

To AT&T Investors:

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AT&T continued to set the pace for the industry in 2008. We grew revenues and earnings per share. We strengthened our position in key customer segments. And we returned value to stockholders through share buybacks and a strong dividend.

But here's what I'm most proud of: We delivered those strong results in a very challenging economic environment. Despite the downturn, the demand to stay connected — wirelessly and over the Internet — continues to grow globally. And we are focused as never before on meeting that demand.

In fact, no company is better positioned to capitalize on this growth and deliver on the vision I laid out in these pages last year — to connect people with their world, everywhere they live and work, and do it better than anyone else.

My No. 1 job is to ensure that AT&T grows over the long term, and I'm confident we have what it takes to do that. We have the best brand in telecom. We offer superior networks, products and capabilities. And we're investing significantly in fast-growing areas to meet the increasing demand for connectivity.

The volatile economy demanded even more financial strength, flexibility and disciplined execution, and we delivered. We spotted the economic slowdown early in the year and quickly moved to reduce costs without sacrificing growth opportunities or customer service. As a result, we ended 2008 as we began it — financially strong, with world-class operations and clear market leadership. In 2009, we plan to repeat that performance, in what continues to be a challenging environment.

Our success is reflected in our 2008 financial highlights:

- ▶ Reported consolidated revenues were up more than 4 percent to \$124 billion.
- ▶ Reported earnings per share grew 11.3 percent to \$2.16 per share.
- ▶ We returned \$15.6 billion to stockholders through dividends and share repurchases.
- ▶ We also delivered strong cash flow, enabling us to achieve our 25th consecutive year of dividend growth by increasing our quarterly dividend 2.5 percent in December. Our commitment to create long-term value for our owners underpins all our plans.

Randall Stephenson
Chairman, Chief Executive Officer
and President



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Delivering more of what customers want

Around the world, businesses and consumers are looking for more mobility, connectivity and speed. They are hungry for expanded access to Internet applications and content and for seamless integration of devices, networks and services. They can't get enough of the communications capabilities that make their lives better and their businesses more productive.

AT&T is in the best position to satisfy this demand. We've built our business around the pillars of mobility, data and Internet Protocol (IP) to provide the fully integrated, everywhere connectivity that our customers want and expect.

Among our accomplishments during the past year:

Mobility

- ▶ In 2008, AT&T added more wireless subscribers than any other U.S. provider, led the industry in wireless data growth and had twice as many smartphones in service than any of our competitors.
- ▶ One of the keys to this growth was the industry-shaping product launches that have become our hallmark. Our exclusive U.S. launch of Apple iPhone 3G was a blockbuster hit — and arguably the most important consumer product rollout of the past decade. This device has dramatically redefined the wireless smartphone market.

In the first six months after launch, we activated 4.3 million iPhone 3Gs. What's more, about 40 percent of those customers were new to AT&T.

- ▶ Another AT&T exclusive — the BlackBerry® Bold™ — was one of the top-rated business wireless broadband devices introduced last year. It gave our customers a whole new level of mobile connectivity.
- ▶ iPhone 3G and other wireless data devices strengthened our leadership in mobile data. Our full-year wireless data revenues grew 52.5 percent to more than \$10.5 billion. As customers increasingly access data wirelessly, we've also seen per-subscriber revenues rise. And as wireless



data usage continues to expand and as more devices can connect wirelessly, we're investing aggressively to build on our industry leadership.

TV

- ▶ More than 1 million customers now subscribe to AT&T U-verseSM TV service. They were attracted to U-verse's great features, such as High Definition (HD) channels and Total Home DVR, which allows recordings to be accessed on multiple TVs in a single home.
- ▶ We're proud that U-verse ranked highest in customer satisfaction in the North Central, South and West regions according to the J.D. Power and Associates 2008 Residential Television Service Satisfaction Study^{SM,1}

We've built our business around the pillars of mobility, data and Internet Protocol to provide the fully integrated, everywhere connectivity that our customers want and expect.

AT&T Senior Officers

Left to right: **Jim Cicconi**, Senior Executive Vice President-External and Legislative Affairs, AT&T Services, Inc.; **John Stankey**, President and Chief Executive Officer, AT&T Operations, Inc.; **Rick Lindner**, Senior Executive Vice President and Chief Financial Officer; **Bill Blase Jr.**, Senior Executive Vice President-Human Resources; **Cathy Coughlin**, Senior Executive Vice President and Global Marketing Officer; **Randall Stephenson**, Chairman, Chief Executive Officer and President; **Ralph de la Vega**, President and Chief Executive Officer, AT&T Mobility and Consumer Markets; **Wayne Watts**, Senior Executive Vice President and General Counsel; **Jim Callaway**, Senior Executive Vice President-Executive Operations; **Ray Wilkins Jr.**, Chief Executive Officer-AT&T Diversified Businesses; **Forrest Miller**, Group President-Corporate Strategy and Development; **Ron Spears**, President and Chief Executive Officer, AT&T Business Solutions.



AT&T's long-term future remains very bright. The underlying global demand for connectivity continues to grow — and no company is better positioned to meet it than AT&T.



