

# AT&T Investor Update

3Q10 Earnings Conference Call  
October 21, 2010

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# Agenda

## Introduction

### **Brooks McCorcle**

Senior Vice President-Investor Relations

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## Results

### **Rick Lindner**

Senior Executive Vice President  
and Chief Financial Officer

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## Wireless & Consumer

### **Ralph de la Vega**

President and Chief Executive Officer,  
AT&T Mobility and Consumer Markets

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## Q and A



## Cautionary Language Concerning Forward-Looking Statements

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# 3Q10 Financial Summary

	3Q09	3Q10
Reported EPS	\$0.54	\$2.08
Significant Items:		
One-time tax resolution	\$0.03	\$1.40
Gain from Sterling sale		\$0.13
Severance	(\$0.02)	
<b>EPS excluding significant items</b>	<b>\$0.53</b>	<b>\$0.55</b>

	YTD 09	YTD 10
Reported EPS	\$1.61	\$3.17
<b>EPS excluding significant items</b>	<b>\$1.60</b>	<b>\$1.74</b>

YTD significant items also include:

- 1Q10: noncash charge of \$0.17 for the tax treatment of the Medicare subsidy from the health care reform legislation.
- 2Q10: one-time gain of \$0.07 on the Telmex Internacional transaction.

**3Q earnings per share up 3.8%, and up 8.8% year to date, excluding significant items**

**Consolidated revenue growth of 2.8% — strongest growth in two years**

**Stable consolidated margins even with record integrated device sales**

**Strong free cash flow**

- \$4.0 billion in 3Q
- \$11.6 billion year to date

Free cash flow is cash from operations minus capital expenditures.



# AT&T 3Q10 Highlights: Solid Execution Leads to Strong Sales and Revenue Growth

Leader in  
mobile  
broadband

Continued  
strength in  
business and  
consumer  
IP-based  
services

Disciplined  
focus on cost  
initiatives

## Solid Revenue Growth

- Consolidated revenues up 2.8%
- 11.4% wireless revenue growth, 2.0% postpaid ARPU growth
- First year-over-year wireline consumer revenue growth in more than two years
- Wireline business revenues continue improved trends

## Wireless Volumes at Record Levels; Broadband Rebounds

- More than 8 million integrated devices sales
- 2.6 million wireless net adds with best-ever 3Q churn levels
- 236,000 U-verse TV net adds to reach 2.7 million in service
- Rebound in broadband: 148,000 total net adds

## Further Signs of Stabilization in Business Markets

- 15.4% growth in strategic business services revenues
- 8.0% business IP data growth

