



February 2006

Dear Lucent Retirees:

I know that as retirees of Lucent, you are keenly interested in our progress, so I want to share with you information that will give you some context around some of our recent announcements and our view of the company's future. I also want to discuss two other areas of critical interest to you – the status of our pension funds and retiree healthcare benefits.

Results for First Quarter of Fiscal 2006

After consistently achieving improved financial results during the past two fiscal years, we recently reported a somewhat disappointing first quarter of fiscal 2006 – recording lower-than-expected revenues and posting our first quarterly loss in 10 quarters due to a large legal charge related to our previously disclosed judgment in the Winstar Communications case, which we are appealing. Excluding the charge for Winstar, we would have produced earnings per share of 4 cents due to tight operating expense management and good cost controls. For more details on our quarterly results, you can view our January 24 press release at <http://www.lucent.com/investor>.

This disappointing decline in revenues is a reminder of the challenges we face in our market and our business. That being said, however, I am confident that this is a temporary setback to the progress we have made. This one quarter does not define our year. We are confident that our revenue performance will be much stronger for the remainder of the year. We expect revenues in the second half of fiscal 2006 to be significantly higher than revenues during the first half of the year, based on our review of expectations and our ongoing interactions with customers.

Demonstrating Leadership, Pursuing Growth Opportunities

Over the past year, we have been focused on becoming a thought leader in the convergence of next-generation networks and the emergence of blended lifestyle services for people at work, at home or in between. Before the calendar turned to 2006, we had firmly established market leadership in next-generation networks based on the IP Multimedia Subsystem (IMS) architecture. This new industry standard will enable service providers to offer a range of new revenue-generating services that combine voice, video, data and mobility. We have announced IMS contracts with seven customers – more than anyone in the industry – and currently are conducting 77 trials for our IMS network elements with 16 customers. This early leadership in IMS will serve us well in the years ahead.

In addition to IMS, we continue to invest in some of the fastest-growing segments in our industry – including 3G mobility, services, applications, next-generation optical and access. We currently see opportunities around the world in each of these areas and continue to make our No. 1 job executing for our customers with speed, flexibility, passion and a sense of urgency.

Frank D'Amelio Named Chief Operating Officer

With our industry undergoing a dramatic transformation as the boundaries between the telecom, media and Internet worlds continue to blur, I decided the time was right for us once again to have a chief operating officer (COO) to ensure we continue to drive operational excellence across the business. So on January 13, I announced that Frank D'Amelio was appointed Lucent's new COO, responsible for leading sales, the product groups, the services business, the supply chain, IT operations and labor relations. I asked Frank, who is greatly respected both internally and externally, to take on this role so that we can accelerate some of the changes we have made to address profitable growth opportunities and to drive flawless execution across the business. With Frank as COO, I can spend more of my time with customers and focus on both strategic growth opportunities and business issues that will help us build upon our strong technology and market expertise.

Pension Funding

Let me now turn to a topic that I know is particularly important to retirees – the security of your pension plans. There has been a great deal of media coverage recently about pensions, the current accounting rules for pension plans, and the funded status of pension plans. We take our responsibility to investors seriously and always report our financial results in accordance with U.S. Generally Accepted Accounting Principles (GAAP), and we supplement our reported results with comprehensive disclosures designed to provide transparency to investors. I want to reassure you that Lucent's pension plans remain well funded under the current federally mandated ERISA rules (a federal pension law – the Employee Retirement Income Security Act). We remain prudent in our management of these pension assets and provide robust financial disclosures to our investors.

We are required by ERISA to have independent actuaries review our qualified pension plans each year to see if we need to contribute funds to them. We haven't had to make contributions to these qualified plans since their inception in 1996, and we currently do not expect to make contributions through fiscal 2007. Based on our actuarial projections and under the current law, we believe it is unlikely that any required contributions would have a material effect on our liquidity during fiscal 2008 through fiscal 2010.

That said, we are closely monitoring legislative changes that would impact U.S. pension plans that are being proposed by the Bush Administration and various members of Congress. Lucent fully supports the overall intent of the proposals, which is to ensure that workers receive the pensions to which they are entitled without creating any taxpayer liability. However, we are studying the proposals to be sure that they don't contain unnecessary funding requirements that would divert capital from other important uses, including investment in R&D, which could hamper a company's long-term competitiveness and viability.

Pension Management

I know many of you have asked us about how the pension funds are managed. Lucent's pension assets are managed by the Lucent Asset Management Corporation (LAMCO), a separate wholly owned subsidiary. The LAMCO staff is made up of investment professionals who have joined Lucent from a variety of highly regarded investment institutions. Their objective is to maximize the returns on our pension assets by assuming an appropriate level of risk. Lucent's Board of Directors sets the policy for what types of investments are appropriate for Lucent's pension plans and reviews that policy on a regular basis (every three years). The policy they have put in place

is a prudent approach that is consistent with the approach employed by other large U.S. corporate pension plans. It is a well-diversified portfolio structured to meet our current and future pension obligations. We provide extensive information on our pension funds as part of our regular financial filings. You can find information about Lucent's pension plans beginning on page F-59 in our most recent 10K filing that can be accessed at www.lucent.com/investor/SECfiling.html.