Wi-Fi

Business

- ▶ AT&T continues to set the standard for serving the complex connectivity needs of businesses worldwide. We help them stay connected with their employees and customers through a broad array of IP-based networking solutions that allow them to extend their reach, reduce costs and seize competitive advantage.
- ▶ AT&T is the industry leader, serving millions of businesses, including all of the Fortune 1000, and operating on six continents. And we built on this No. 1 position last year — winning global contracts with such companies as Shell, Starbucks, Boeing, Smiths and Best Buy. We also captured significant new regional business, including with the state governments of Tennessee and Georgia. And we turned around our wholesale business with big wins made possible by our strategic alliance with IBM.
- ▶ AT&T was recognized as a leader in serving businesses of all sizes by industry analyst firms, including IDC and Compass Intelligence.

Local search

- ▶ YELLOWPAGES.COM — which connects people with local businesses through wireless devices, PCs and AT&T U-verse TV — continues to grow rapidly, with more than 1.8 billion local searches across the YELLOWPAGES.COM network in 2008. AT&T also continues to lead in print local search with AT&T Real Yellow Pages.

IP network bandwidth

- ▶ To stay ahead of customer demand for mobility and speed, we expanded our fastest-in-the-U.S. 3G wireless network to nearly 350 major metropolitan areas and strengthened our No. 1 position in mobile data. We also extended our industry-leading Wi-Fi hotspot footprint to nearly 20,000 U.S. hotspots and a total of more than 80,000 worldwide.
- ▶ We more than doubled the living units passed by our AT&T U-verse network to nearly 17 million.
- ▶ We continued to invest in fixed-line broadband, launching a new 18-megabit-per-second broadband service in several U.S. markets where we've deployed our U-verse network.
- ▶ To support our customers' growing desire to access data, software applications and video at higher speeds, we completed the world's largest deployment of 40-gigabit-per-second transport — the fastest available Internet backbone technology — across our entire U.S. network.

Across the board, we have significantly improved our ability to deliver more for customers. In the process, AT&T has become a much different company than we were just two years ago. Today, nearly two-thirds of our revenues come from wireless and data — including IP, broadband and video — areas where we expect robust growth in the years ahead.

Disciplined leadership and execution

No one knows for certain when the economy will improve. But I can promise you that we will continue to follow a proven strategy to manage through downturns. We are pursuing every avenue to control expenses and improve processes. We are prioritizing investments to capitalize on our growth opportunities. And we will continue to maintain a strong balance sheet. Behind these efforts is a seasoned, disciplined leadership team that knows how to execute. Our objective is to drive cash flow, enabling us to create long-term value for stockholders and invest in AT&T's future. I have every confidence that we will emerge stronger than our competitors when the economy recovers.

I'm just as confident in our ability to generate long-term growth by strategically investing in areas that build on our industry leadership:

- ▶ Adding mobility to meet our customers' growing need to connect and access content and applications anytime and from more places.
- ▶ Delivering more bandwidth to support the exploding volume of traffic that travels over our networks.
- ▶ Expanding our scale to provide connectivity to more people in more locations.
- ▶ Delivering additional value-added applications and services efficiently and seamlessly over our networks.

Investing in our communities, our environment

We remain committed to investing in our communities, too. That includes bringing 3,000 jobs back to our U.S. payrolls. It's part of our total commitment to return 5,000 jobs, most of which were previously outsourced offshore by our vendors.

As always, our employees reached out to help their neighbors, from rebuilding efforts in the wake of devastating storms to mentoring students through job shadowing initiatives. And AT&T supports their good work with charitable dollars, including our \$100 million AT&T Aspire initiative to combat high dropout rates in U.S. high schools.

We also recognize our responsibility to minimize our impact on the environment. So, we're more committed than ever to sustainable operations. We formed an Energy Council, comprised of executives across the company, to improve and optimize energy efficiencies. We use alternative energy where possible and have expanded the use of alternative-fuel vehicles in our fleet.

What sets AT&T apart

Let me leave you with a couple of thoughts:

- ▶ Our long-term future remains very bright. The underlying global demand for connectivity continues to grow — and no company is better positioned to meet it than AT&T. My confidence flows from the knowledge that we offer the best products and services in

every customer segment.

As a result, we expect continued revenue growth in 2009.

- ▶ When the economy rebounds, we will be ready to capitalize on our financial strength, our market leadership and our disciplined investment strategy to accelerate revenue growth beyond our current expectations.

I'm also confident that the people of AT&T — with their competitive drive, their passion to serve and their commitment to innovation — will be a significant competitive advantage as we continue to lead our industry.

Our employees are a big reason why AT&T has been named the world's most admired telecommunications company by *Fortune* magazine nine of the past 12 years. I thank them for all they do.

Finally, I thank you, our investors, for your continuing confidence. We have substantial opportunities ahead of us to deliver more for our customers and to build value for you. I look forward to reporting on our continuing progress.

Sincerely,



Randall Stephenson

Chairman, Chief Executive Officer and President

February 17, 2009



Above: Great services. Great devices. Great networks. They all work together to keep our customers connected — anytime and in more places.

Consumer Services

The need to stay connected — with people, events, information — is integral to the way we live our lives. From the moment we get out of bed to the second our head hits the pillow, we use a variety of devices to check e-mail, text friends, share photos, download songs, update social networking sites, surf the Web and watch movies and TV shows.

No wonder the demand for anytime, anywhere connectivity continues to grow. And as it does, no one is better positioned than AT&T to deliver that connectivity — from wireless and video to wired broadband and Wi-Fi.

Fast connections in a wireless world

Today's consumers expect two things. They want to stay connected wherever they are. And they want to do that at broadband speeds. So mobility and speed are the cornerstones of our consumer wireless business.

