

CONSOLIDATED STATEMENTS OF INCOME

Lucent Technologies Inc. and Subsidiaries
(dollars in millions, except per share amounts)

	Year Ended September 30,		
	1999	1998	1997
REVENUES			
Revenues	\$38,303	\$31,806	\$ 27,611
Costs	19,688	16,715	15,318
GROSS MARGIN			
Gross margin	18,615	15,091	12,293
OPERATING EXPENSES			
Selling, general and administrative	8,417	6,867	6,254
Research and development	4,510	3,903	3,185
Purchased in-process research and development	282	1,683	1,255
Total operating expenses	13,209	12,453	10,694
OPERATING INCOME			
Operating income	5,406	2,638	1,599
Other income – net	443	128	97
Interest expense	406	254	238
Income before income taxes	5,443	2,512	1,458
Provision for income taxes	1,985	1,477	1,009
Income before cumulative effect of accounting change	3,458	1,035	449
Cumulative effect of accounting change (net of income taxes of \$842)	1,308	–	–
Net income	\$ 4,766	\$ 1,035	\$ 449
EARNINGS PER COMMON SHARE – BASIC			
Income before cumulative effect of accounting change	\$ 1.14	\$ 0.35	\$ 0.16
Cumulative effect of accounting change	0.43	–	–
Net income	\$ 1.57	\$ 0.35	\$ 0.16
EARNINGS PER COMMON SHARE – DILUTED			
Income before cumulative effect of accounting change	\$ 1.10	\$ 0.34	\$ 0.15
Cumulative effect of accounting change	0.42	–	–
Net income	\$ 1.52	\$ 0.34	\$ 0.15
Dividends per common share	\$ 0.08	\$ 0.0775	\$ 0.0563

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Lucent Technologies Inc. and Subsidiaries
(dollars in millions, except per share amounts)

ASSETS	September 30,	
	1999	1998
Cash and cash equivalents	\$ 1,816	\$ 1,154
Receivables less allowances of \$362 in 1999 and \$416 in 1998	10,438	7,405
Inventories	5,048	3,279
Contracts in process (net of progress billings of \$5,565 in 1999 and \$3,036 in 1998)	1,103	1,259
Deferred income taxes – net	1,583	1,775
Other current assets	1,943	912
Total current assets	21,931	15,784
Property, plant and equipment – net	6,847	5,693
Prepaid pension costs	6,175	3,754
Deferred income taxes – net	–	761
Capitalized software development costs	470	298
Other assets	3,352	3,073
Total assets	\$38,775	\$29,363
LIABILITIES		
Accounts payable	\$ 2,878	\$ 2,157
Payroll and benefit-related liabilities	2,300	2,592
Postretirement and postemployment benefit liabilities	137	187
Debt maturing within one year	2,864	2,231
Other current liabilities	3,599	3,718
Total current liabilities	11,778	10,885
Postretirement and postemployment benefit liabilities	6,305	6,380
Long-term debt	4,162	2,409
Other liabilities	2,946	1,980
Total liabilities	\$25,191	\$21,654
Commitments and contingencies		
SHAREOWNERS' EQUITY		
Preferred stock – par value \$1 per share Authorized shares: 250,000,000 Issued and outstanding shares: none	\$ –	\$ –
Common stock – par value \$.01 per share Authorized shares: 6,000,000,000 Issued and outstanding shares: 3,071,750,726 at September 30, 1999; 3,022,369,264 at September 30, 1998	31	30
Additional paid-in capital	7,731	6,589
Guaranteed ESOP obligation	(33)	(49)
Retained earnings	6,099	1,422
Accumulated other comprehensive income (loss)	(244)	(283)
Total shareowners' equity	\$13,584	\$ 7,709
Total liabilities and shareowners' equity	\$38,775	\$29,363

