

Lucent Retirees Regional Meetings

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Lucent And Healthcare: The Facts

- ✍ We are not eliminating retiree healthcare coverage
 - We are reducing our subsidy for the coverage
- ✍ We intend to give all retirees and their dependents access to comprehensive healthcare coverage at group rates
 - With a level of subsidy in line with what we can afford
 - On average, our group rates are at least one-half the cost of comparable coverage and in many cases better than that
- ✍ We will let you “opt in” or “opt out” of our plan without a physical or any penalties
- ✍ This was a difficult decision but necessary for Lucent to remain viable

The best way to protect Lucent retiree healthcare is to assure our long-term viability



Context for Our Decision

Rising Healthcare Costs

- ✍ U.S. healthcare costs have increased 50% in the last five years
- ✍ Lucent's retiree healthcare costs rose 85% in the last six years
 - Our retiree population increased 22%
- ✍ Lucent retiree healthcare costs estimated at \$850M for 2003
 - About 10% of gross revenues
 - Almost one-half of our current payroll
- ✍ Costs are expected to increase at double digit rates
 - Unless we take action now, we face close to a \$1B in retiree healthcare costs

Rising retiree healthcare costs are a national issue



Context for Our Decision

Lucent And Health Care: Historical Facts

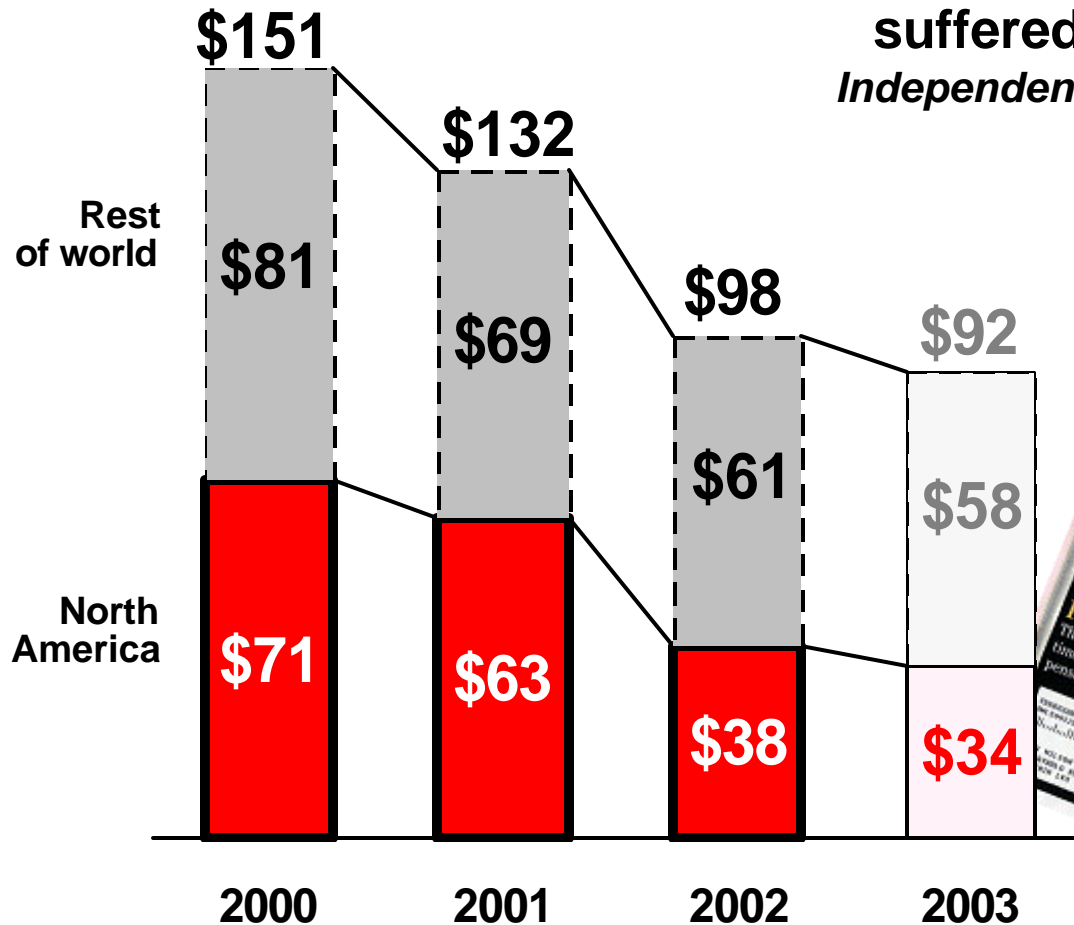
	<u>1999</u>	<u>2002</u>	<u>2003</u> <u>Projected</u>
Revenues	\$38.8B	\$12.3B	\$8B to \$9B
Total Employees	153,000	47,000	35,000
U.S. Employees	118,000	32,000	24,000
U.S. Retirees	106,000	127,000	127,000
U.S. Retirees/U.S. Employees	0.9 to 1	4 to 1	5 to 1
Retirees' Dependents	N/A	103,300	112,000
Retiree Healthcare Costs	\$539M	\$846M	\$850M
Active Employees' Healthcare Costs	\$517M	\$319M	\$264M