It starts with the best wireless coverage worldwide — available in more than 210 countries for voice and more than 160 for data. It continues with the nation's fastest 3G network — available in nearly 350 major metropolitan areas. And looking to the future, we continue to invest in our networks to offer more speed in more places. In 2009, we'll continue to expand and enhance our 3G wireless network; we plan to begin testing peak speeds up to 20 megabits per second — about six times faster than today's top speeds. Over the

next few years, our wireless networks will be even faster. So as the demand for connectivity grows, AT&T will be ready.

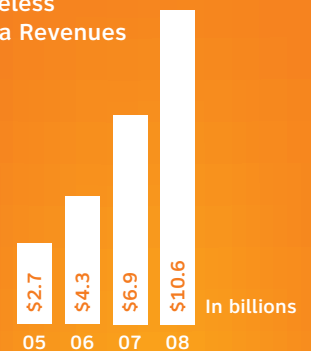
Great devices on a great network

A premier network attracts strong alliances and terrific devices. That's why AT&T brings our customers the hottest devices available today.

Two years ago, we worked with Apple to introduce the iPhone, the world's first truly mobile computing device. In 2008, we again joined with Apple to introduce iPhone 3G. Carried exclusively by AT&T in the U.S., iPhone 3G takes the mobile experience to a whole new level — with faster speeds, more functionality and greater computing capabilities. We're proud that iPhone 3G is now the best-selling wireless device in the U.S.²

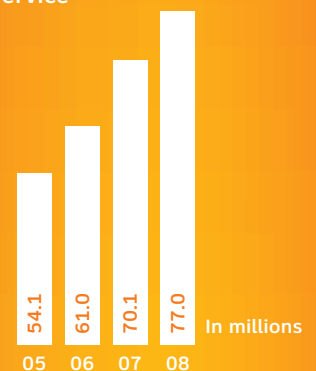
Another AT&T exclusive, the BlackBerry Bold gives customers who prefer a traditional keyboard another choice of a powerful 3G device. The Bold offers 3G services in more than 65 countries, 2G data services in more than 160 countries and voice service in more than 210 countries.

Wireless Data Revenues



Internet, messaging, e-mail and video are driving strong data revenue growth.

Wireless Subscribers in Service



AT&T added 7.0 million subscribers in 2008, more than any other U.S. carrier, and ended the year as the nation's largest wireless provider.



AT&T added more wireless subscribers in 2008 than any other U.S. carrier.

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We also offer a full portfolio of mobile phones to match every need, lifestyle and pocketbook: from GoPhone® prepaid phones to a large lineup of devices designed for easy texting, from video-capable devices to a full suite of smartphones.

Doing more on the network

Today, keeping people connected means helping them access their favorite content and applications — from wherever they are and on whatever device they're using.

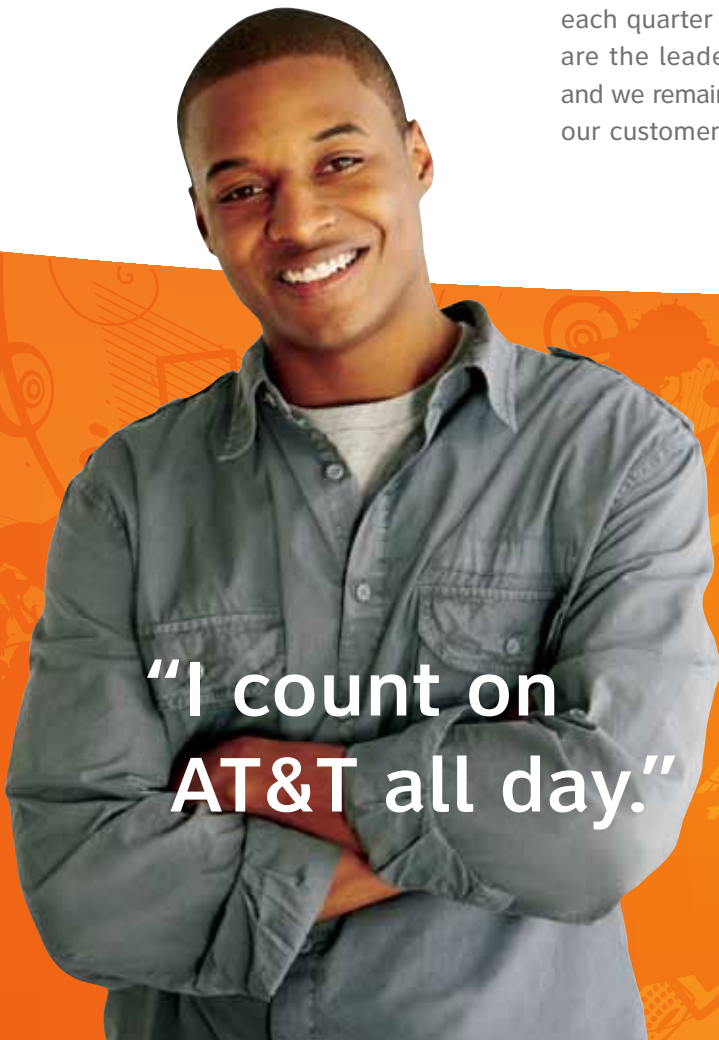
That's why we're giving our customers more content choices — and delivering additional capabilities to their wireless handsets. By the end of last year, our customers had access to more than 90,000 pieces of mobile content — ranging from mobile banking and social networking services to local search with YELLOWPAGES.COM Mobile and international mapping and directions with AT&T Navigator.

