1st Quarter Fiscal Year 2005 Earnings Teleconference

January 19, 2005



1st Quarter Fiscal Year 2005 Earnings Teleconference

Introduction

John DeBono

Investor Relations Vice President

Q1 Fiscal 2005 Financial Review

Forward-Looking Statement Disclosure

Lucent Technologies
Bell Labs Innovations



This presentation includes some forward-looking statements about our expectations for our future performance. Actual results could differ materially from those suggested by our comments today. Additional information about factors that could affect future results are addressed in our SEC filings, including our Form 10-K, 10-Q, and 8-Ks. A summary is included at the end of this presentation.

Any information contained herein should be read in conjunction with the January 19, 2005 Q1 earnings press release with accompanying financial tables.

1st Quarter Fiscal Year 2005 Earnings Teleconference

Opening Remarks

Pat Russo

Chairman & Chief Executive Officer

1st Quarter Fiscal Year 2005 Earnings Teleconference

Financial Review

Frank D'Amelio

Executive Vice President & Chief Financial Officer

Q1 Fiscal 2005 Financial Review

Quarterly Results Highlights

Lucent Technologies
Bell Labs Innovations

(in millions, except per share figures)	Q105	Q404	Q105 vs. Q404
Revenues	2,335	2,402	-3%
Gross Margin %	42%	41%	1pt
Operating Expenses	665	691	(26)
Operating Income	319	284	35
Net Income	174	1,209	(1,035)
EPS - basic	0.04	0.28	(0.24)
EPS - diluted	0.04	0.23	(0.19)

Q1 Fiscal 2005 Financial Review

Significant Impact Items

(in millions, except per share figures)	Q105	Impact Per Diluted Share	Q404	Impact Per Diluted Share
Shareowner lawsuit settlement	(71)	(0.01)	118	0.02
Business restructuring	(1)	(0.00)	5	0.00
Bad debt and customer financings	11	0.00	27	0.01
Payroll related liability reversal	40	0.01	-	-
Income tax impacts	-	-	873	0.16
Telica acquisition costs	-	-	(21)	(0.00)
Total	(21)	(0.00)	1,002	0.19
Weighted Average Common Shares - diluted	4,998		5,416	

Q1 Fiscal 2005 Financial Review

Segment Results

(in millions)	Q105	Q404	Q105 vs. Q404
MOBILITY:			
Revenues	1,152	1,156	0%
Segment Income	390	371	19
INS:			
Revenues	645	696	-7%
Segment Income	23	4	19
SERVICES:			
Revenues	520	514	1%
Segment Income	74	85	(11)

Results reflect market opportunities and challenges

Q1 Fiscal 2005 Financial Review

Quarterly Results Highlights

Lucent Technologies
Bell Labs Innovations

(in millions, except per share figures)	Q105	Q404	Q105 vs. Q404
Revenues	2,335	2,402	-3%
Gross Margin %	42%	41%	1pt
Operating Expenses	665	691	(26)
Operating Income	319	284	35
Net Income	174	1,209	(1,035)
EPS - basic	0.04	0.28	(0.24)
EPS - diluted	0.04	0.23	(0.19)
Net Pension & Post-Retirement Credit*	175	254	(79)

*Benefits both gross margin and operating expenses

Continue to Expect FY 2005 Annual Gross Margin Rate on a Percentage Basis in the Low 40's - Quarterly Gross Margin Rate may be subject to fluctuations

Q1 Fiscal 2005 Financial Review

Operating Expenses

(in millions)	Q105	Q404	Q105 vs. Q404
All Other SG&A	396	390	6
Bad Debt & Customer Financings	(11)	(27)	16
Total SG&A	385	363	22
R&D	279	319	(40)
IPR&D	-	14	(14)
Business Restructuring	1	(5)	6
Total Operating Expenses	665	691	(26)

Continue to Expect FY 2005 Annual Operating Expenses as a Percentage of Revenue to be about 30%

Q1 Fiscal 2005 Financial Review

Cash Flow

Lucent Technologies
Bell Labs Innovations

(in millions)	Q105	Q404	Q105 vs. Q404
Net Income	174	1,209	(1,035)
Changes in Other Non-cash Items	7	(213)	220
Changes in Working Capital	(113)	(16)	(97)
Changes in Other Op. Assets and Liabilities	(392)	(641)	249
Cash Provided by (Used in) Operating Activities	(324)	339	(663)
Less: Capital Spending	(34)	(63)	29
Add back: Restructuring - Cash Component	23	24	(1)
Cash Flow (incl. Capex, excl Restructuring)	(335)	300	(635)

