
Integrated Network Solutions			
Revenue	1,015	1,240	(225)
Segment Income/(Loss)	(133)	(924)	791

- Lucent Worldwide Services revenue of $468M and $554M for Q103 and Q402 respectively is included in segment revenue

Operating Expenses

($ millions)	Q103	Q402	Q1 vs. Q4
Bad Debt & Vendor Financing	(91)	424	(515)
Goodwill/Intangible Amortization	5	32	(27)
All other SG&A	482	521	(39)
Total SG&A	396	977	(581)
R&D	389	685	(296)
Restructuring and asset impairments, net	(19)	788	(807)
Total	766	2,450	(1,684)

- Q402 Bad Debt & Vendor Financing includes $250M in charges related to a significant customer finance default
- Q402 R&D includes $250M in charges primarily related to software capitalization write-downs

Cash Flow

($ millions)	Q103	Q402	Q1 vs. Q4
Net loss, excluding non-cash items	(337)	(1,429)	1,092
Changes in working capital*	104	1,220	(1,116)
Changes in other assets and liabilities	(509)	(593)	84
Cash used in Operating Activities	(742)	(802)	60
Capital Spending	(155)	(137)	(18)
Restructuring - Cash Component	212	211	1
A/R Securitization	0	20	(20)
Operating Cash Flow	(685)	(708)	23

Unusual Items:	Q103	Q402
Legal Settlement		(200)
Real Estate Lease Buyout	(102)	

* Defined as changes in receivables, inventories, contracts in process and accounts payable

Cash & Debt Summary

($ millions)	Q103	Q402	Q1 vs. Q4
Cash and Short-term Investments	3,738	4,420	(682)
Short-term Debt:			
Credit Facilities	0	0	0
Other	193	120	73
Long-term Debt:			
Trust Preferred	1,532	1,750	(218)
Other	3,234	3,236	(2)
Total Debt	4,959	5,106	(147)
Convertible Preferred - Gross	1,318	1,710	(392)
Total Debt & Convertible Preferred	6,277	6,816	(539)

Vendor Finance Review

($ millions)	Q103	Q402	Q1 vs. Q4
Drawn commitments	683	1,098	(415)
Available but not drawn	61	93	(32)
Not available	0	151	(151)
Total	744	1,342	(598)
Reserves	567	951	(384)

Cash Walk – Remainder FY 2003

($ billions)	
Cash & S-T Inv. - 12/31/02	3.7
Business Restructuring	(0.6)
Cash used in Ops (incl. CapEx)	(0.7)
Interest	(0.3)
Projected Cash & S-T Inv. - 9/30/03	2.1

Two Years Of Restructuring: Dramatic Actions To Return To Profitability

	From Q1-01	To Q1-03	Delta
Headcount	106,000	40,000	- 62%
Operating expenses	$ 2.9B	$ 0.8B	- 72%
Cash usage (operating activities)	$ 1.3B*	$ 0.7B	- 46%
Vendor finance commitments	$ 7.5B	$ 0.7B	- 90%
Real estate	50.1M Sq Ft	34.4M Sq Ft	- 31%

* includes $0.6B related to receivable sales

We're Making Progress On The Path To Profitability

- **Q1-FY03 financial results in line with guidance**
  - Revenue down 9%
  - Improvement in gross margin
  - Continued reductions in expenses
- **Continued operating and capital structure improvements**
  - Staff reductions ahead of plan
  - Reduced vendor financing commitments by approximately $600M
  - Repurchased over $1B of convertible securities
- **Q2-FY03 revenue guidance: about $2.5B**
  - Sequential improvement to the bottom line in Q203
  - Despite financially planning for about a 20% year-over-year revenue decline, we're targeting return to profitability by end of fiscal 2003
- **We have sufficient liquidity to fund operations and restructuring**



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