## Strong Cash Flow, Stable Consolidated Margins

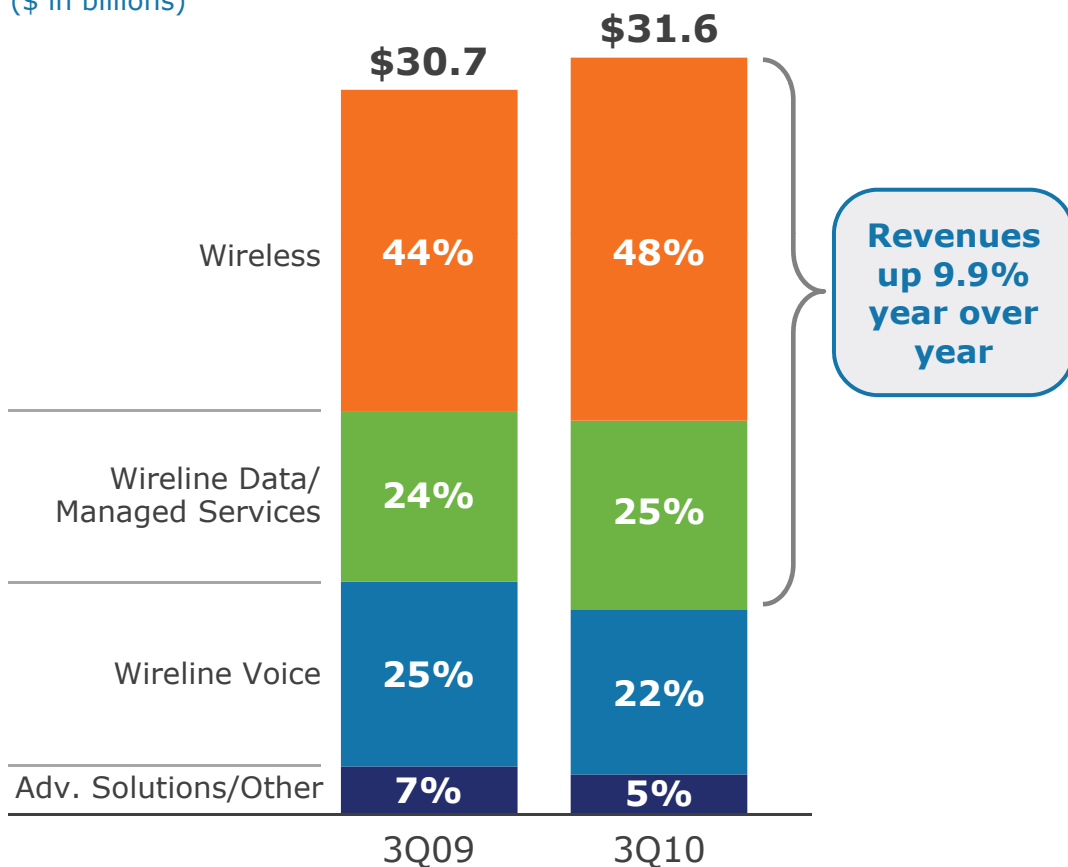
- Year-to-date consolidated margins up year over year
- Free cash flow of \$11.6 billion year to date



# Consolidated Revenues Increase 2.8%

## AT&T Consolidated Revenues

(\$ in billions)



Revenues of \$31.6 billion are up \$847 million, or 2.8%, year over year. Key drivers:

- Strong wireless growth
- Solid U-verse gains with wireline consumer revenue growth turning positive
- Improved business trends

Revenue mix — 73% from wireless, wireline data and managed services

- Combined, these areas had 9.9% year-over-year revenue growth in 3Q10



# Strongest 3Q Wireless Volumes in AT&T's History

## ▶ Record integrated device sales, double-digit wireless growth shows benefits of wireless strategy

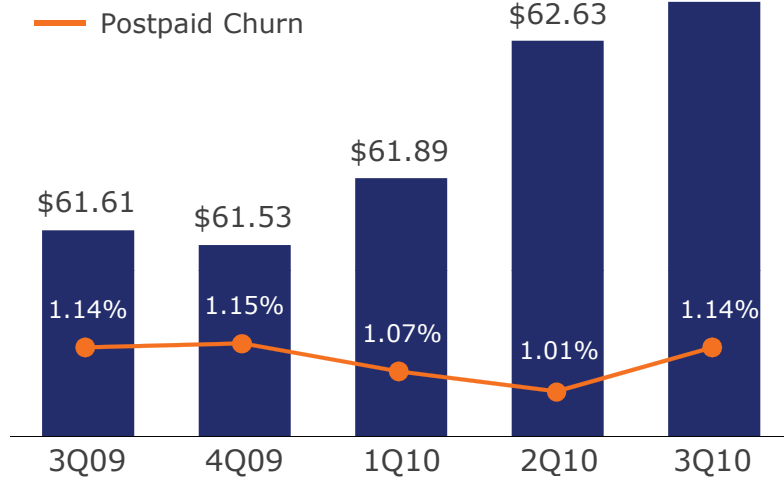
- Record growth in integrated devices — growing high-quality, data-centric base
- Record gross adds
- Record number of customer upgrades
- Record 3Q subscriber gain
- Record wireless data revenues, accelerating growth
- Best-ever 3Q total churn levels
- Postpaid ARPU grows for seventh consecutive quarter year over year; record unmatched among U.S. peers
- 1.2 million net gain in connected devices, setting pace for industry