Context for Our Decision

Unprecedented Market Decline

“Any way you measure it... telecom suffered its worst year ever.”
Independent analyst Jeff Kagan 1/5/03

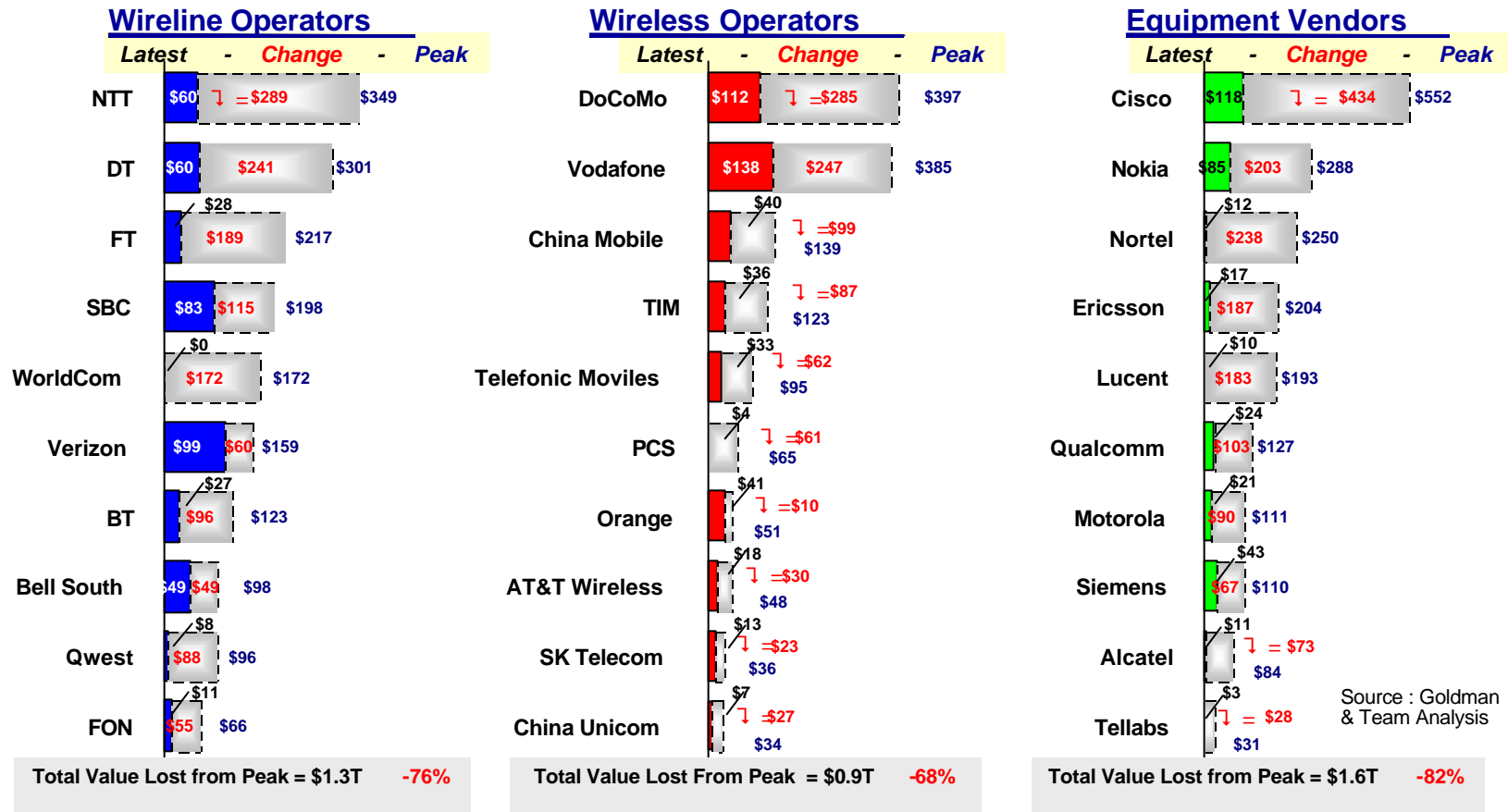


Note: Equipment market equals Total Addressable Market less Services

We Are Not Alone

Unprecedented Market Value Loss

(\$ Billions)



Source : Goldman & Team Analysis

* Latest market capitalization based on stock price at close of May 16, 2003



Context for Our Decision

Analysts Predict “Stability” At Best

✍ Major customers – SBC, BellSouth, Sprint, Verizon – have recently reduced CapEx estimates

“We expect 2004 CapEx to be flat to slightly up with 2003 levels”
(Inder Singh, Prudential Securities, 9/8/03)

“We see global CapEx as declining 2% in 2004.”
(Tal Liani, Merrill Lynch, 9/8/03)

“Going into 2004, we expect capital spending to be flattish with 2003 levels.”
(Alex Henderson, Salomon Smith Barney, 9/9/03)

Longest and most severe downturn in the history of the industry



Business Restructuring Progress

	<u>FROM Q1-01</u>	<u>TO Q3-03</u>	<u>CHANGE</u>
