2nd Quarter Fiscal Year 2005 Earnings Teleconference

April 19, 2005



2nd Quarter Fiscal Year 2005 Earnings Teleconference

Introduction

John DeBono

Investor Relations Vice President

Q2 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 April 19, 2005 Q2 earnings press release with accompanying financial tables.

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Opening Remarks

Pat Russo

Chairman & Chief Executive Officer

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Financial Review

Frank D'Amelio

Executive Vice President & Chief Financial Officer

Q2 Fiscal 2005 Financial Review

Quarterly Results Highlights

Lucent Technologies
Bell Labs Innovations

(in millions)

	Q2 05	Q1 05	Q2 05 vs. Q1 05
Revenues	2,335	2,335	-
Gross Margin %	42%	42%	-
Operating Expenses	700	665	35
Operating Income	275	319	(44)
Net Income	282	174	108
EPS - basic	0.06	0.04	0.02
EPS - diluted	0.06	0.04	0.02

Continue to Expect Annual Revenues to increase on a Percentage Basis in the Mid-Single Digits

Q2 Fiscal 2005 Financial Review

Significant Impact Items

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(in millions, except for per share figures)

	Q2 05	Impact Per Diluted Share	Q1 05	Impact Per Diluted Share
Related income tax impacts and other discrete tax items	103	0.02	-	-
Bad debts and customer financings	11	0.00	11	0.00
Business restructuring	8	0.00	(1)	(0.00)
Debt and convertible securities retirements	(3)	(0.00)	-	-
Shareowner lawsuit settlement	-	-	(71)	(0.01)
Payroll related liability reversal	-	-	40	0.01
Total	119	0.02	(21)	(0.00)
Weighted Average Common Shares - diluted	5,047		4,998	

Q2 Fiscal 2005 Financial Review

Segment Results

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(in millions)

	Q2 05	Q1 05	Q2 05 vs. Q1 05
MOBILITY:			
Revenues	1,202	1,152	4%
Segment Income	404	390	14
INS:			
Revenues	589	645	-9%
Segment Income	(12)	23	(35)
SERVICES:			
Revenues	499	520	-4%
Segment Income	57	74	(17)

Results Continue to Reflect Market Opportunities and Challenges

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Net Pension Credit	180	175	5

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

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Operating Expenses

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(in millions)

	Q2 05	Q1 05	Q2 05 vs. Q1 05
All Other SG&A	427	396	31
Bad Debts & Customer Financings	(11)	(11)	-
Total SG&A	416	385	31
R&D	292	279	13
Business Restructuring	(8)	1	(9)
Total Operating Expenses	700	665	35

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

Q2 Fiscal 2005 Financial Review

Cash Flow

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Bell Labs Innovations

(in millions)

	Q2 05	Q1 05	Q2 05 vs. Q1 05
Net Income	282	174	108
Changes in Other Non-cash Items	(109)	7	(116)
Changes in Working Capital	(99)	(113)	14
Changes in Other Op. Assets and Liabilities	(426)	(392)	(34)
Cash Provided by (Used in) Operating Activities	(352)	(324)	(28)
Less: Capital Spending	(43)	(34)	(9)
Add back: Restructuring - Cash Component	17	23	(6)
Cash Flow (incl. Capex, excl Restructuring)	(378)	(335)	(43)

As of March 31, 2005, Cash and Marketable Securities totaled $4.1 billion compared to $4.6 billion in the prior quarter

Q2 Fiscal 2005 Financial Review

Working Capital and Other Selected Metrics

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	As of		Change
	3/31/2005	12/31/2004	Q205 vs. Q105
WORKING CAPITAL METRICS			
Inventory Turns	6.2	6.1	0.1 Turn
Days Sales Outstanding (DSO)	60	55	5 Days

OTHER METRICS	Q2 05	Q1 05	Change
Vendor Finance Maximum Commitments (mm)	108	143	-24%
Vendor Financing Reserve (mm)	100	132	-24%
Headcount	31,000	31,500	-2%

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Selected Balance Sheet Items

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(in millions)	3/31/2005	12/31/2004	Change
Cash	1,967	2,381	(414)
Short-Term Marketable Securities	798	1,304	(506)
Long-Term Marketable Securities	1,342	880	462
Total Cash and Marketable Securities	4,107	4,565	(458)
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	2,274	2,362	(88)
Total Debt and Convertible Securities	5,874	5,962	(88)
Net Debt	1,767	1,397	370
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

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Recapitalization

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(in millions)

	Q2 05	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	77	20	274	519	-	890
Total	77	20	332	1,952	175	2,556
Common Shares Exchanged	-	-	22	563	58	643
Cash Used	80	21	249	487	-	837

Recapitalization actions, initiated in Q402, reduced annual fixed charges by approximately $160M

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Q&A Session

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Key Takeaways

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- **Financial Results**
  - Revenues of $2.34 billion, flat sequentially, up 6% year over year
    - Mobility revenues increased 4% sequentially and up 24% year over year
    - INS revenues down 9% sequentially and down 18% year over year
    - Services revenues down 4% sequentially and up 4% year over year
  - Gross margin rate of 42%, remained consistent with the prior quarter
  - EPS of $0.06 per diluted share included a net favorable impact from significant items of $0.02 per diluted share
    - Q204 EPS of $0.02 per diluted share included a net unfavorable impact from significant items of about $0.01 per diluted share

- **FY 2005 Guidance**
  - Continue to expect:
    - Annual revenues to increase on a percentage basis in the mid-single digits – which we believe is at or above the 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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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.