**... More Growth Opportunities Ahead ...**



# Wireless Service Revenues Up 10.5% - Driven by Strong Subscriber Gains, Postpaid ARPU Growth

## AT&T Postpaid ARPU

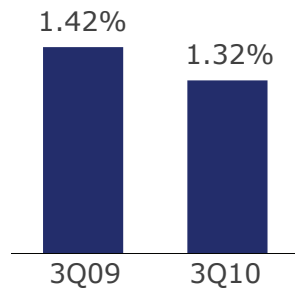


**2.0% annual growth in postpaid subscriber ARPU** — seventh consecutive quarter with a year-over-year increase

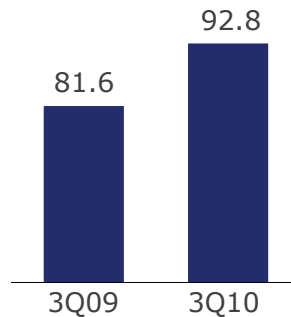
**Record third-quarter total churn** — postpaid churn matches previous record third-quarter in 2009

**2.6 million total wireless net adds** — company's best-ever 3Q total to reach 92.8 million

## Total Churn



## Total Subscribers (in millions)



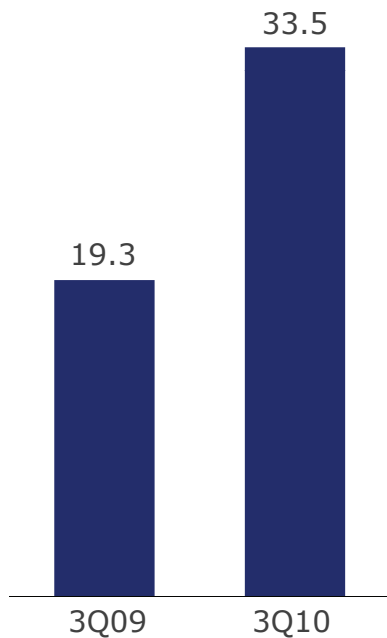
## 3Q10 Net Add Summary (in thousands)

Postpaid	745
Prepaid	321
Reseller	406
Connected Devices	1,159
<b>Total</b>	<b>2,631</b>



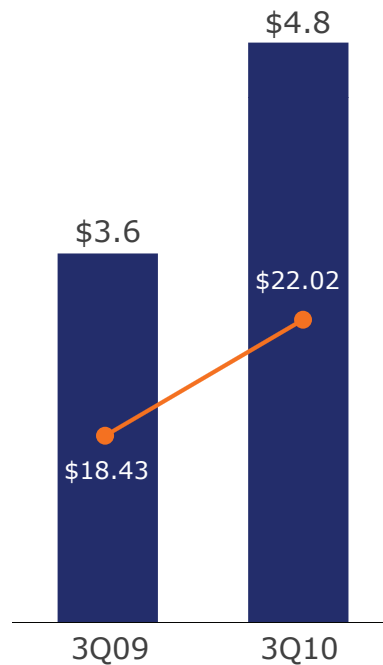
# 30.5% Wireless Data Revenue Growth

**3G Postpaid Integrated Devices**  
(in millions)



**Wireless Data Revenues**  
(\$ in billions)

— Postpaid Data ARPU



**Wireless data revenues up \$1.1 billion versus 3Q09, driven by continued rapid adoption of smartphones**

**Continued strong integrated device growth**

- Added 3.8 million net 3G postpaid integrated devices in 3Q10, up 14 million over past 12 months
- Over 8 million total integrated device sales, best quarter ever
- 5.2 million 3Q10 iPhone activations, best quarter ever
- 80% of postpaid base on family or business-related plans

**Tiered data pricing attractive to new data customers**

- Increasing penetration with affordable pricing
- Allows customers to easily migrate to higher-usage plans



# Mobile Broadband Leadership

- Broadest portfolio of devices
- All major operating systems
- Leader in connected devices

