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Lucent Technologies
Bell Labs Innovations

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Forward-Looking Statement Disclosure

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.

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Agenda

- Financial Review
- Telecom Market Update
- Lucent Growth Strategy and Segment Review
- Long Term Vision
- Key Takeaways

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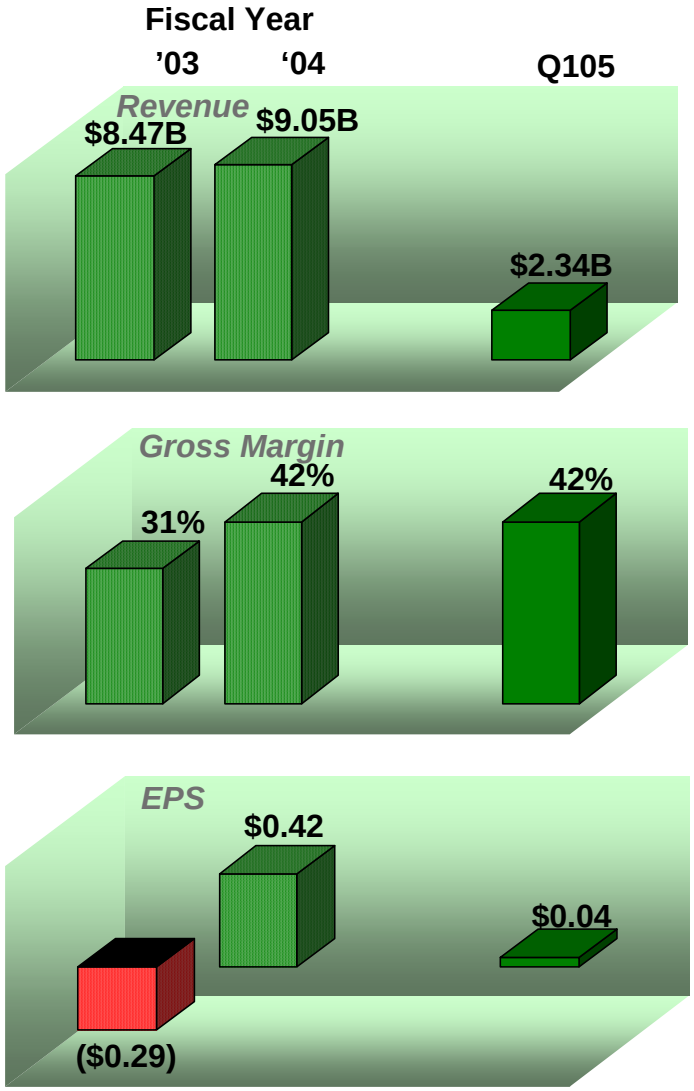
Financial Review

Income Statement



FY04 was a pivotal year

- ✓Recorded revenue growth of 7%
- ✓Gross margin rate above 40%
- ✓Achieved profitability for full year

Continued Solid Performance in Q105

- ✓Revenue of $2.3 billion
- ✓Gross Margin of 42%
- ✓EPS $0.04, significant items had less than $0.01 impact

