



# *Rethink Possible*

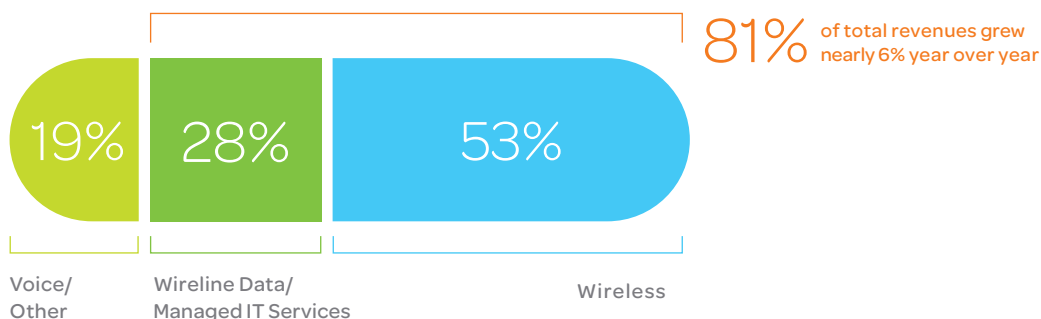
AT&T INC. 2012 ANNUAL REPORT



## 2012 FINANCIAL HIGHLIGHTS

### CONTINUED MOMENTUM IN GROWTH DRIVERS

For full-year 2012, excluding our divested Advertising Solutions business unit, 81 percent of AT&T's \$126.4 billion in revenues came from our key growth drivers, which grew nearly 6 percent.



### REVENUE GROWTH

Excluding Advertising Solutions, AT&T's full-year 2012 revenues grew 2.4 percent versus 2011.



### STRONG EARNINGS GROWTH

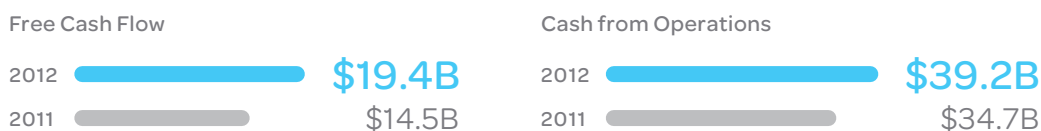
Excluding significant items, 2012 full-year EPS grew 8.5 percent year over year.



### RECORD CASH GENERATION

AT&T generated best-ever cash from operations and free cash flow in 2012, which let us return a record \$23 billion in cash to shareowners, including dividends and share buybacks.

*Free cash flow is cash from operations minus capital expenditures.*





## TO OUR INVESTORS

▶▶▶ A year ago we talked candidly about the issues our company faced and how we intended to address them. Our number one priority was to add spectrum, the airwaves that carry our customers' mobile communications. We also said we would accelerate our company's shift to growth businesses. And I made it clear that we would take steps to further improve our capital structure and return value to our shareowners.

We took these objectives head-on, executed for our customers, and as a result, we have significantly strengthened how AT&T is positioned for the years ahead. Here's what we've done:

- ▶ We signed nearly 50 transactions last year to add new, high-quality mobile capacity – including WCS spectrum that previously was not available for mobile broadband. This increased our average nationwide spectrum holdings by a third, which gives us a good runway to deliver further innovation and growth.
- ▶ With this newly acquired spectrum as a foundation, we launched our company's most comprehensive organic growth plan in several decades. Called Project Velocity IP – VIP, this plan will let us reach millions more customers with advanced technology and new services.
- In addition to these strategic steps, we added more customers to our growth platforms and increased overall revenues, which allowed us to continue robust investment in networks and new products:
- ▶ We increased our total wireless subscriber base to 107 million and continued to lead all major U.S. wireless providers in smartphone penetration and average revenues per wireless contract subscriber. Our mobile data revenues grew 17.8 percent to a \$27 billion annualized run rate.
- ▶ We posted the largest annual increase in total AT&T U-verse TV and broadband subscribers in our history, bringing our total to more than 8 million. Our U-verse revenues grew 37.9 percent to end the year at a \$10 billion annualized run rate.
- ▶ Our most advanced business services, which now make up \$6.5 billion in annualized revenues, also grew at a double-digit clip.
- ▶ Overall revenues grew to more than \$127 billion, the highest total in our company's history, and adjusted earnings per share increased 8.5 percent.
- ▶ Cash from operating activities topped \$39 billion, up 12.8 percent from the previous year and our best total ever.
- ▶ We invested \$20.4 billion in capital expenditures and spectrum purchases to expand and upgrade our network capabilities for customers in the United States and around the globe. We more than doubled the U.S. population covered by our 4G LTE network – the industry's most advanced, high speed wireless technology – and deployment continues to run ahead of schedule.

- ▶ We increased our quarterly dividend for the 29th consecutive year and paid out more than \$10 billion in regular quarterly dividends – the most in our history.
- ▶ We also repurchased 6 percent of our total shares outstanding. Combining dividends and share buybacks, our company returned \$23 billion to shareowners in 2012, the highest total in our history.
- ▶ We refinanced \$12 billion of our debt, taking advantage of historically low interest rates.
- ▶ In addition, the investments in our pension fund posted solid returns, and we took an important step to solidify our commitment to our employees by seeking to contribute a preferred equity interest in AT&T Mobility, our best asset, to our pension trust. We expect to gain the approvals needed for this contribution in 2013.

It's notable that all of this investment has come during a time of economic uncertainty. Many companies pulled back during this period. But we've maintained our financial strength and kept our focus on delivering for customers over the long haul, which has allowed us to invest aggressively through the cycle. For several years now, AT&T has invested more capital into the U.S. economy than any other public company.

The past few years also have been a time of dramatic technological change for our industry. Smartphone adoption in the United States has soared. Tablets and other mobile Internet devices are now on a similar trajectory. The global mobile apps ecosystem has exploded into a major industry, far beyond what anyone conceived just a few years ago. And because of these developments, how our customers live and work has forever changed.