As customers used their wireless devices to do more things, we saw our wireless data revenues grow by more than 50 percent each quarter in 2008. Today, we are the leader in wireless data, and we remain focused on helping our customers do even more.

Defining the future

Mobility isn't just about people connecting with people. We are quickly moving toward a world in which any electronic device can wirelessly connect to our network. To address this opportunity, we created a new organization to bring wireless connectivity to entirely new classes of devices and applications — including in-car entertainment, navigation systems, cameras, book readers, gaming devices and many more. By some estimates, service revenues from these mobile Internet and machine-to-machine devices could reach more than \$90 billion by 2013.³ We will be positioned to capitalize on this growth.

Today, more than 1 billion devices connect to AT&T's wired and wireless networks — and it took us more than a century to get there. As we continue to pioneer new ways for people and devices



"I count on AT&T all day."



7:30 a.m. My alarm goes off, and I start blasting Ludacris to wake myself up.

- iPhone 3G alarm.
- Music on iTunes.



8 a.m. Surfing the Web over breakfast to catch up on my favorite blogs and check the weather. Hmm ... cloudy and 37 degrees today. Better grab my coat.

- Surfing the Web is easy with superfast U-verse Max 18 Mbps Internet service.

to stay connected, we expect to reach the next billion devices within the next 10 years.

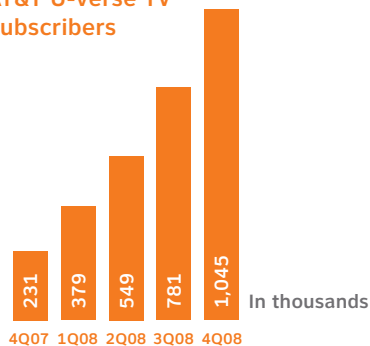
AT&T U-verse — a better TV experience

In 2008, our IPTV service, AT&T U-verse, reached a major milestone. After just more than two years on the market, the service now has more than 1 million customers. It's no wonder so many people are choosing AT&T U-verse. It offers an extensive HD lineup, more control and — customers say — a more satisfying TV experience. In fact, last year, AT&T U-verse ranked "Highest in Residential Television Service Satisfaction in the North Central, South and West Regions," according to the J.D. Power and Associates 2008 Residential Television Service Satisfaction Study.¹ And a well-known magazine recently found AT&T U-verse to be a leading TV bundle.

Because AT&T U-verse uses IP technology — the language of the Internet — we can continually improve the features and services we offer and stay ahead of our customers' expectations. For example, our Total Home DVR lets users record up to four shows at once on a single DVR — and play them back on up to eight connected TVs. And last year, we introduced AT&T U-verse Voice, our IP home phone service that provides new, integrated features such as the ability to view call logs on U-verse TV.

Adding to our Advanced TV portfolio, our new alliance with DIRECTV gives consumers the option of AT&T | DIRECTV satellite service as part of an AT&T bundle, including wireless, broadband and home phone services.

AT&T U-verse TV Subscribers



AT&T U-verse subscribers in service reached more than 1 million in 2008.



AT&T U-verse ranked "Highest in Residential Television Service Satisfaction in the North Central, South and West Regions," according to the J.D. Power and Associates 2008 Residential Television Service Satisfaction Study.¹



1:30 p.m. I gotta have a new flat-screen TV — the old one doesn't do justice to my HD picture. I find the closest Best Buy and get directions that steer me around a traffic jam.

- AT&T U-verse has a supersharp HD picture.
- With YELLOWPAGES.COM Mobile.
- Thanks to AT&T Navigator.



7 p.m. I found a great new sushi restaurant. My girlfriend is pretty impressed. I forgot I wanted to record the Mavericks game, so she uses her phone to program my home DVR.

- With Urbanspoon on iPhone 3G.
- AT&T U-verse users can program their DVR from a wireless device.



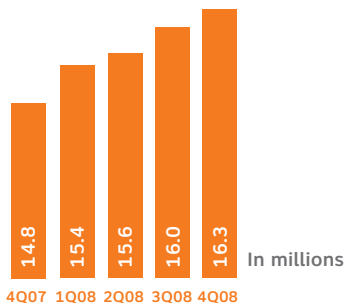
10:30 p.m. I kick back to watch the Mavericks — my girlfriend watches "Jon & Kate Plus 8" in the other room. Wow, close game! I hit pause and, when "Jon & Kate Plus 8" is over, I join her on the couch and we watch the Mavs pull out a big win. Then I head to bed ... I'm sleeping in tomorrow!

- Total Home DVR with AT&T U-verse lets viewers pause and restart recorded programs on multiple TVs.



Across the three screens our customers rely on most — wireless, PC and TV — AT&T brings the world home as no one else can.

Total Broadband Subscribers



AT&T has the most broadband subscribers in the U.S. (includes 3G LaptopConnect and wired broadband subscribers).

Broadband at home and on the go

Wherever they are, whatever device they're using — people expect broadband connectivity. That's why we continue to invest in our wireless and wired networks to deliver the speed, affordability and range of services our customers need. Combining wired and wireless, AT&T has more broadband subscribers

No one can match our unique range of assets and capabilities — or our commitment to stay ahead of what our customers want.

than any other U.S. provider. In addition to wireless broadband access in nearly 350 major metropolitan areas in the U.S., we offer wired broadband service in our 22-state footprint. For millions of homes with access to AT&T U-verse, that includes Internet service at speeds up to 18 megabits per second. To provide even more options, AT&T is proud to feature the country's largest Wi-Fi hotspot network. AT&T customers with LaptopConnect cards and select smartphones and virtually all AT&T wired broadband customers can access more than

17,000 AT&T Wi-FiSM Hot Spots nationwide, including thousands of Starbucks locations — at no extra cost.