Note: As reported, includes certain significant items

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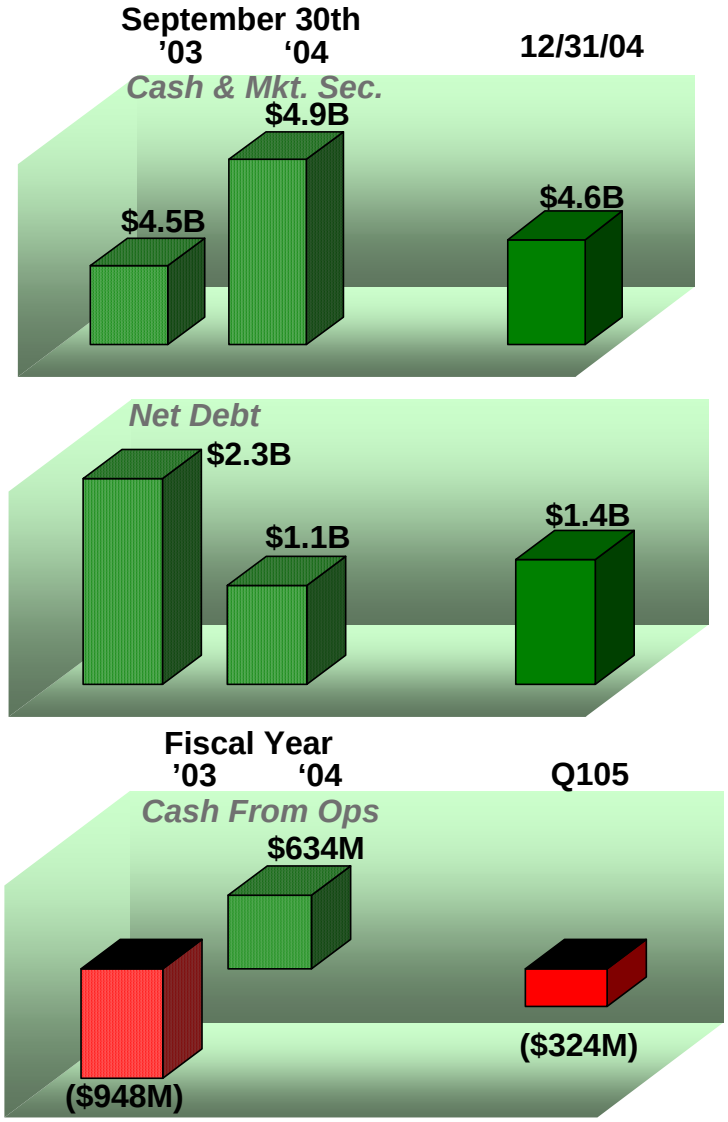
Financial Review

Balance Sheet & Cash Flow



Improving Balance Sheet & Cash Flow

- ✓Cash and marketable securities of $4.6 billion as of December 31, 2004
- ✓Repurchased $2.5 billion in debt and converts since Q402, reducing annual fixed charges by ~$150 million
- ➢Long-dated portfolio; >75% matures in or after 2010
- ➢Credit ratings upgraded in FY04;
  - ❖S&P "B/Positive", Moody's "B2/Positive"
- ✓Generated cash from operations for FY04
- ✓Cash from operations for Q105 included the payment of annual incentive compensation awards

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Lucent: Guidance
Near-Term

For Fiscal 2005 - 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**

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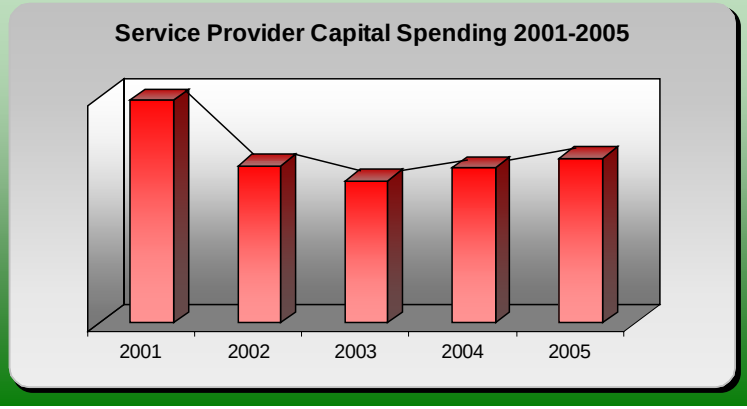
Telecom Market Dynamics

Market Demand:



•After dramatic declines in capital spending – return to growth in 2004

Source: Investment Analyst Reports – Updated Dec 2004 & Lucent Internal Estimates

Consolidation:

- Recent merger announcements:
  - Cingular/AWE
  - Sprint/Nextel
  - SBC/AT&T
  - Verizon/MCI
  - Alltel/Western Wireless

Technology Transition:

- Service Convergence/IMS
- Migration to 3G
- IP Enabled Networks

Competition:

- New Market Entrants
- New Footprint in Emerging Markets

Creates Opportunities and Challenges

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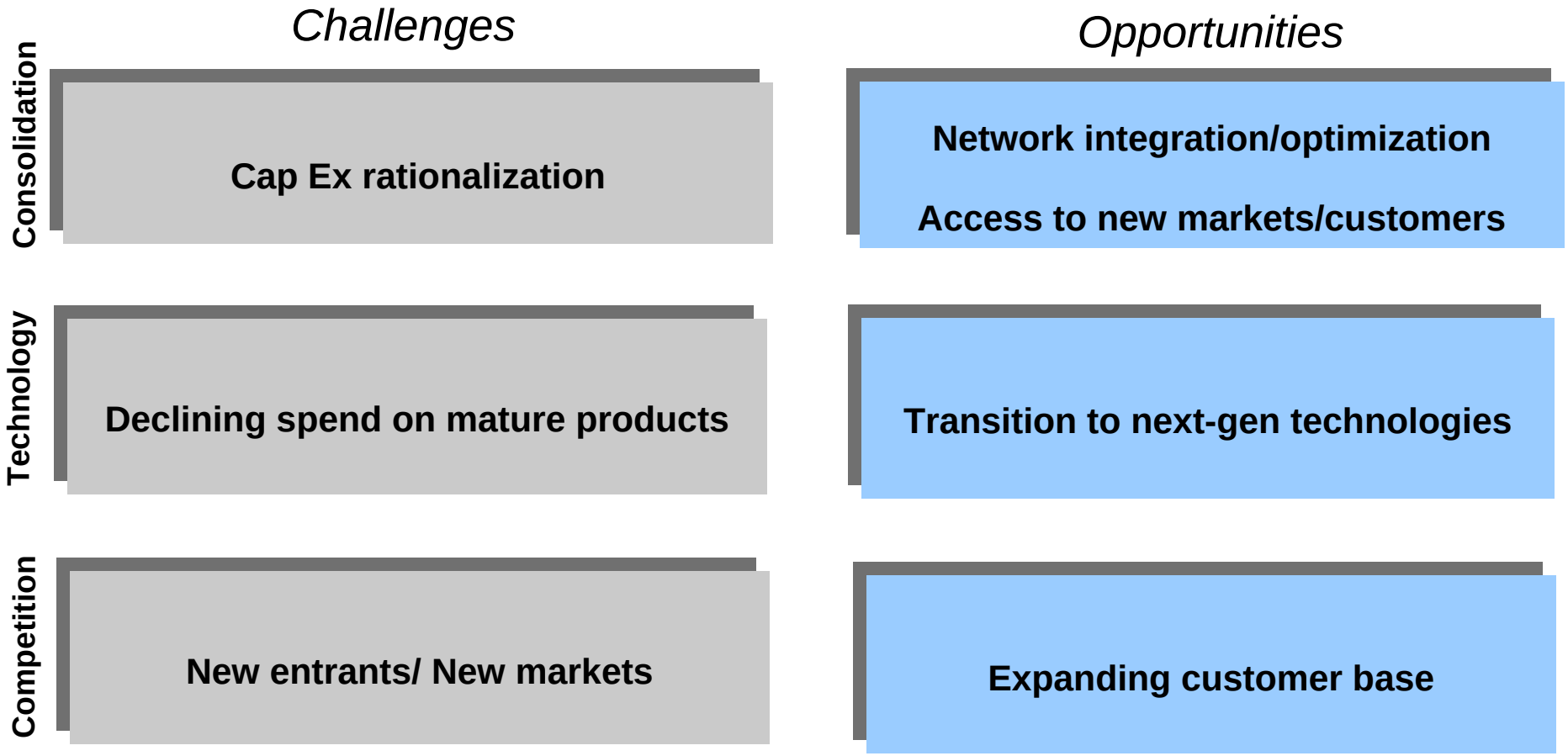
Telecom Market
Challenges and Opportunities



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Lucent Strategy for Growth

Expanding the Revenue Base

- **Build business in new markets**
  - Services, including managed and professional services
  - Emerging markets outside the United States
  - Government

- **Focus sharply on markets that are growing rapidly and are key to true service convergence**
  - Mobile high-speed data
  - VoIP
  - Next-generation optical networking
  - Broadband access

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Lucent Strategy for Growth
Expanding the Revenue Base

Opportunities in Emerging Markets

- Growing presence in the world's fastest-growing markets – China, India, Eastern Europe
  - About 10% of overall revenue coming from China business in FY04
- 1Q05 Non U.S. Revenue approximately 38% of Total Revenue
- Over 1/3 of headcount outside the U.S.
  - About 3,000 employees in China
  - Over 1,000 employees in India

✓New markets continue to open with recent Wireless wins in:

- ✓Telekomunikacja Polska in Poland
- ✓Zapp in Romania
- ✓Vietnam Power Telecom
- ✓TeleCard in Pakistan