The United States has led the world in this revolution, and I'm proud to say that our company has been at the forefront – delivering the fast, mobile connectivity that's the foundation for all of this innovation.

We've come very far, very fast. But we're still early. To date, the mobile Internet has been defined for most of us by what we can do on our devices – so much so that most of us think of the past few years as the *smartphone era*.

But today and in the years ahead, the services we provide are poised to play an even more transformative role. We're now riding the next waves of innovation, moving into the *mobile life era* – where advanced communications connect virtually everything and where every aspect of our customers' personal and work lives are more intelligent and immediate, without regard to device or location.

How our customers buy things, manage their health, secure their homes, access entertainment, how they learn and make decisions, how they travel and discover – all this and much more is quickly being reimaged.

Our business customers, too, are finding new ways to speed growth and operate more productively with fully connected solutions. For example, there's tremendous potential to transform our healthcare ecosystem – and make everything from record keeping, billing and payment to diagnosis, monitoring and ongoing care faster and more efficient. In much the same way, mobile payments are transforming the way our customers conduct commerce – moving from plastic credit cards to secure, personalized wallets accessible on mobile devices.





## Randall Stephenson

Chairman, Chief Executive  
Officer and President

The foundation for all of this is smart, seamless high speed broadband connectivity — delivered by meshed wireless and wired networks. This is the heart of what our company provides.

*So, what's required to accelerate this new world?*

### Capital investment

To build the pervasive, smart, high-capacity networks that our customers expect takes large-scale capital commitments. So, our entire industry and its surrounding ecosystem of suppliers and innovators need tax policies and regulatory approaches that create an attractive environment for investment.

Companies such as ours have a responsibility as well — to take the initiative and step up to long-term financial commitments. That's exactly what we're doing with Project VIP:

- ▶ We plan to expand our 4G LTE high speed, wireless data network to cover 300 million people by the end of 2014, 50 million more than our original plan.
- ▶ To deliver an even better experience, we plan to make this network more dense through extensive use of innovative small cells in addition to traditional wireless towers.
- ▶ We plan to expand our U-verse customer reach by approximately a third and drive IP broadband



### AT&T Leadership Team

Left to Right: **Standing** [Randall Stephenson](#), Chairman, Chief Executive Officer and President; [John Stankey](#), Group President and Chief Strategy Officer; [Ron Spears](#), Senior Executive Vice President-Executive Operations; [Wayne Watts](#), Senior Executive Vice President and General Counsel; [Cathy Coughlin](#), Senior Executive Vice President and Global Marketing Officer; [Bill Blase Jr.](#), Senior Executive Vice President-Human Resources. **Seated** [John Stephens](#), Senior Executive Vice President and Chief Financial Officer; [Ralph de la Vega](#), President and Chief Executive Officer, AT&T Mobility; [Lori Lee](#), Executive Vice President-Home Solutions; [Andy Geisse](#), Chief Executive Officer-AT&T Business Solutions; [Jim Cicconi](#), Senior Executive Vice President-External and Legislative Affairs, AT&T Services, Inc.; [John Donovan](#), Senior Executive Vice President-AT&T Technology and Network Operations.

connectivity deeper into our wireline network by year-end 2015, to reach more of our customers where they live and work.

- ▶ We plan to deploy high speed fiber connections to 1 million additional business customer locations by year-end 2015.
- ▶ Once Project VIP is fully implemented, nearly all of our customers will have access to high speed IP broadband, either wireless, wired or both.

These investments will provide a much broader platform for a wide range of innovative services and solutions, a number of which are profiled in the following pages.

### Accelerate the pace of innovation

Capital investment and great networks provide the foundation, but the next step is equally important – that’s a mindset and a commitment to accelerate innovation and change. Everyone benefits – and customers are the ultimate winners – when innovation flourishes. That’s why our company has

taken the lead — reaching out to entrepreneurs, application developers and others outside our company and collaborating with them to bring innovation onto our network faster. Our goal is to foster a virtuous cycle of demand, growth and further innovation.

Accelerating the pace of innovation also requires a willingness to obsolete old technologies so that we can give our customers the best and most advanced solutions. That's an important part of what we've committed to do with Project VIP. By 2020, we expect to have fully transitioned our customers from decades-old, legacy technologies to an all-Internet Protocol network architecture. This will require us to rethink every aspect of how we operate, but the long-term payoffs are significant in terms of better service, new capabilities for our customers and lower costs.

#### Create a future-focused regulatory model

An important key to future investment and innovation in our industry is regulation that doesn't lock our customers into old technologies. That's why we continue to work closely with policymakers as we transition beyond decades-old rules that were designed for point-to-point communications through copper wires and antiquated technology.

To make possible a mobile-centric world of anywhere-to-everywhere connectivity, it's critical that regulations obsolete themselves as old technologies fall away. Customers and the entire industry benefit from regulatory models that don't struggle to play catch-up with new technologies, but actively pave the way for them.

▶▶▶ It's a great privilege to be part of a company whose services touch and benefit so many lives. In keeping with this role, we've also committed our

company to philanthropic leadership in areas that will make a difference in the communities we serve.

Our employees volunteer their time and make generous contributions to thousands of community projects, and their heroic efforts in the face of natural disasters such as Superstorm Sandy this past year bring to life the very best of our company's heritage.

Of special note, our employees have played a major role in our signature philanthropic initiative — AT&T Aspire. Launched in 2008, this project initially committed more than \$100 million to support programs that help high school students succeed in school and prepare for careers. In 2012, we committed an additional \$250 million to Aspire over the next five years — to bring new resources to help students who are at risk of dropping out of high school. We've expanded the mentoring program, and we're driving technology innovations to reach and engage young students.

I also ask you to join us in another important cause. Please help set a good example and remind your family and friends to never text while driving. Let's change behavior and save lives.

Finally, let me emphasize that our achievements in these areas and across our business come from the great talent, dedication and hard work of AT&T's employees. On their behalf, thank you for your continued confidence and support.