Revenue	\$ 4.3	\$ 1.96	- 54%
Targeted Quarterly EPS			
Breakeven Revenue	\$ 5.0	< \$ 2.4	- 52%
Gross Margin Rate	15.7%	29.2%	13.5 pts.
Operating Expenses	\$ 2.9	\$ 0.84	- 71%
Vendor Finance Commitments	\$ 7.5	\$ 0.63	- 92%
Cash Usage (operating activities)	\$ 1.3*	\$ 0.06	- 96%
Working Capital (A/R & Inventory)	\$13.1	\$ 2.4	- 82%
Days Sales Outstanding (DSO)	137	74	- 46%
Inventory Turns	2.3	6.9	4.6 turns
Headcount	106,000	36,500	- 66%
Executives	450	175	- 61%
Officers	86	32	- 63%

* Includes \$0.6B related to receivable sales

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Context for Our Decision

Who We Are Today: A Perspective

✍ An \$8B to \$9B company, off a peak of \$38 billion in 1999

- 35,000 employees worldwide (vs. 153,000 in 1999)
 - 24,000 active employees based in U.S.
- 127,000 U.S. retirees with 113,000 dependents receiving coverage – 240,000 in total
 - Ratio of **U.S. retirees to U.S. employees**: 5 to 1
 - Ratio **with dependents**: 10 to 1

✍ 24,000 U.S. employees are supporting the healthcare benefits of 240,000 retirees and dependents