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

Lucent Technologies Inc. and Subsidiaries
(dollars in millions)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Guaranteed ESOP Obligation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowners' Equity	Total Comprehensive Income
Balance at October 1, 1996	-	29	3,141	(106)	421	(23)	3,462	
Net Income (excluding undistributed S-Corp earnings)					416			416
Reclass of undistributed earnings of S-Corp			33					33
Foreign currency translation adjustment						(175)		(175)
Unrealized holding gains on certain investments						40		40
Minimum pension liability adjustment						9		9
Total comprehensive income								323
Effect of poolings			23		(18)			
Dividends declared					(146)			
Amortization of ESOP obligation				29				
Issuance of common stock			281					
Tax benefit from employee stock options			88					
Issuance of common stock for acquisitions			213					
Conversion of common stock related to acquisitions			116					
S-Corp distributions			(19)					
Other			27					
Balance at September 30, 1997	-	29	3,903	(77)	673	(149)	4,379	
Net Income (excluding undistributed S-Corp earnings)					950			950
Reclass of undistributed earnings of S-Corp			85					85
Foreign currency translation adjustment						(89)		(89)
Unrealized holding losses on certain investments						(37)		(37)
Minimum pension liability adjustment						(8)		(8)
Total comprehensive income								901
Effect of poolings								
Dividends declared					(201)			
Amortization of ESOP obligation				28				
Issuance of common stock		1	645					
Tax benefit from employee stock options			271					
Issuance of common stock for acquisitions			1,525					
Conversion of common stock related to acquisitions			186					
S-Corp distributions			(26)					
Balance at September 30, 1998	-	30	6,589	(49)	1,422	(283)	7,709	
Net Income (excluding undistributed S-Corp earnings)					4,758			4,758
Reclass of undistributed earnings of S-Corp			8					8
Foreign currency translation adjustment						(33)		(33)
Unrealized holding gains on certain investments (net of tax of \$235)						307		307
Reclassification adjustment (net of tax of \$178)						(246)		(246)
Minimum pension liability adjustment (net of tax of \$6)						11		11
Total comprehensive income								4,805
Effect of poolings			106		(26)			
Dividends declared					(222)			
Amortization of ESOP obligation				16				
Issuance of common stock		1	695					
Tax benefit from employee stock options			367					
Adjustment to conform pooled companies fiscal year					169			
S-Corp distributions			(40)					
Other			6		(2)			
Balance at September 30, 1999	-	31	7,731	(33)	6,099	(244)	13,584	

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Lucent Technologies Inc. and Subsidiaries
(dollars in millions)

	Year Ended September 30,		
	1999	1998	1997
OPERATING ACTIVITIES			
Net income	\$ 4,766	\$ 1,035	\$ 449
Adjustments to reconcile net income to net cash (used in) provided by operating activities, net of effects from acquisitions of businesses:			
Cumulative effect of accounting change	(1,308)	–	–
Business restructuring reversal	(141)	(100)	(201)
Asset impairment and other charges	236	–	81
Depreciation and amortization	1,806	1,411	1,499
Provision for uncollectibles	75	149	136
Tax benefit from stock options	367	271	88
Deferred income taxes	1,026	56	(21)
Purchased in-process research and development	15	1,683	1,255
Adjustment to conform Ascend and Kenan's fiscal years	169	–	–
Increase in receivables – net	(3,183)	(2,161)	(484)
Increase in inventories and contracts in process	(1,612)	(403)	(316)
Increase (decrease) in accounts payable	668	231	(18)
Changes in other operating assets and liabilities	(2,320)	155	(397)
Other adjustments for non-cash items – net	(840)	(467)	58
Net cash (used in) provided by operating activities	(276)	1,860	2,129
INVESTING ACTIVITIES			
Capital expenditures	(2,215)	(1,791)	(1,744)
Proceeds from the sale or disposal of property, plant and equipment	97	57	108
Purchases of equity investments	(307)	(212)	(149)
Sales of equity investments	156	71	12
Purchases of investment securities	(450)	(1,082)	(483)
Sales or maturity of investment securities	1,132	686	356
Dispositions of businesses	72	329	181
Acquisitions of businesses – net of cash acquired	(264)	(1,078)	(1,584)
Cash from mergers	61	–	–
Other investing activities – net	(69)	(80)	(68)
Net cash used in investing activities	(1,787)	(3,100)	(3,371)
FINANCING ACTIVITIES			
Repayments of long-term debt	(13)	(93)	(16)
Issuance of long-term debt	2,175	375	52
Proceeds from issuance of common stock	696	645	281
Dividends paid	(222)	(201)	(192)
S-Corp distribution to stockholder	(40)	(26)	(19)
Increase in short-term borrowings – net	89	149	191
Net cash provided by financing activities	2,685	849	297
Effect of exchange rate changes on cash and cash equivalents	40	(61)	(11)
Net increase (decrease) in cash and cash equivalents	662	(452)	(956)
Cash and cash equivalents at beginning of period	1,154	1,606	2,562
Cash and cash equivalents at end of period	\$ 1,816	\$ 1,154	\$ 1,606

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