Sincerely,



**Randall Stephenson**

Chairman, Chief Executive Officer and President  
February 11, 2013

Always on  
the move

*Always in  
the know*

#### LIVING MOBILE

Demand for the mobile Internet has never been higher.  
And our ability to deliver a seamless mobile Internet  
experience has never been greater.



## *Staying connected while out and about*



▶▶▶ As the mobile Internet changes the way businesses operate, AT&T is leading the way. We use our knowledge of customers' businesses to deliver customized mobile applications that provide anytime, virtually anywhere access to content and services. And because AT&T provides a highly secure managed hosting environment, businesses get end-to-end solutions that easily integrate with existing applications, software and databases.

Consider global commercial real estate giant [Cushman & Wakefield](#). AT&T worked with C&W to solve a key challenge: Brokers' time in the office is time away from clients. So AT&T developed a custom app – CWmobile – to deliver highly secure mobile access to the proprietary data brokers need to assist with a sale or lease. Says Jim Underhill, C&W CEO for the Americas: "CWmobile gives our professionals the resources they need to deliver an exceptional client experience that our competitors can't match."

Meanwhile, [Michigan's Department of Natural Resources \(DNR\)](#) wanted to encourage people to explore the great outdoors. So AT&T app developers collaborated with the DNR to learn what information would be most helpful to Michiganders and visitors to the state. AT&T used that input to create the MI Camping and Recreation Locator app, which provides mobile access to information on where to camp, hike or cross-country ski in Michigan. Tens of thousands of outdoor enthusiasts have downloaded the app, and campsite reservations have gone up substantially. "With AT&T's help, we're using mobile technology to open up Michigan's amazing natural resources to even more people," says Keith Creagh, DNR director.

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By the end of 2012, more than 54,000 customers were using AT&T mobile business applications. AT&T and the state of Michigan created the MI Camping and Recreation Locator app, which gives one-click access to outdoor activities in Michigan.

## Ready to pay? "Put it on my mobile"

▶▶▶ As consumers increasingly embrace the mobile life, teams across our company are exploring new ways to put smarter applications and seamless connectivity, literally, in the palms of our hands. Jeff Ezell, vice president of consumer product planning and research, AT&T Mobility, talks about the future of mobile payments:

### *How will AT&T's concept of mobile payments work?*

**JEFF** "Well, let's say it's date night, and on the way to the movie, you stop for a bite at your favorite restaurant. The show starts soon, so you eat quickly. You take the bill to the register and reach for your ... smartphone. You open the mobile wallet on your phone, and with a tap you're paid up and out the door.

"At the theater, you check your mobile wallet to see if there are any promotions. There's an offer for free popcorn if you buy a drink. You tap your phone again, and now you've paid for the drink, gotten your free popcorn and earned loyalty points."

### *So how far off is this capability?*

**JEFF** "It's right around the corner. AT&T is part of a joint venture that's working to mobilize and transform the way we pay for all kinds of things. We're working to obsolete plastic credit cards and coupons and replace them with a more secure, fully integrated system that's personalized, flexible and all mobile.

"This venture, **Isis**, is collaborating with credit card companies, banks and merchants to create a nationwide mobile payments platform. It's a simple-to-use system that lets you effortlessly make payments, discover and redeem offers and earn loyalty points. We have trials under way and are planning to expand nationally.



"Today, you'd never go out without your smartphone and your wallet. Soon, you can leave home without your wallet!"

### *What's the potential for AT&T?*

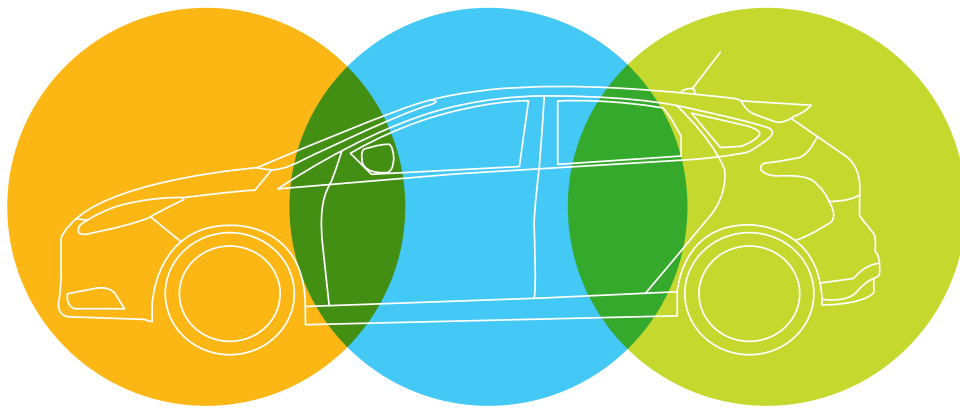
**JEFF** "It's a big opportunity. U.S. consumers spend \$4.2 trillion on 1.2 billion cards and redeem 3 billion coupons each year. Isis gives banks and advertisers a platform to reach consumers and facilitate these transactions on AT&T's network and devices.

"And we see future opportunities to integrate mobile payments into connected cars and digital homes. So someday soon, rather than digging for change in your glove box, you might simply park at a connected meter and your car would automatically add two hours to the clock."

## Connected car

### *Test drive the future*

▶▶▶ Some researchers believe that by 2016 more than half of new vehicles will have factory-installed, wireless connectivity that works with cars' electronic systems.<sup>1</sup> Says Chris Penrose, senior vice president, emerging devices, AT&T Mobility: "Our cars are becoming part of our connected world. AT&T has an exciting opportunity to help keep drivers safe and make driving more enjoyable. We're working with GM, Ford, Nissan, BMW and other auto manufacturers to lead this trend, and we expect that in the coming years connected cars will drive \$1 billion or more in annual revenues for us." Here's a glimpse at what could be possible in the future:



#### Vehicle-to-vehicle communications

Your car will "talk" with nearby cars and with the city's traffic system, making auto travel more efficient. It will even alert you if you're headed toward an accident and help you navigate around it.