Context for Our Decision

Funding Retiree Healthcare Will Require Cash Soon

- ✍ To date, no corporate funds have been used to pay for post-retirement healthcare
- ✍ Historically, we paid for retiree healthcare with:
 - Transfers of excess pension assets
 - Two partially funded healthcare trusts from AT&T
- ✍ Due to a decline in the equity markets, our pension is no longer funded over 125%
 - The healthcare trusts will expire in 2003 and 2006
- ✍ At current spending levels, we are facing close to \$1B in retiree healthcare costs annually out of operating expenses

Unfortunately, the numbers don't work



Context for Our Decision

Retiree Healthcare Benefits Today

- ✍ Only 12% of the companies in the U.S. provide healthcare coverage for retirees
 - Lucent is and will continue to be one of these companies
 - On average Lucent pays about \$7,000 for each retiree's healthcare benefits
 - 79% of our retirees pay no premiums for healthcare coverage
- ✍ Many of our competitors have insignificant retiree healthcare costs
 - Cisco and Nokia – no retiree healthcare benefits to U.S. retirees
 - Many competitors have significant portions of their workforce in countries with government-funded programs



Actions We Took First

- ✍ Took \$2B of annual costs reductions with no retiree impact
 - Reduced our headcount by about 70,000
 - Restructured the entire operation of our business
- ✍ Reductions in benefits for active employees
 - Since 1999, no officer has received a performance bonus; employees below officer level received very limited bonuses and pay raises in only 2 of the 3 years
 - Reduced, then capped, 401k match
 - Eliminated retiree healthcare for management employees hired after June 1986
 - Annual increases to healthcare contributions and co-pays
 - Eliminated or suspended plans and programs (e.g. Vision, Group Legal, Anniversary/Retirement Gifts, Matching Gift Contributions)



Changes To Management Retiree Healthcare

- ✍ Eliminating reimbursement for Medicare Part B premiums, effective Oct. 1, 2003
- ✍ Eliminating dental subsidy for all management retirees and dependents
- ✍ Eliminating subsidy for dependents of management retirees who retired on or after 3/1/90 with a base salary of \$87,000 or more
- ✍ Increasing co-pays for hospitalization and emergency room visits, and increasing the annual out-of-pocket maximum for the retail prescription drug program
- ✍ We expect to make changes in 2005 and beyond

Even after these changes, Lucent provides more retiree healthcare support than 90% of U.S. companies



Impact On You

- ✍ You will have to pay for Medicare Part B and Dental coverage
 - Current Medicare Part B monthly premiums = \$58.70
 - Monthly cost of Dental coverage
 - \$25 per month for single coverage
 - \$62 per month for family coverage
- ✍ Increases in fees will vary based on retirement date, years of service, election of dependent coverage and coverage type selected
- ✍ However, the majority of our management retirees will pay anywhere from \$150 to \$370 per month next year



What We Will Continue To Provide

- ✍ A choice of plans – point of service, HMO, and starting in 2004, pharmaceutical-only plan
- ✍ Plans that cover in-network and out-of-network doctor visits, hospitalization, physical therapy, rehabilitation and drugs
- ✍ Ability to “opt in” and “opt out” of Lucent coverage as many times as you choose so that you have a safety net for access to medical coverage

We fully intend to provide retirees with access to healthcare benefits at a level of subsidy in line with what we can afford



Summary

- ✍ We have to manage healthcare costs to make the whole enterprise sustainable. We've had to make difficult, but necessary decisions for us to remain competitive.
- ✍ Our main objective is to balance retirees' needs with the company's new size and reduced ability to pay.
- ✍ We're committed to maintaining access to coverage and will subsidize that coverage in line with what the company can afford.
- ✍ We're committed to seeking legislative changes that will help our retirees as a whole, i.e. Medicare reform, prescription drug coverage, and we're committed to retiree health education.
- ✍ The best way to protect retiree healthcare for Lucent retirees is to take actions like this that assure our long-term viability.

