

# AT&T Investor Update

4Q08 Earnings Conference Call  
January 28, 2009



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# Agenda

**Introduction**

**Brooks McCorcle**

Senior Vice President-Investor Relations

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**Opening Remarks**

**Randall Stephenson**

Chairman, Chief Executive Officer and President

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**4Q08 Results, Outlook**

**Rick Lindner**

Senior Executive Vice President  
and Chief Financial Officer

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**Q and A**

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**Closing Comment**

## Cautionary Language Concerning Forward-Looking Statements

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# 4Q08 Execution and Highlights

Major advances  
over past year  
strengthen AT&T's  
position, expand  
opportunities for  
2009 and beyond

**Strong wireless growth** – >2 million net subscriber additions, >4 million iPhone activations in 2H08

**Industry-leading wireless data growth** – up 51.2% year over year

**Accelerated AT&T U-verse<sup>SM</sup> TV ramp** – passed 1 million subscribers, network deployed to 17 million living units

**Continued double-digit growth in IP data services** – advanced business services, U-verse ramp

**Sustained dramatic turnaround in wholesale** – IBM alliance continues to ramp

**Maintained the best consolidated operating margins among telecom peers** – delivered on merger synergies, streamlined organization, continued cost improvement

**Returned value to shareowners** – >\$15 billion in 2008 through dividends and share repurchases, 25<sup>th</sup> consecutive annual dividend increase

# EPS Summary

4Q08 reported and adjusted EPS includes:

- \$0.05 - iPhone activations
- \$0.01 - hurricane-related costs
- \$0.01 - foreign exchange impacts on equity income

	4Q08	4Q07
Reported EPS	\$0.41	\$0.51
Adjustments:		
Merger-Related Costs		
Merger integration		0.04
Noncash merger-related costs	0.12	0.15
Trust investment losses	0.05	
Workforce reduction	0.07	
Adjusted EPS	\$0.64	\$0.71

Pretax adjustments to earnings:

- 4Q08: noncash merger-related costs of \$1,056 million, workforce reduction charge of \$617 million and trust investment losses of \$445 million.
- 4Q07: merger integration, noncash intangible amortization and purchase accounting effect totaling \$1,800 million.

Totals may not foot due to rounding.

Further details are available at [www.att.com/investor.relations](http://www.att.com/investor.relations).

# Consolidated Revenue Growth

## AT&T Adjusted Consolidated Revenues (\$ in billions)



2007 revenues adjusted to exclude merger-related directory accounting impact.

## 4Q08 Customer Revenue Mix



**Total adjusted consolidated revenues grew 3.4% for the full year, up 2.2% in 4Q08. Fourth-quarter highlights:**

- 13.2% wireless revenue growth
- Wireless represented 41.4% of total 4Q08 revenues, up from 37.4% a year earlier
- 14.2% growth in wireline IP data revenues, which include business services and AT&T U-verse services
- These drivers more than offset expected pressures in wireline voice

# Wireless Subscriber, ARPU and Revenue Growth

**AT&T Wireless Revenues**  
(\$ in billions)

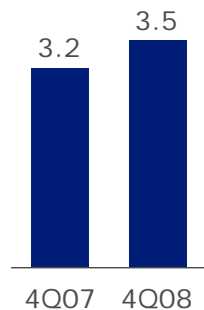


**13.2% 4Q08 wireless revenue growth, service revenues up 13.3%**

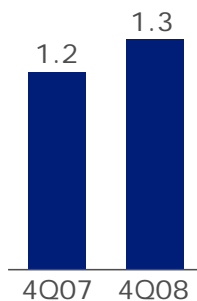
## Strong subscriber gains

- 2.1 million net adds in 4Q08
- 7.0 million increase in wireless subscriber base over past year to reach 77.0 million

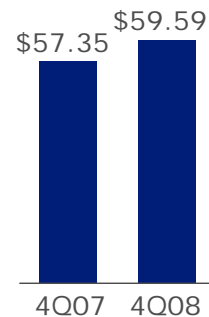
**Postpaid Gross Adds**  
(in millions)