**Vehicle-to-road communications** Your car will alert you to hazardous conditions, construction, traffic congestion or detours — and even suggest an alternate route.



**Digital home/U-verse integration** Your car's display screens will give you access to the Internet, apps and even your home security and automation and U-verse TV services, enabling you to do everything from checking your home security cameras to programming your DVR.



**In-vehicle item monitoring** You walk out of your house but forget your smartphone. No worries. Your car will alert you before you make it down the driveway.



**Traveling office** Running late for a videoconference? Just pull over and join the meeting right from your car's interactive onboard display.



**Rear-seat infotainment** Wireless connectivity will make "Are we there yet?" a thing of the past, giving your kids access to music, games, videos and more.



**Service alerts** Burned-out tail light? Your car will alert you, locate and call the nearest auto parts store ... even check to see if the bulb is in stock.



# ***Keeping the crowd in every game***

AT&T's innovative approach to wireless network management helps our customers have a great experience ... where they live, work and play. To do that, we're deploying multiple complementary network technologies – small cells, distributed antenna systems (DAS) and Wi-Fi.

And in late 2012, we accelerated our push to make our wireless network more dense – in a cost-efficient way. Through 2015, we plan to deploy more than 40,000 small cells and more than 1,000 additional distributed antenna systems across our network. This will improve network quality, enhance spectrum efficiency and provide better wireless coverage inside buildings. So more customers can update their social networks, send photos and access their favorite apps ... even in high-traffic areas like sports venues and airports.

By design, these solutions are largely seamless and invisible to customers. But for AT&T the results are easy to see. For example, data and voice capacity have more than doubled at sports venues with AT&T DAS – small antennas integrated into the design of an arena or stadium.

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*Heinz Field, December 23, 2012: An AT&T DAS lets Pittsburgh Steelers fans use their smartphones to check the scores of other games or update their fantasy football rosters ... even surrounded by tens of thousands of fellow members of the Steelers Nation.*





# *Improving the business of improving yours*

## OPEN FOR BUSINESS

Making multinational corporations more mobile. Streamlining voice and data needs for a mom-and-pop shop. Business as usual? Hardly. From mobile clouds to custom applications, AT&T is helping businesses of every size be more productive — and connect with more customers.



## Helping out *en la cocina*



▶▶▶ After opening in 1984, **Rosa Mexicano** won acclaim for bringing a fresh twist on Mexican cuisine to Manhattan.

But as Rosa Mexicano expanded to nearly 1,600 employees at 16 locations in the United States and Central America, handling credit card transactions, managing inventory and sharing information with its employees became a challenge. Raymond Fischer, Rosa Mexicano's vice president of real estate and development, recognized the need to create a communications infrastructure.

"I realized that if I could bring some order to the chaos, we could lower operating cost and more easily share important information with our restaurants," he says.

Today, Rosa Mexicano uses integrated voice and Internet services from AT&T, including at locations far from its New York City HQ — all working together for a stable, easily scalable communications platform for all of its restaurants.

And the addition of AT&T voice, Web and videoconferencing services helps existing restaurants work more collaboratively while supporting the planning, construction and launch of new locations. With AT&T's integrated solution, Rosa Mexicano's productivity has improved, and the company has reduced communications costs by 40 percent.

"AT&T made it clear that they didn't want to just sell us something," Cory Bronson, vice president of marketing for Rosa Mexicano, says. "They wanted to work with us to make our business more successful. And they have."

*The business at hand,  
always at hand*

▶▶▶ As chief marketing officer for AT&T Business Solutions, Michael Bowling understands what AT&T's 3.5 million business customers – from multinational corporations to startups – want from us ... and the expanding role that mobility and cloud-based solutions play in meeting their needs:

*What trends are you seeing in what business customers want? How is AT&T responding?*

**MICHAEL** "Two big trends, from our vantage point, are the rise of mobile-enabled businesses and the shift toward virtualization as more companies adopt the cloud, which lets them access computing and storage on demand while reducing IT investment. And we're well positioned in both these areas.

"The two really go together. We're intensely focused on delivering mobile and cloud solutions that help businesses become more efficient. We embed cloud services in our highly secure, reliable network and combine them with mobility and apps to deliver 'the mobile cloud' – managed end to end across our fixed and mobile networks. So we're able to deliver the benefits of the cloud – from managing costs by scaling IT capacity up or down as needed to quickly recovering when disaster strikes – but with a difference.

"Think about what happens when a company chooses an AT&T cloud solution. With the right security measures, employees can access email and apps on their mobile devices any time, from nearly anywhere. The employees are more productive ... and that company becomes more competitive while ensuring its data remains secure.

"And because we actively engage with other solution developers and cloud vendors, we're able to tailor innovative, open solutions that operate seamlessly across platforms."

74%

Percentage of business applications expected to be based in the cloud by 2017<sup>2</sup>

\$210B

Potential worldwide cloud opportunity by 2016<sup>3</sup>

*What industries can benefit from AT&T's services?*

**MICHAEL** "We're integrating mobility and the cloud to help transform whole industries like finance, retail and manufacturing ... but I'm especially excited about the work we're doing in healthcare. Because we believe that technology and smart networks can help create a healthier world, we created our AT&T ForHealth practice group.

"We're collaborating across the healthcare industry to introduce innovative solutions that improve quality of care and reduce costs, from helping insurers and doctors remotely care for patients with chronic diseases to providing more secure and efficient access to medical records and images. For example, we will soon roll out a cloud-based service that lets healthcare providers make virtual 'house calls' via a tablet. And that's just the beginning ... it's an exciting time for AT&T."



## Healthy solutions Secure in the cloud



▶▶▶ Storing the more than 25,000 cardiac images it generates each year was a challenge for the [Henry Ford Heart & Vascular Institute \(HVI\)](#), part of Henry Ford Health System in Detroit, Mich.