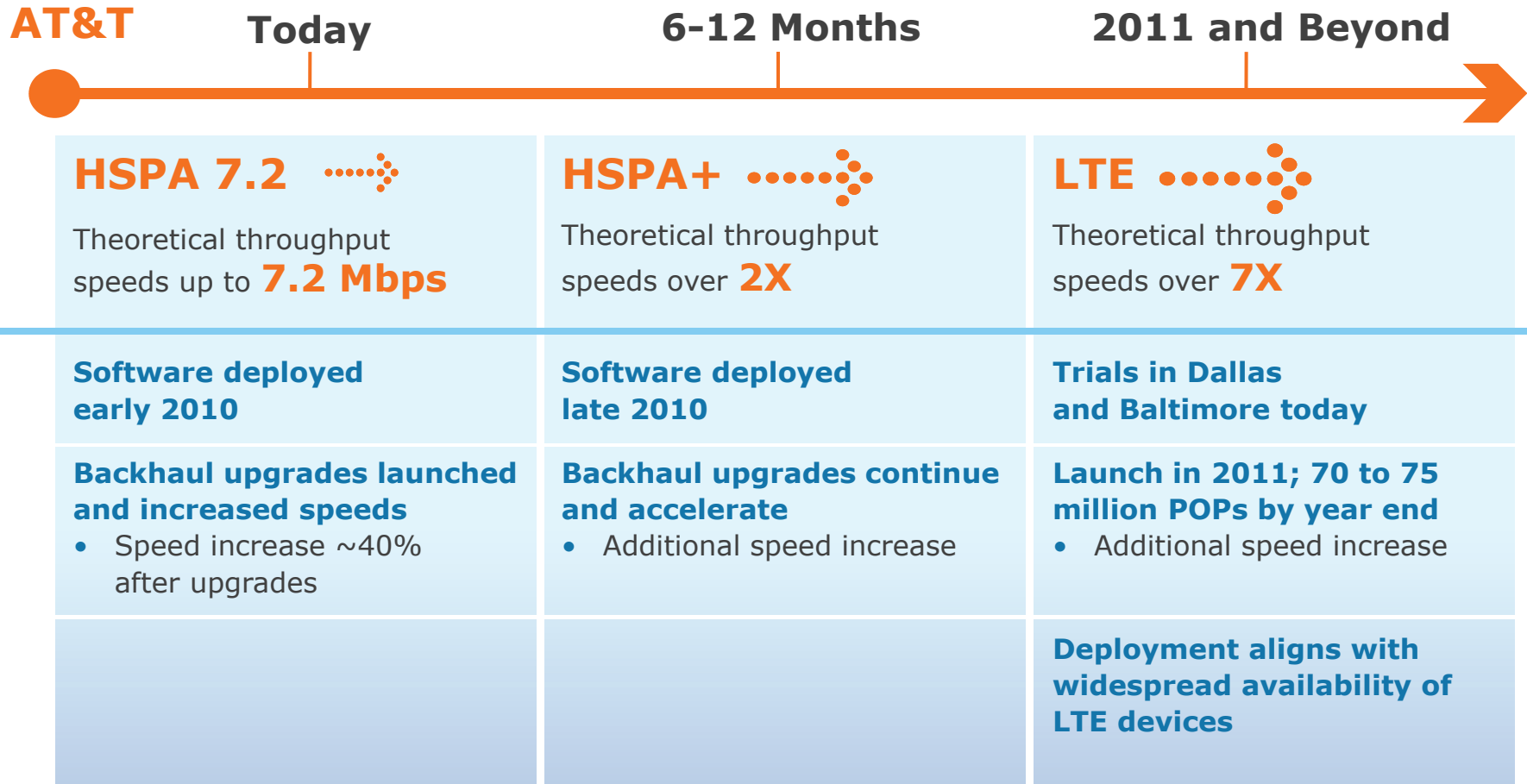


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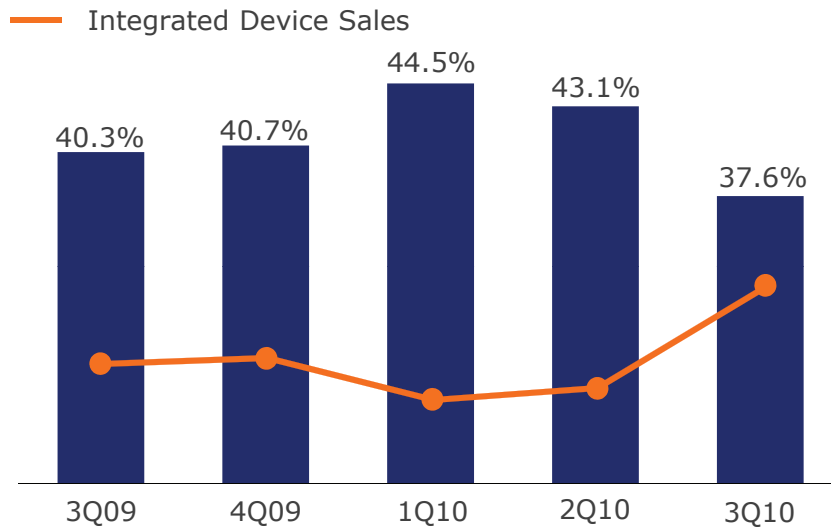


# Best Technology Path Plan For Seamless Customer Experience



# Record Sales Drive Wireless Margins, Outlook on Track

## AT&T Wireless OIBDA Service Margin

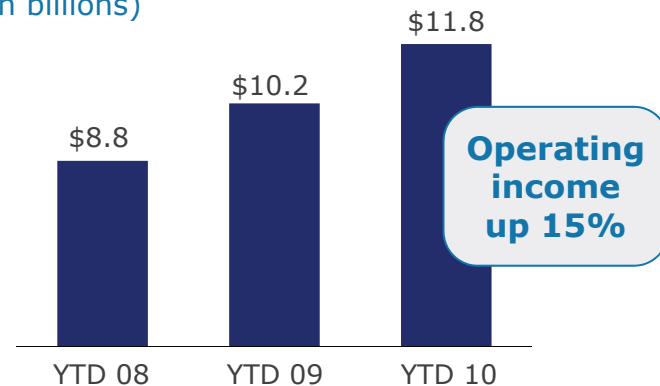


## 37.6% wireless OIBDA service margin

- Record-level smartphone sales and upgrades impact margins
- Upgrades > 10%
- Offset by higher ARPU, lower churn, strong data growth and further operational improvements