Add it up

When it comes to keeping people connected with their world and in control of their busy lives, no one can match our unique range of assets and capabilities — or our commitment to stay ahead of what our customers want. That's why AT&T is an industry leader. And it's why we will keep working hard to help our customers do even more in even more places.

Business Services

Connectivity has always been at the core of business success.

It's how companies reach customers, suppliers and employees — and how they increase productivity, improve efficiency and grow revenues. That's one reason the global demand for connectivity continues to increase year after year. And it's why for more than 130 years, businesses of all sizes and types have turned to AT&T. As a result, we are the leading provider of the connectivity companies need to accelerate their success in today's global economy.

All around the world, companies are looking for new ways to unleash the power of communications networks and capabilities. They want to do more, do it better and do it in more places — as efficiently and effectively as possible. And AT&T is uniquely positioned to deliver.

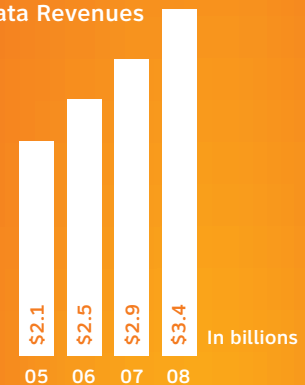
We proudly serve the needs of every single company in the Fortune 1000. Over the past few years, we have invested billions to expand the reach, speed and power of our wireless and wired networks. Today, AT&T offers the world's most advanced, powerful IP network. We offer the best wireless coverage worldwide, the fastest 3G network in the U.S. and the largest U.S. Wi-Fi network. We have strategic agreements with top companies such as IBM and Cisco Systems, Inc. And we are an industry leader when it comes to providing companies with the mobility solutions and managed networking services they need to compete more effectively.

Doing business on the go

Business isn't always done in the office. Increasingly, it happens wherever companies' customers, suppliers and employees are — across the U.S. or around the world. As a result, today's workforce is more mobile than ever. And those workers on the move need high speed access to their corporate networks and to the software applications that run on them.

We're empowering our customers to do business on the go with the best wireless coverage worldwide, the fastest 3G network in the U.S. and great wireless data devices — from LaptopConnect to our exclusives on iconic wireless devices. We provide the mobile applications and services businesses need to make sales, solve problems and serve customers from any location. We're the leader in wireless data. And we continue to invest in our wireless networks to deliver even more speed and bandwidth in the years ahead.

Enterprise IP
Data Revenues



Accelerated demand for VPNs, managed Internet services and hosting is driving strong growth in IP data revenues.

Industry analyst firm IDC named AT&T as the leading provider of global networking solutions to multinational corporations.⁴





The state of Georgia awarded AT&T a five-year, nearly \$350 million contract. "AT&T and IBM are best-in-class suppliers who deliver an unbeatable value proposition of expertly managed network operations and information technology. Georgia's systems are now more efficient and reliable and deliver greater value to our taxpayers," says the state's chief information officer, Patrick Moore, shown here with his team: (left to right) Steve Nichols, Kriste Elia and Derek Reynolds.

Complex needs, sophisticated solutions

As companies expand their operations to compete in the global economy, they need a partner who can support them every step of the way. For more and more companies, that partner is AT&T.

We're proud to have the No. 1 global IP network for multinational corporations. In 2008, we invested significantly to improve the reach, quality and reliability of our global IP-based network. And we increased our global data center capacity to handle the exploding demand for increasingly data-rich applications and services.

Last year, we introduced a broad range of networking products and solutions designed to help businesses increase their efficiency. AT&T's Telepresence Solution with Cisco makes it possible for companies to stay in frequent and meaningful contact with their employees, suppliers and other trusted partners in real time through



6 a.m. The kids'll be up in 30 minutes. Time to run through e-mails on my BlackBerry. Big meeting today — need to make sure the team is ready.

BlackBerry Bold, an AT&T exclusive.



12:30 p.m. Talking sales with the London office on a video conference. This HD picture's so sharp I can tell Charles in marketing didn't get a lot of sleep, either. During a break, I check in with my son: "RU going 2 baseball 2day?"

AT&T Telepresence Solution with Cisco.



5 p.m. Headed to airport for flight to Paris. My boss needs an updated sales report. I'm on it, thanks to wireless access from my laptop. We're up 7 percent year over year. Could be too much of a good thing ... but our Web site can handle the traffic.

Using AT&T's 3G LaptopConnect card. Thanks to Synaptic Hosting from AT&T.

High Definition, lifelike video conferencing. And AT&T ConnectSM, our unified communications service, enables workers to collaborate virtually through their computers. These solutions help our customers improve productivity and reduce travel costs — while reducing greenhouse gas emissions.

We also began rolling out AT&T Synaptic HostingSM, our next-generation utility computing service, in 2008. This helps companies improve performance and reduce costs by outsourcing the hosting and management of their core computing resources and applications to AT&T.

As companies take advantage of IP networks, the demand for video and other high bandwidth-intensive applications will continue to grow. Our new AT&T Digital Media SolutionsSM portfolio helps companies deliver video and rich

multimedia Web content to the three screens that matter most to their customers — their wireless devices, their computers and their televisions.