Each image is a little “movie” that requires highly secure storage. But videotapes and DVDs were costly and took up too much space, while large digital files filled hard drives too quickly. And both were difficult to safeguard when stored off-site.

HVI knew it needed a better solution but lacked the budget to build the necessary IT infrastructure. Enter AT&T’s cloud-based medical imaging solution.

With AT&T’s pay-as-you-go model, HVI pays only for the digital storage space it needs. Highly secure storage in the cloud gives medical staff access to images without compromising security. And because the solution runs over our reliable network with images backed up at two geographically dispersed AT&T data centers, HVI knows it can still access important files if its own network is disrupted or a natural disaster hits.

“We presented AT&T with a problem, and they gave us a solution that provides the highly secure storage capacity we need, while freeing up budget to invest in equipment that directly benefits patients,” says Kevin Yee, Administrator, Cardiology, Henry Ford Health System.

# *Changing* how you live, where you live

## HOME SWEET HUB

Home. Car. Office. The lines between them are blurring. Whether it's monitoring a home repair contractor from your office or programming your DVR from the bus, making your home life an integral part of your mobile life is just another way we're transforming how you live. And it's all made possible thanks to the seamless connectivity our products and services provide.

## Revolutionizing the way we watch



▶▶▶ In just six years, AT&T U-verse® has become a \$10 billion annualized revenue stream for us. The reason is simple: Customers love it. And why not? With U-verse you can:

- ▶ Surf the Web at home with our all-IP U-verse High Speed Internet service, and go online when you're on the road with access to the national AT&T Wi-Fi Hot Spot network — at no extra charge.
- ▶ Watch TV virtually anywhere in your home — or even in your backyard — with our fully integrated wireless receiver.
- ▶ Catch hit TV shows when and where you want — even on your smartphone or tablet — with Uverse.com and U-verse apps.
- ▶ Use your smartphone or tablet as a remote control.

▶ Use interactive apps to watch TV and discuss with your friends whatever's on in real time, even if you're in different cities.

But there's much more to U-verse than great entertainment and easy-to-use features. When we bundle U-verse TV and our U-verse High Speed Internet with AT&T wireless services, it's a big win for our customers and for us. Our research shows that customers with both U-verse broadband and wireless services are more satisfied with AT&T than customers who don't bundle services.

So we're continuing to invest to seamlessly integrate our wireless and wired networks and service. We're also planning to expand U-verse to 8.5 million more customer locations by 2015 and to deploy technology upgrades to make our fast U-verse broadband service even faster.



# *Never feel far* from home

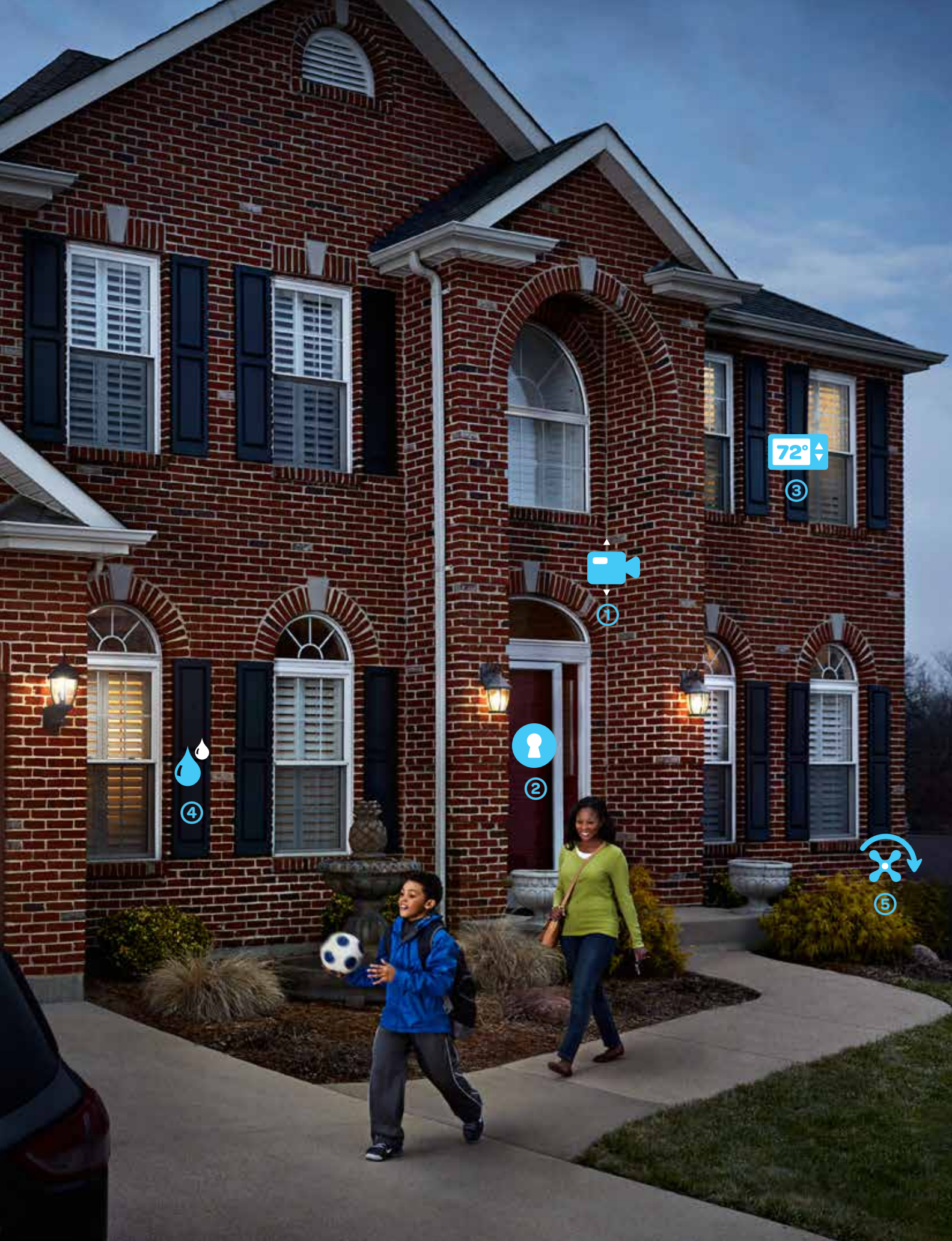
AT&T Digital Life™ is an all-digital, wireless-based home security and automation solution. “Digital Life is a great service,” says Kevin Petersen, senior vice president, Digital Life, AT&T Mobility. “It lets users control, monitor and secure their homes from a smartphone, tablet or PC. Connected devices in nearly every room automate the home. And homeowners can customize the solution by choosing the features that best fit their needs.”