## Wireless Operating Income

(\$ in billions)



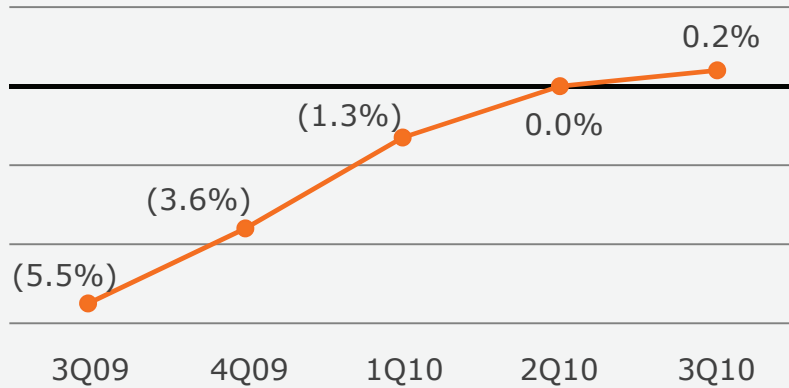
## Wireless operating income up 15% year to date

Full-year 2010 wireless OIBDA service margin outlook in the low 40% range



# Wireline Consumer Growth Turns Positive

## YOY Change – Wireline Consumer Revenues



## First year-over-year growth in total wireline consumer revenues in over two years

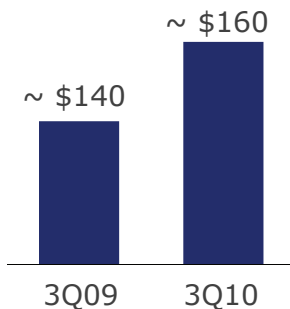
- 236,000 U-verse TV net adds to reach 2.7 million, continued strong attach rates
- 148,000 total broadband net adds