A recognized leader

In 2008, our ability to deliver innovative solutions led to several major contracts, each worth several hundred million dollars or more:

- ▶ Royal Dutch Shell signed a five-year, estimated \$1.6 billion contract for AT&T to deliver services and applications and manage Shell’s mobility needs for 150,000 employees worldwide.
- ▶ The Boeing Company chose AT&T to be its primary telecommunications provider.
- ▶ The U.S. Department of Veterans Affairs selected AT&T as a primary communications provider.

- ▶ Tennessee signed a 10-year deal with AT&T to upgrade the state’s broadband network for government agencies and schools.

As the complexity of communications networks and services continues to grow, companies of all sizes are looking for strategic relationships to help them increase productivity and reduce costs.

A powerful tool in our global services portfolio is our strategic relationship with IBM — a long-standing alliance that grew deeper in 2008, following an expanded agreement signed in late 2007.



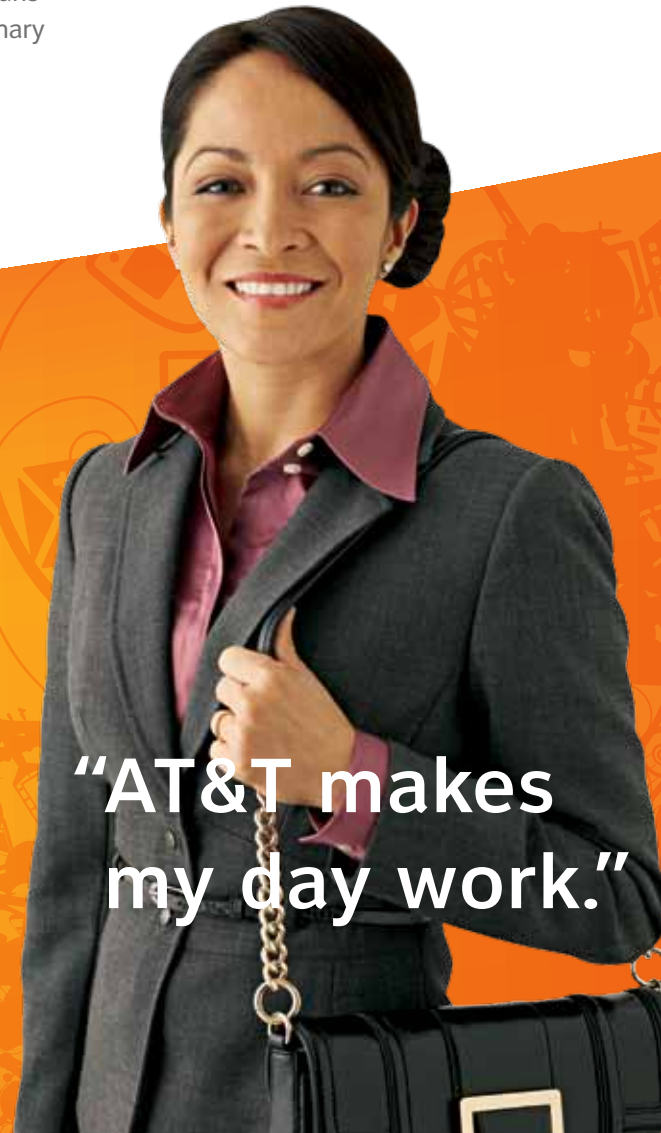
9 a.m. (Paris time)
The team’s been up all night. We’re working in a virtual conference room, complete with whiteboard, so it’s as if they’re right down the hall.☺

- ☑ With Virtual Private Network service and AT&T Connect.

12 p.m. (Still in Paris) I’ve got some questions about the sales reports. Good thing I’ve got wireless access even in France.☺ I call the team and get the data I need before heading into my meeting. Even after a long, long day, it’s nice to deliver good news.

- ☑ AT&T has the best wireless coverage worldwide of any U.S. wireless provider.

“AT&T makes my day work.”





Best Buy doesn't just sell electronics — it co-creates solutions, enabling people to put technology to work in their homes and businesses. But when Best Buy needs to put technology to work in its own global operations, it looks to AT&T, one of its key providers.

As Best Buy's primary wireless carrier, AT&T's global coverage increases the retailer's productivity worldwide. And as Best Buy expands to China, Mexico, Turkey and beyond, AT&T provides the network solutions to connect and manage Best Buy's stores, sales offices and corporate headquarters. With Telepresence video conferencing, courtesy of AT&T and Cisco, Best Buy also creates a virtual meeting environment to build closer relationships and collaborate in real time with key partners, vendors and suppliers.

"We needed a reliable network platform that could expand globally and provide consistent service and support for our business," says Robert A. Willett, chief executive officer of Best Buy International and chief information officer. "Across our business, AT&T provides a scalable infrastructure that allows us to consistently deliver excellent customer service worldwide."

Robert A. Willett,
CEO of Best Buy
International and CIO



Industry analyst firm Gartner recognized AT&T in the Leaders Quadrant for:

- ▶ Global, U.S. and Pan-European Network Service Providers
- ▶ U.S. Wireless Service Providers
- ▶ North American Web Hosting
- ▶ Worldwide Managed and Professional Network Service Providers
- ▶ Web Conferencing⁵

Working closely with IBM, we're delivering an unmatched combination of information technology and networking capabilities to a vast global customer base. Through our IBM agreement, we not only added on-the-ground support and networking expertise in 48 countries worldwide, we closed more than a dozen new contracts in 2008, with an expected revenue stream totaling \$1.3 billion.