Wireless cameras ① let you make sure your kids are studying even if you're working late. If a package arrives when you're out, use automated door locks ② to let the delivery guy in and lock up behind him. Heat wave hits while you're on vacation? Adjust the thermostat ③ from the Digital Life app on your tablet to save energy. Your home even alerts you if water ④ is near the washing machine or dishwasher, so you can shut off the water main ⑤ from your smartphone to avoid costly repairs.

We also expect Digital Life will be key to integrated home-based healthcare. For example, more senior citizens might live independently if their families or healthcare professionals could monitor their activities.

We're launching Digital Life in 2013, with plans to roll it out to more than 50 markets across the United States this year. Because Digital Life is compatible with any broadband connection, customers will be able to use AT&T broadband in our 22-state wired footprint or bring their own broadband nationwide. We also plan to offer a wholesale solution to telecom providers outside the United States. And in the years to come, we expect Digital Life will become a \$1+ billion annual revenue stream for AT&T.





72°

③



①



②



④



⑤

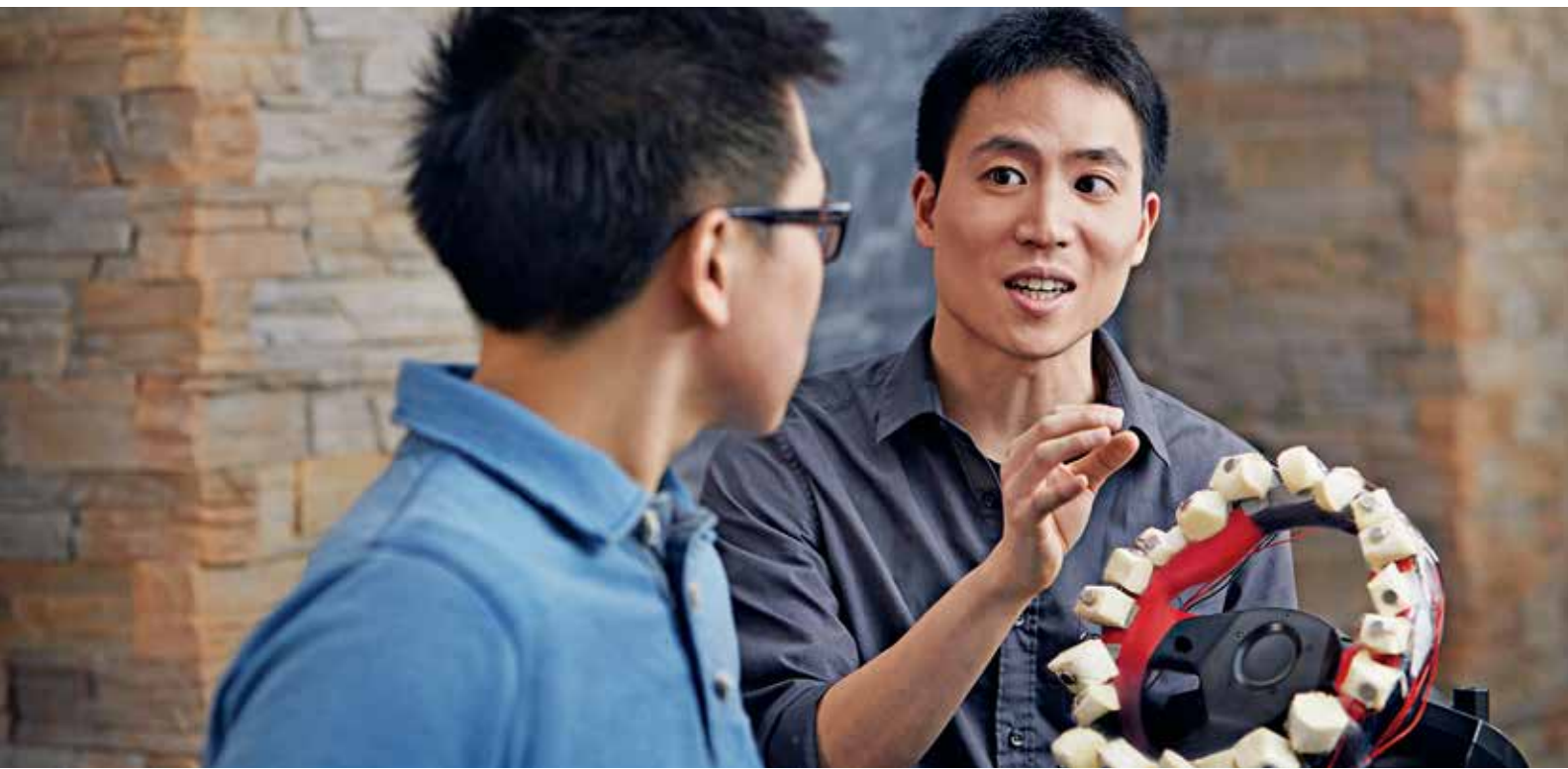
We don't  
ask if,  
*We ask how*

## FUTURE FIRST

A steering wheel that keeps drivers on course. A process that turns ideas into prototypes in less than a month. Innovation is accelerating our ability to deliver the future first.