Lucent's Board of Directors also reviews the performance of the pension plans every year. In fact, the returns on our pension assets have generally outpaced the assumptions we have made regarding the returns on those assets (most recently, we have assumed an 8.5 percent return). When we average the rates of return over 10 years, our returns were 10.6 percent, 11 percent and 9.9 percent per year for the 10-year periods that ended in fiscal years 2005, 2004 and 2003, respectively. The best performing asset class within the portfolio over these periods, as well as over the time Lucent has been managing the pension assets, has been private equity. And, if you just look at the rate of return over the past year, for our fiscal year that ended September 2005, the performance of our overall pension assets was well over our assumed return rate of 8.5 percent.

LAMCO subscribes to Wilshire Associates Trust Universe Comparison Service (TUCS) to compare its returns to over 80 other corporate pension funds. TUCS is a widely accepted benchmark for the performance of pension funds. Looking back over the last 10 years, the annualized or average investment returns of Lucent's pension assets have been better than 90 percent of the other companies in the TUCS universe.

Healthcare Benefits

Of course, healthcare is another topic that has gotten a great deal of media attention as well. Lucent continues to provide comprehensive healthcare coverage for some 114,000 retirees and 68,000 dependents, as well as access to medical coverage for an additional 9,000 dependents.

In September 2005, we sent refunds to management retirees who retired on or after March 1, 1990, totaling about \$14 million because the cost of their healthcare was projected to be lower than anticipated in 2005. You may recall that in the past, Lucent was able to transfer excess pension assets to pay for a portion of the cost of management retiree health care. In return for using pension plan assets in this way, the company had to maintain for five years the average cost per participant that it paid in the year prior to the year of the transfer. Because the average cost per participant was less than the minimum funding level required in 2005, we issued a refund. Please note that this refund was paid from the general assets of the corporation, not the pension trust.

Even as overall medical costs continue to rise, we have seen a decrease in our costs for medical services and prescription drugs for management retirees due to your increased use of programs that Lucent offers to control costs – such as in-network physicians and facilities, generic and formulary prescription drugs, and our mail-order prescription drug program. For most of our retirees and their dependents – more than 95 percent – there were only modest or even no increases in the premiums for 2006. We did have to increase the premiums for the dependents of those management retirees who retired on or after March 1, 1990, and made more than \$65,000 at the time of their retirement. That change impacted about 9,000 people out of the more than 190,000 (occupational, management and dependents) who have our healthcare coverage. In 2005, for those 9,000 people, the cost to provide dependent coverage was higher than what was paid in, so we had to increase 2006 premiums accordingly.

New Programs for Healthcare Management

To help you effectively direct your healthcare and be an efficient consumer, Lucent is expanding access to programs to help you assess your health risks and manage them wisely. I encourage you to take advantage of the programs offered by many of our health providers and HMOs.

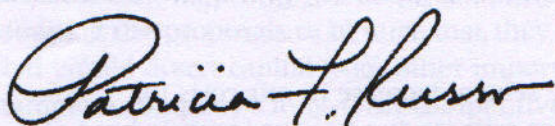
In addition, we have just started a program with the Mayo Clinic for those who are not yet eligible for Medicare and won't be for at least a year. Eligible participants can enroll in new disease management programs for asthma, diabetes, and/or cardiovascular disease from the Mayo Clinic. If you are eligible for one of these programs, a member of the Mayo Clinic Advisor staff will contact you. Or, you can contact Mayo Clinic Health Information directly at 1-866-876-5866. When you enroll, a nurse provides a comprehensive educational program, action plan and personal coaching to help you better manage these health risks and enhance current treatment plans you receive from your physician.

As rising medical expenses continue to be a concern, disease management programs are a new way Lucent is helping employees and retirees control these expenses. I encourage you to take advantage of these programs and others that promote good health. By working together, we can continue to control medical expenses and provide you with access to quality healthcare coverage. We continue to monitor the costs of these programs on a year-to-year basis, and we will keep you informed.

A View to the Company's Future

As we look ahead, while we have made steady progress in many areas, we know we have more work to do. Your former colleagues are a dedicated, experienced and talented group of people. They have brought the company through an extremely trying time in our industry. We continue to operate in an uncertain worldwide market that remains challenging. We are focused on meeting those challenges, continuing to profitably grow the company, exceeding the needs of our customers and further enhancing our position as a leader in next-generation networks. Driving growth on the top line and doing it profitably and with integrity is a top priority for us. And over the long-term, that's what drives value for our shareholders, employees and retirees.

Sincerely,

A handwritten signature in black ink that reads "Patricia F. Russo". The signature is written in a cursive, flowing style.

Pat Russo