Opportunities in Government Sector

- Growing Market
- Seasoned Government Team
  - Over 500 focused employees

✓Recent Government contract wins reaching outside US:

- ✓Lucent prime contractor for US Department of Defense in Iraq

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Lucent Segment Review

Mobility

- **Strong Performance**
  - Lucent Mobility revenue grew 31% in fiscal 2004 over the prior year and grew 19% in Q105 vs. Q104
- **Technology Leader**
  - Established leadership in mobile high-speed data and spread spectrum technologies
  - Global leader in CDMA – market share nearly double that of No. 2*
- **Increasing global footprint**
  - 3G networks deployed with more than 30 mobile operators worldwide
- **Recent contract announcements**
  - Verizon Wireless' commercial rollout of 3G CDMA2000 1xEV-DO services
  - 3G CDMA2000 1xEV-DO deployment with Sprint
  - UMTS breakthrough with Cingular in the US and mmO2/Manx in Europe

* Sources: Dell'Oro, RHK, Lucent, Synergy

Migration to 3G has begun - Lucent is well positioned

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Lucent Segment Review

Wireline

- Market in Transition
  - Lucent Wireline revenue declined by 11% in fiscal 2004 compared with the prior year and declined by 18% in Q105 vs. Q104
  - Overall rate of decline in spending on mature products, outpacing the slope of increased spending in other areas
- Continued focus on next-gen technologies
  - Next-gen optical portfolio, VoIP, broadband access
  - Enhanced portfolio with integration of Telica
- **Recent contract announcements**
  - Telecom Italia to deploy IP Centrex solution for hosted IP services to its customers
  - Deutsche Telekom's T-Com to upgrade copper infrastructure for high-speed Ethernet services
  - China Telecom to expand optical backbone network
  - Shandong Unicom to deploy VoIP residential and enterprise services

* Sources: Dell'Oro, RHK, Lucent, Synergy

Near term market challenging –
Selectively investing for long term growth

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Lucent Segment Review

Services

- **Continued Momentum**
  - Lucent Worldwide Services revenue increased 5% in fiscal 2004 compared with the prior year and grew 12% in Q105 vs. Q104
  - 2nd consecutive quarter with over $500M in revenue
- **Large but fragmented market** with no clear market leaders
  - Addressable market in 2005 of about $50 Billion*
- Leveraging **multi-vendor capabilities**
- **Bell Labs** – a key differentiator
- **Services Offerings** part of 12 recent contract announcements including:
  - Multi-year, multi-million dollar contracts with Sprint, Cingular, and mmO2
  - Vodafone for multi-vendor network integration and maintenance

** excluding Training and Billing & Customer Care Outsourcing*



Market dynamics catalyst for next generation services, playing to Lucent's strengths

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Lucent Long Term Vision
Future = True Service Convergence

- **What is Service Convergence?**
  - Fundamental shift in the way networks operate and are accessed to enable blended lifestyle services
- **How will it work?**
  - IP Multimedia Subsystem (IMS) is a standard architecture intended to enable the convergence of services such as:
    - Data
    - Voice/VoIP
    - Messaging
    - Multimedia technology over an IP-base network

Data

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Lucent Long Term Vision
True Service Convergence

- **Why are Service Providers interested?**
- Converged services enable operators to:
  - ✓ Retain ownership of the subscriber and their services
  - ✓ Differentiate services from competition
  - ✓ Provide transparent services across multiple access methods
  - ✓ Bring new services to market more rapidly
  - ✓ Generate additional revenue sources
- **Lucent has True Service Convergence**
- One of only a handful of vendors with the **complete portfolio** necessary to support our customers' visions of convergence – positions us to be a leader
- **37 trials** with 10 customers ongoing for IMS based network elements

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Lucent Long Term Vision
Targets

Long-Term Operating Targets:

- Revenue growth **at or above the market**
- Annual gross margin rate on a percentage basis in the **low 40's**
- Annual operating expenses as a percentage of revenue in the **high 20's to 30%**
- Operating return on sales in the **10% to 15% range**
- From Net Debt to **Net Cash**

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Key Takeaways

- Dynamic market is creating opportunities and challenges
- Lucent well positioned in near term and long term
- Our vision aims to enable multimedia services that people want by developing solutions that address the way services are converging
- Commitment to sustaining profitable growth
- Focused on creating long term shareholder value

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Forward-Looking Statement Disclosure

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.

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