## *A better feel for safer driving*



▶▶▶ The 1,300 scientists and engineers at AT&T Labs spend their lives developing new technologies to help people live better and businesses perform better. And today's ubiquitous wireless connectivity gives us more opportunities to do this than ever before.

So after AT&T rolled out the "It Can Wait" campaign to discourage distracted driving, AT&T Labs researcher Kevin Li (pictured above right) sought ways to help drivers overcome the sensory overload they often experience while on the road. His goal? Create a safer driving environment and reduce the potential for life-threatening accidents.

Kevin realized that while a driver's senses of sound and sight are often overburdened, the sense of touch is largely underutilized while driving. So he applied haptic — from the Greek

for "touch" — technology to communicate navigational cues. Kevin developed a haptics-enhanced steering wheel that vibrates to indicate turns. For example, for a left turn, the steering wheel produces a counterclockwise vibration. These vibrations help drivers watch the highway ahead — not their GPS navigation screens.

A team of AT&T and Carnegie Mellon University researchers has built a prototype of the steering wheel. Early user studies suggest that it can help increase the amount of time drivers keep their eyes on the road, and our Labs are continuing to explore using tactile feedback in the steering wheel to convey more than just single directional cues. We hope that in the years to come haptics can be one more powerful weapon in the fight against distracted driving.

## Clearing a path for innovation

▶▶▶ With 120 patents to her name, Marian Croak helps lead the innovation push within AT&T. Meanwhile, Abhi Ingle spearheads AT&T's creation of an innovation "ecosystem." Together, they're helping develop creative new solutions to meet our customers' needs and grow our business:

*How would you describe AT&T's approach to innovation?*

**ABHI** "We've planted several seeds that have taken root to transform our approach to innovation – AT&T Foundry® innovation centers; alliances with venture capital firms to hear 'fast pitches' from startups with exciting new ideas; and our internal innovation crowdsourcing tool, The Innovation Pipeline (TIP), which lets employees' ideas move from presentation to prototype in just a few months. Add the world-class research at AT&T Labs, and we have the right mix to drive innovation.

"And we match these great assets within AT&T with capabilities outside our walls."

*So collaboration is an important part of AT&T's approach?*

**MARIAN** "Absolutely ... internally and externally. We're collaborating to develop amazing new applications and services for our customers. And we're building cutting-edge tools to make it easy for developers to integrate our technologies into their apps."

**ABHI** "We look across the entire ecosystem – whether it's researchers in AT&T Labs, innovation coaches in AT&T Foundry®, developers in a garage or an employee in an AT&T retail store.

# 145,000+

AT&T employees participating in TIP  
and generating 500 new ideas each month

# 29

New products or services  
out of AT&T Foundry®  
since its inception



We engage all those points of view and creative resources, and we pull it all together to accelerate new solutions."

*What's coming next?*

**MARIAN** "With initiatives like Fast Pitch, AT&T Foundry® and TIP, we now have proven processes that can help us continue to innovate in the tech arena to bring new solutions to our customers. But we'll apply our innovation approach in other areas, too. So we can use TIP to engage our employees to identify new cost-saving opportunities in our business. Or challenge developers to help us find ways to address the U.S. education crisis. The best is yet to come."



## Fast Pitch in action

▶▶▶ AT&T is on a mission: Transform how we innovate. And collaboration is the unifying theme of our innovation mindset. By working together – with our colleagues and with innovators outside AT&T – we’re not only developing new solutions ... we’re doing it faster than ever. Consider the process we call Fast Pitch:



### Self-optimizing network

In a Fast Pitch session at AT&T Foundry® in Israel, **Intucell** pitched an idea for a self-optimizing network (SON), which detects wireless network overloads and automatically shifts traffic to cell towers with more capacity. After Intucell pitched the idea for SON, we moved the project into the AT&T Foundry®. Within a month we were testing prototypes. Today we’re deploying SON across AT&T’s network. Based on network data, SON helps us efficiently manage traffic and improves the customer experience by reducing dropped calls by 10 percent.



### U-verse Video Bill

In another Fast Pitch session, video software startup **SundaySky** introduced a way to offer customers personalized videos explaining their bills. Today, we’re providing AT&T U-verse customers with a Video Bill for the first two months of service and any time they change plans. Feedback is positive – 85 percent of U-verse customers who have used Video Bill tell us it’s helpful – and we’re getting fewer billing-related calls. That’s a big win. So we’re expanding Video Bill to our wireless customers – a first in the U.S. wireless industry.

# The most powerful *network of all*

## WHERE WE CONNECT

Connecting more people in more ways isn't limited to network improvements and product innovations. Just ask the returning veterans we now call colleagues. Or the teens we discourage from texting behind the wheel. For them, improving the quality of life in the communities we serve is another area where we really excel.

## *Instilling success in and out of the classroom*



▶▶▶ In 2012, when we committed \$250 million in additional funding to AT&T Aspire, our program aimed at helping underserved students graduate from high school ready for college or careers, we also looked to apply our collaborative innovation style to help students succeed.

For example, we engaged the education community in “hackathons” to create apps to increase student success rates. In a hackathon, app developers race against the clock to create mobile apps.

The first education hackathon attracted more than 200 students, teachers and developers. The winning team tackled an issue one member, a teacher, had experienced: The time-consuming process of assessing and tracking reading fluency. They created an app that analyzes reading skills in real time and makes it easy to save, record

and graph students’ scores and share them with educators and parents.

AT&T has hosted several more education hackathons, and we’re especially excited to see students engaging in the process. At a hackathon in Plano, Tex., five local high school students – Ahmed Khan, Jimmy Zhong, Matthew Laux, Trent Davies and Bilal Ayub (pictured above, left to right) – came up with the winning idea – oculr, a smartphone app for studying math equations.

“We’re uncovering great new tools that will help future generations graduate from high school prepared for what lies ahead, including careers at companies like AT&T,” says Beth Shiroishi, vice president, sustainability and philanthropy, AT&T. “And we’ll continue to further engage the education community as part of our broader commitment to Aspire.”