As the trend to outsource non-core business processes and operations continues, we're also at the forefront of providing services that help customers reduce their IT costs even as they expand their connectivity. For example, Scottrade, a leading online investment firm, turned to AT&T to manage its Internet services and connect its data centers.

Small businesses, big solutions

More than 3 million small and midsize businesses look to AT&T for integrated communications products and services that allow them to do more with less — and do it more effectively and efficiently.

Day in and day out, these are businesses on the go. Mobile voice and data solutions are critical to their success. AT&T's leadership in mobile communications enables us to deliver those solutions. Our portfolio of innovative solutions extends to local search with YELLOWPAGES.COM and AT&T Real Yellow Pages that connect these businesses with customers who are ready to buy.

Great support and useful business tools help businesses of all sizes stay connected. One such

In 2008, AT&T was recognized as having the "Best Mobile Phone Coverage in the World" by *Business Traveler* magazine.



Above: Smart mobile devices — such as the BlackBerry Bold — deliver new levels of productivity and efficiency.

tool is AT&T Tech Support 360SM, which delivers live technical support for software installation, network and security setup, mobile device maintenance and PC performance enhancement. Another is AT&T's Onward Small

Business Web site, which was named by Compass Intelligence in 2008 as one of the top three portals for small business. From the largest multinational corporation to the local corner merchant, no one is doing

more than AT&T to transform the way businesses connect with the people, information and applications that make them more successful.



Local Search

Local search is a simple enough concept. It puts at consumers' fingertips — anywhere, anytime — the ability to find and connect with businesses that have what they need. But, as consumers have more and more ways to search, making those connections can be a challenge.

Fortunately, AT&T has an elegantly simple solution: Offer advertisers a way to connect with consumers via wireless devices, PCs, U-verse TV or the AT&T Real Yellow Pages. Providing that full range of connections has

Above: Joan Lee, owner of Bird Road Cycle World in Miami, uses advertising solutions from AT&T, including on YELLOWPAGES.COM and in the AT&T Real Yellow Pages, to attract customers. Ms. Lee says: "As more people shop on the Internet, we depend on YELLOWPAGES.COM to drive business to our store."

YELLOWPAGES.COM and the AT&T Real Yellow Pages deliver more than 5 billion consumer searches a year for local business information and provide approximately 1 million advertisers with valuable sales leads that help their businesses grow.



given our customers a competitive advantage. And it's made us an industry leader in local search.

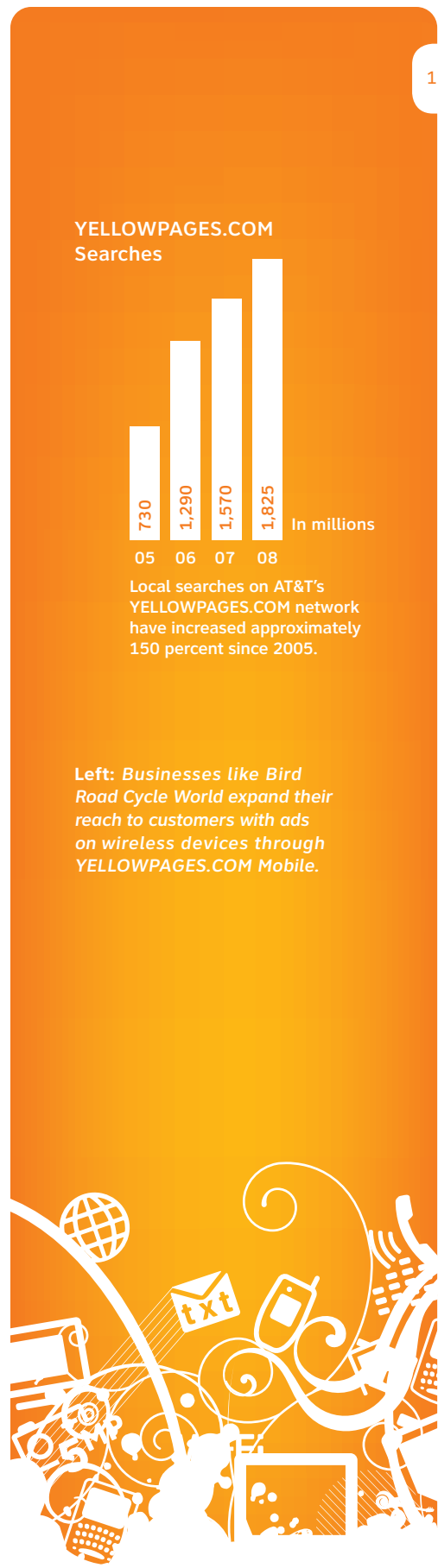
As consumers increasingly go online to find local businesses, YELLOWPAGES.COM has become

a leading Internet Yellow Pages, with 1.8 billion searches across the YELLOWPAGES.COM network in 2008. We've also expanded our portfolio of voice search options to link buyers to advertisers through free voice search at 1-800-YELLOWPAGES.

Today, AT&T also connects businesses to consumers via interactive TV and mobile devices. YELLOWPAGES.COM's powerful interactive channel on AT&T U-verse TV provides millions of local business listings that are customized for viewing on the television screen. Meanwhile, YELLOWPAGES.COM Mobile for iPhone 3G not only offers local search, but allows users to view items based on popularity within the iPhone community, read reviews, save favorites and map a route to local businesses using GPS.