## AT&T U-verse TV ranked “Highest in Customer Satisfaction in the North Central, South and West Regions”

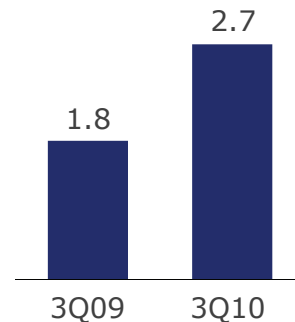
\* according to the J.D. Power and Associates 2010 Residential Television Service Provider Satisfaction Studies<sup>SM</sup>



## U-verse Triple-Play ARPU



## U-verse TV Subscribers (in millions)



## Improved ARPU and revenue trends

- 30% growth in revenues from consumer IP services — AT&T U-verse and broadband

## Planned product improvements include:

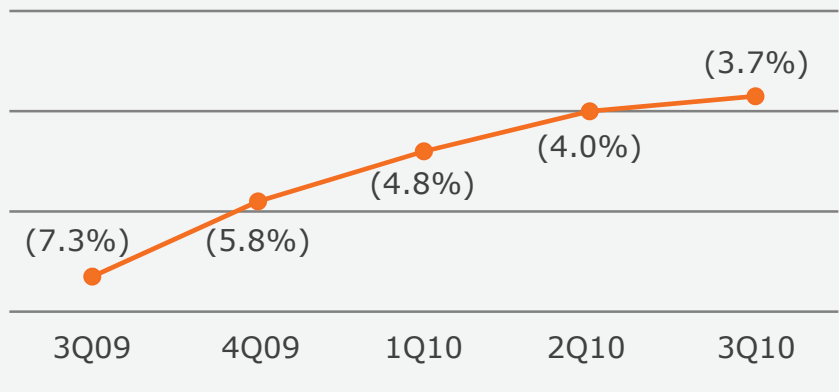
- Pause and rewind live TV in any room in the house
- Continued rollout of 4th simultaneous HD stream

AT&T U-verse received the highest numerical score among television service providers in the North Central, South and West regions in the proprietary J.D. Power and Associates 2010 Residential Television Service Satisfaction Study<sup>SM</sup>. Study based on 28,489 total responses from measuring 12 providers in the North Central region (IL, IN, MI, OH, WI), 13 providers in the South (AL, AR, FL, GA, KS, KY, LA, MS, MO, NC, OK, SC, TN, TX), and 10 providers in the West (AZ, CA, CO, ID, IA, MN, MT, NE, NV, NM, ND, OR, SD, UT, WA, WY) and measures consumer satisfaction with television service. Proprietary study results are based on experiences and perceptions of consumers surveyed in Nov. 2009 and Jan. 2010, April 2010 and July 2010. Your experiences may vary. Visit [jdpower.com](http://jdpower.com)

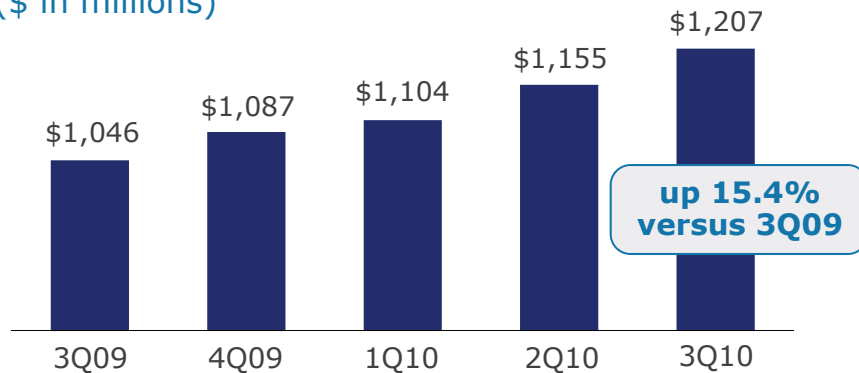


# Wireline Business Revenue Trends Continue to Improve

## YOY Change — Wireline Business Service Revenues



## Strategic Business Services Revenues (\$ in millions)



Strategic business services include the new-generation capabilities that lead AT&T's most advanced solutions — including Ethernet, VPNs, hosting, IP conferencing and application services.