# ***Texting takes*** ***a back seat***

Since 2009, AT&T has led the fight against texting while driving through our “It Can Wait” public awareness campaign. We’re focused on educating the public – especially teens – on the dangers of texting behind the wheel. Our goal? Make texting and driving as unacceptable as drinking and driving.

AT&T took this effort to a whole new level in 2012, challenging all Americans to join our 240,000 employees in making a lifelong commitment to never text while driving. To date, the campaign has inspired more than 1.2 million “No Text on Board” pledges.

We’re also collaborating with wireless device makers and app developers to include preloaded, no-text-and-drive technology solutions on all the devices we offer. And we introduced AT&T DriveMode, an app that, when enabled and a vehicle is moving 25+ miles per hour, automatically sends customizable auto-reply messages to incoming texts.

Now we’re taking “It Can Wait” to schools across the nation so that students can take AT&T’s texting and driving virtual reality simulator for a spin ... and experience just how difficult it is to pay attention to the road while texting. “You know it’s a bad idea to text and drive,” says student Kenny Barrientos Parada. “But this is scary – it really brings home the danger.”





## Heroes wanted



▶▶▶ After five years with the Army's 101<sup>st</sup> Airborne Division, Derrik Wise was ready to return to civilian life. But first he needed a job. The company at the top of his list? AT&T.

"In Afghanistan, I would get AT&T calling cards in care packages. That let me talk with my family when I needed it the most," says Derrik. "So when I got back to the United States and heard AT&T was hiring veterans, I decided I wanted to be part of this company."

"AT&T has a nearly century-long history of supporting active-duty personnel and their families, as well as veterans," says Scott Smith, senior vice president, human resources operations, AT&T. "They bring a mix of skills — including leadership, integrity and service to others — that is a great match for our business."

In recent years, we've accelerated our efforts to help veterans find jobs — with AT&T or elsewhere. That led us to become one of the first 10 corporations to join the 100,000 Jobs Mission. As of the end of 2012, more than 50,000 veterans had found jobs through the initiative ... well on the way to the goal of 100,000 jobs by 2020. And in 2012, the number of veterans hired by AT&T tripled to nearly 1,000.

Our employees also support the military community. A group dedicated to supporting active duty and veteran employees has more than 5,000 members. And in 2012 nearly 300 employee volunteers with our Careers for Vets program provided job placement and career advice to more than 2,200 veterans.

"AT&T's support and the large military community here reinforce what I already knew," says Derrik. "This is the place for me."<sup>4</sup>



## Stockholder Information

### Toll-Free Stockholder Hotline

Call us at 1-800-351-7221 between 8 a.m. and 7 p.m. Central time, Monday through Friday (TDD 1-888-403-9700) for help with:

- Common stock account inquiries
- Requests for assistance with your common stock account, including stock transfers
- Information on The DirectSERVICE™ Investment Program for Stockholders of AT&T Inc. (sponsored and administered by Computershare Trust Company, N.A.)

### Written Stockholder Requests

Please mail all account inquiries and other requests for assistance regarding your stock ownership to:

AT&T Inc.  
c/o Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, RI 02940-3078

You may also reach the transfer agent for AT&T Inc. at [att@computershare.com](mailto:att@computershare.com) or visit the website at [www.computershare.com/att](http://www.computershare.com/att)

### DirectSERVICE Investment Program

The DirectSERVICE Investment Program for Stockholders of AT&T Inc. is sponsored and administered by Computershare Trust Company, N.A. The program allows current stockholders to reinvest dividends, purchase additional AT&T Inc. stock or enroll in an individual retirement account.

For more information, call 1-800-351-7221.

### Stock Trading Information

AT&T Inc. is listed on the New York Stock Exchange.  
Ticker symbol: T

### Information on the Internet

Information about AT&T Inc. is available on the Internet at [www.att.com](http://www.att.com)

### Annual Meeting

The annual meeting of stockholders will be held at 9 a.m. local time Friday, April 26, 2013, at:

Little America Hotel & Resort  
2800 West Lincolnway  
Cheyenne, WY 82009

### SEC Filings

AT&T Inc.'s U.S. Securities and Exchange Commission filings, including the latest 10-K and proxy statement, are available on our website at [www.att.com/investor.relations](http://www.att.com/investor.relations)

### Investor Relations

Securities analysts and other members of the professional financial community may contact the Investor Relations staff as listed on our website at [www.att.com/investor.relations](http://www.att.com/investor.relations)

### Independent Auditor

Ernst & Young LLP  
2323 Victory Ave., Suite 2000  
Dallas, TX 75219

### Corporate Offices and Non-Stockholder Inquiries

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<sup>1</sup> "Global Consumer Telematics Penetration in New Cars to Reach 62% by 2016, According to ABI Research," Dominique Bonte, Vice President and Practice Director, Navigation, Telematics & M2M, ABI Research.

<sup>2</sup> IDC, Enterprise Cloud Public and Private End-User Adoption Signals Continued Shift in IT Spending, doc # 237171, October 2012.

<sup>3</sup> Gartner, Forecast: Public Cloud Services, Worldwide, 2010-2016, 4Q12 Update, December 2012. The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this annual report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

<sup>4</sup> AT&T is not endorsed by or affiliated with the U.S. Armed Forces.

### On Cover

Our new 10,000-square-foot AT&T flagship store on Chicago's Michigan Avenue is revolutionizing the retail customer experience. Lifestyle Boutiques organize products, apps and services around customers' needs and interests. And the Experience Platform showcases what's next in wireless technology, including the connected car and connected home. It all comes together to show customers the possibilities of living mobile.

In January 2013, the Retail Design Institute recognized the store with two awards — for service retail and for customer experience and sales technology.

## AT&T Online Annual Report

To learn more about how AT&T is working every day to deliver a great network experience to customers, transform the way we live and work and improve our communities, visit the 2012 AT&T online annual report: [www.att.com/annualreport2012](http://www.att.com/annualreport2012)



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