And when consumers reach for a traditional print directory, our AT&T Real Yellow Pages is used more than three times as often as other directories in our markets.

As local search options continue to multiply, nobody brings it all together — for buyers and sellers — better than AT&T.



Left: Businesses like Bird Road Cycle World expand their reach to customers with ads on wireless devices through YELLOWPAGES.COM Mobile.

Delivering the connectivity and integrated applications our customers demand begins with the world's most powerful and advanced network.

Right: AT&T Labs employees work every day to develop innovative applications — such as the ability to access live traffic cameras via wireless devices, TVs and PCs — that build on the unprecedented connectivity our networks offer.

Innovation

Innovation. At AT&T, it's all about improving people's lives by helping them solve the challenges of time and place. It's about technological progress that fuels growth for tomorrow by removing the barriers between where people are and the places they need to be to get things done.



For decades, AT&T has driven innovation in wireless, IP and data services that have revolutionized how we work and live, driving unprecedented advances in productivity and capability. Today, the company is leading a new wave of innovation focused on making connectivity and communications more integrated, productive, intuitive and easier to use — in other words, making digital communications as simple and effective as face-to-face interactions.

To take our unsurpassed connectivity to the next level, we're driving continual innovation in the technologies that power our network, as well as the applications we deliver over it. **For example, we're developing applications that exploit our unsurpassed connectivity, such as:**

- ▶ The ability to add speech recognition to targeted software applications to facilitate access to information and communications.
- ▶ New telehealth capabilities to allow doctors to make virtual house calls to patients.
- ▶ Convergence applications to facilitate more seamless access to information across wireless, TV and PC screens. These innovations include HD consumer video conferencing, an integrated message center, an application that turns iPhone 3G into a TV/DVR remote, live traffic cameras on the TV and games that integrate the wireless and TV screens.





Advancing network capability

Delivering the connectivity and integrated applications our customers demand begins with the world's most powerful and advanced network. It carries nearly 17 petabytes of IP and data traffic on an average business day — the equivalent of a 2.7 megabit song download for every man, woman and child on the planet. And this incredible volume of traffic has grown nearly 250 percent in the past three years as customers use more and more IP applications at home and on the go.

And we continue to develop advanced technology to keep our network capabilities out in front of customer needs. In 2008, we completed the world's largest deployment of the most advanced backbone technology available, enabling data transmission at 40 gigabits per second. That's four

times the speed of the previous generation of technology. To bring the world even closer to where our customers live, work and play, we also announced plans to invest in several new undersea cables. Looking further ahead, our teams at AT&T Labs are pushing the envelope of network capabilities. We're already developing and testing the next generation of the IP network platforms, advanced wireless technologies and new applications that will help AT&T meet customers' connectivity needs for years to come.

Integrating services

We're also deploying advanced technologies to integrate our wireless and wired networks, enabling more seamless sharing of information across networks and devices. For example, our unique Video ShareSM application allows wireless customers to share live video from one wireless device to another.

Above: High Definition video gives today's cost-conscious businesses a great new way to slash travel expenses, while maintaining the close, frequent and meaningful connections that drive success. AT&T teamed with Cisco to introduce the industry's first fully managed High Definition virtual-meeting solution to bring people around the world together as never before. AT&T's Telepresence Solution really is "just like being there."

Even as we develop these exciting applications and capabilities, we recognize that innovation doesn't happen in a vacuum. That's why we take a collaborative approach, working with other leading companies — as well as with promising startups — to explore emerging technologies and deliver new capabilities for customers as quickly as possible. Our goal is to ensure that AT&T customers not only have access to the best in connectivity but also to the latest applications that take full advantage of our network to extend the power and the simplicity of communications.



Above left: Job shadowing gives students access to AT&T employee mentors and opportunities to see firsthand the link between education and the workplace.

Above right: AT&T employees were vital to the recovery efforts following hurricanes Gustav and Ike.



Citizenship and Sustainability

AT&T has always been committed to building connections that better people's lives and strengthen our communities, and 2008 was no exception. We moved to align our corporate citizenship and sustainability initiatives more closely than ever with our daily business operations.

Our board of directors expanded the responsibility of its Public Policy Committee to include oversight of this crucial area. We appointed a senior executive to coordinate our citizenship and sustainability programs — and brought together officers from across the company to create a Citizenship and Sustainability Steering Committee. This group has worked with our strategic partner, Business for Social Responsibility, to prioritize and develop a more strategic framework for our efforts.

Our men and women were absolutely true to the AT&T spirit of service in their network restoration and recovery efforts in the aftermath of hurricanes Gustav and Ike. And they have also been quick to respond to a much quieter crisis that threatens our entire nation — the alarmingly high student dropout rate. For example, our employees are volunteering their time so 100,000 high school students can shadow them on the job as part of AT&T Aspire, a \$100 million philanthropic program we launched last year to help strengthen student success and workforce readiness.

We've also stepped up our company's commitment to lessen our impact on the environment and make smarter and more sustainable use of

resources — such as rolling out a new fleet of alternative-fuel vehicles, using solar and wind power at some of our facilities and continuing to improve power efficiency in our data centers.

Looking ahead, we're pursuing opportunities to collaborate with industry, government and policymakers to leverage the communications and information technology at the heart of our business to help our country transition to a more energy-efficient, lower-carbon future.

To learn more about our efforts to serve the communities in which we work and live, visit: www.att.com/csr