As of December 31, 2004, Cash and Marketable Securities totaled $4.6 billion compared to $4.9M in the prior quarter

Q1 Fiscal 2005 Financial Review

Working Capital and Other Selected Metrics

	As of 12/31/2004	As of 9/30/2004	Change
WORKING CAPITAL METRICS			
Inventory Turns	6.1	6.9	(0.8) turns
Days Sales Outstanding (DSO)	55	51	4 days

OTHER METRICS	Q105	Q404	Change
Vendor Finance Maximum Commitments (mm)	143	150	-5%
Headcount	31,500	31,800	-1%

Q1 Fiscal 2005 Financial Review

Selected Balance Sheet Items

Lucent Technologies
Bell Labs Innovations

(in millions)	12/31/2004	9/30/2004	Change
Cash	2,381	3,379	(998)
Short-Term Marketable Securities	1,304	858	446
Long-Term Marketable Securities	880	636	244
Total Cash and Marketable Securities	4,565	4,873	(308)
Debt and Convertible Securities:			
2.75% Senior Convertible debt	1,631	1,631	-
7.75% Convertible Securities	1,152	1,152	-
8.0% Subordinated Convertible debt	817	817	-
Other Debt	2,362	2,390	(28)
Total Debt and Convertible Securities	5,962	5,990	(28)
Net Debt	1,397	1,117	280
Long-Term Debt Ratings (S&P/Moody's)	B/B2	B/B2	

Relatively "long dated" portfolio: ~75% of public debt and convertible securities mature in or after 2010

Q1 Fiscal 2005 Financial Review

Recapitalization

Lucent Technologies
Bell Labs Innovations

(in millions)	Q105	FY04	FY03	FY02	Total
8.00% Convertible Preferred/Sub Debt	-	58	835	175	1,068
7.75% Convertible Securities	-	-	598	-	598
Other Debt Obligations	20	274	519	-	813
Total	20	332	1,952	175	2,479
Common Shares Exchanged	-	22	563	58	643
Cash Used	21	249	487	-	757

Recapitalization actions, initiated in Q402, reduced annual fixed charges by approximately $150M

1st Quarter Fiscal Year 2005 Earnings Teleconference

Q&A Session

Q1 Fiscal 2005 Financial Review

Key Takeaways

Lucent Technologies
Bell Labs Innovations

- **Financial Results**
  - Revenues of $2.3 billion, down 3% sequentially, up 3% year over year
    - Mobility revenues relatively flat sequentially and increased 19% year over year
    - INS revenues down 7% sequentially and down 18% year over year
    - Services revenues up 1% sequentially and up 12% year over year
  - Gross margin rate of 42%, up 1 point sequentially
  - EPS of $0.04 per diluted share - significant items had no material impact
    - Q404 EPS of $0.23 per diluted share included a net favorable impact from significant items of about $0.19 per diluted share

- **FY 2005 Guidance**
  - Continue to expect:
    - Annual revenues to increase on a percentage basis in the mid-single digits – at or above the expected market growth rate
    - Annual gross margin rate on a percentage basis in the low 40's
    - Annual operating expenses as a percentage of revenue to be about 30 percent

Q1 Fiscal 2005 Financial Review

Forward-Looking Statement Disclosure

Lucent Technologies
Bell Labs Innovations



This presentation contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, the industries in which we operate, our beliefs and our management's assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of us. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” ”believes,” “seeks,” “estimates,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. These risks and uncertainties include: fluctuations in the telecommunications market; our ability to compete effectively; our product portfolio and ability to keep pace with technological advances in our industry; our reliance on a limited number of key customers; our exposure to the credit risk of our customers; the pricing, cost and other risks inherent in our long-term sales agreements; the costs and risks associated with our pension and postretirement benefit plans; the social, political and economic risks of our foreign operations; our reliance on third parties to manufacture most of our products; our ability to generate positive cash flow; existing and future litigation; our ability to protect our intellectual property rights and the expenses we may incur in defending such rights; the complexity of our products; changes to existing regulations or technical standards; changes in environmental health and safety laws; and our ability to retain and recruit key personnel. For a further list and description of such risks and uncertainties, see the reports filed by us with the Securities and Exchange Commission. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements after the publication or distribution of this presentation, whether as a result of new information, future events, changes in assumptions, or otherwise.