## AT&T Business Solutions revenue trends continue to improve; strategic business services continues to show strength

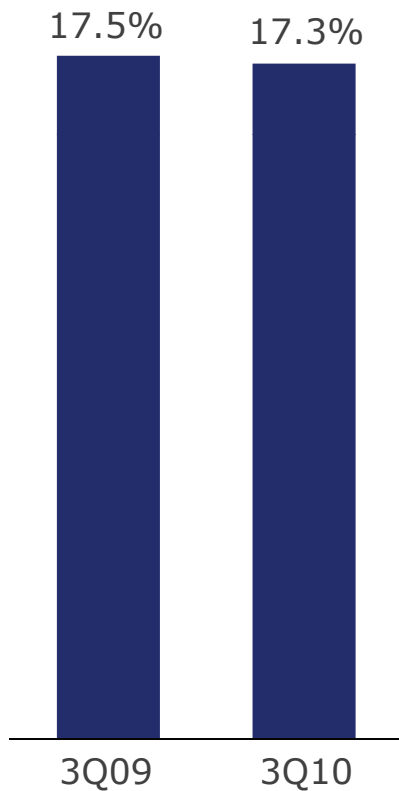
- 15.4% growth in strategic business services revenues
- Business IP data revenues grew 8.0% overall, led by growth in VPN revenues
- Voice revenue trends stable
- Wireless becoming a larger differentiator in all business customer categories

## Operating expenses continue to improve and drive margins slightly up year over year

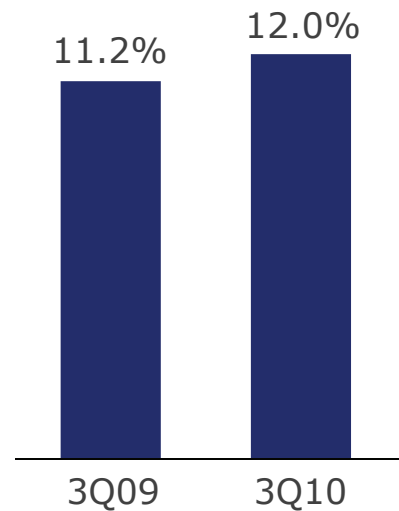


# Consolidated and Wireline Margins Summary

## AT&T Consolidated Operating Income Margin



## AT&T Wireline Operating Income Margin



## Consolidated margin stable despite record wireless sales

- Margin pressured sequentially and year over year
- Continued progress in wireless revenue growth and churn
- Total force down by 15,000 since year-end 2009

## Stable-to-improving wireline operating income margin — driven by:

- Improving revenue trends
- Cost initiatives on track
- Operational improvements in network and support functions



# Strong Cash Flow

## 3QYTD AT&T Cash Summary

(\$ in billions)

**Cash From Operations**                      **\$25.4**

**Capital Expenditures**                      **\$13.7**

**Free Cash Flow**                              **\$11.6**

**Dividends Paid**                              **\$7.4**

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**Debt-to-Capital Ratio**                      **37.8%**

**Net Debt-to-EBITDA Ratio**                      **1.5**

## Free cash flow and capital expenditures in line with previously outlined full-year outlook

- Cash from operations reflects progress on cost initiatives
- Year-to date wireless capital expenditures up 55% year over year
- Continue to expect full-year 2010 capital expenditures in the \$18–\$19 billion range
- Over the last six quarters, we have generated over \$9 billion of free cash flow after dividends

Free cash flow is cash from operations less capital expenditures. Net debt is total debt less cash and cash equivalents. EBITDA is earnings before interest, tax, depreciation and amortization. Numbers may not foot due to rounding.



## 3Q10 and Year-to-Date Summary

Strong  
revenue and  
earnings  
growth

Positive  
momentum  
going forward

**Increasing Revenue Growth** — consolidated, wireless and wireline consumer

**Record Wireless Metrics** — postpaid ARPU increasing, total churn decreasing...and strong integrated device sales

**AT&T U-verse Leading Wireline Consumer Growth** — U-verse \$4.6 billion annualized revenues

**Continued Signs of Stabilization in Business Markets** — with strength in strategic services and IP data

**Financial Strength** — year-to-date growth in revenues, margins and earnings

**Strong Free Cash Flow** — with sound balance sheet, improving debt metrics



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