**Postpaid Net Adds**  
(in millions)



**Postpaid Subscriber ARPU**

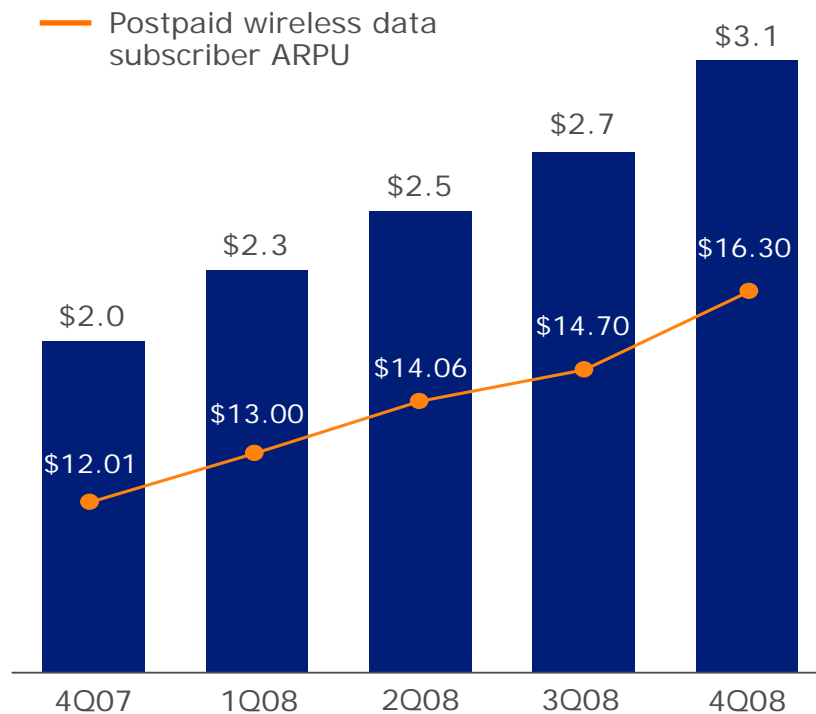


## Postpaid ARPU growth:

- 3.9% year-over-year growth in postpaid subscriber ARPU
- Postpaid data ARPU up \$1.60, or 10.9%, sequentially, and up 35.7% year-over-year growth

# 51.2% Wireless Data Growth

## AT&T Wireless Data Revenues (\$ in billions)



## Significant gains in industry's strongest growth area

- 12<sup>th</sup> consecutive quarter with >50% wireless data revenue growth
- Continued strong growth across data product portfolio — including Internet access revenues, multimedia messaging and media bundles
- Nearly 80 billion text messages in 4Q08, more than double 4Q07 volume
- Number of 3G devices in service and 3G active data users on network more than doubled over past year

# Wireless Data Growth Drivers

Apple iPhone 3G



BlackBerry® Bold™



## Premier Network

- Nation's fastest 3G network
- Only U.S. carrier to have 3G HSPA broadly deployed
- HSPA Release 7 expected to deliver potential peak speeds exceeding 20 Mbps
- Key advantage: significant interim speed improvements available on path to 4G

## Premier Device Lineup

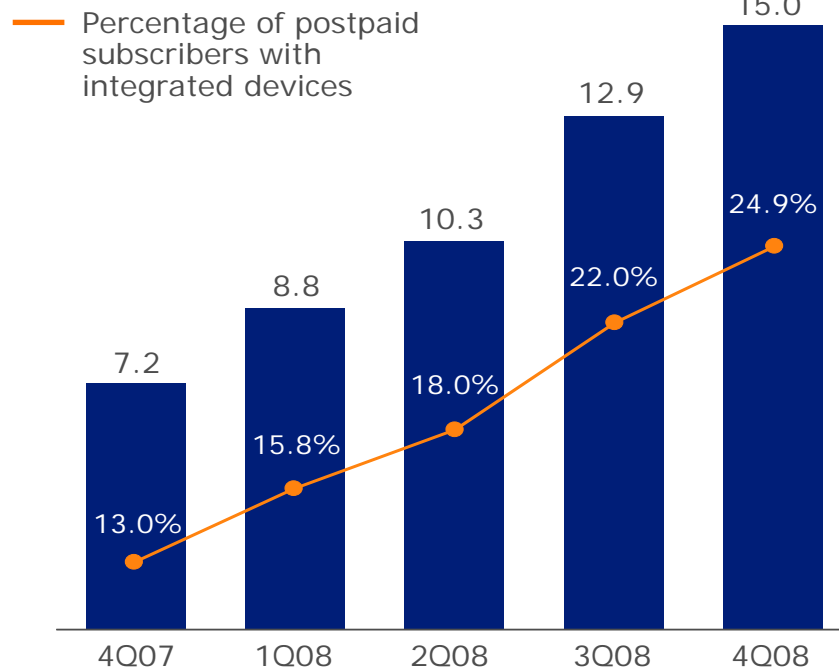
- High-end exclusives: iPhone 3G, BlackBerry Bold
- Attractive array of Quick Messaging devices for text-centric youth market
- Broad selection of LaptopConnect cards, including embedded devices in the Dell Mini and Acer Netbook

## Rich Applications and Content

- Largest catalog of mobile music among U.S. wireless companies
- AT&T Mobile TV, AT&T VideoShare<sup>SM</sup>
- Navigation services
- Transaction services, including banking

# Industry Leader in Wireless Integrated Devices

## AT&T Wireless Integrated Devices in Service (in millions)



## Subscriber gains at the high end, creating value:

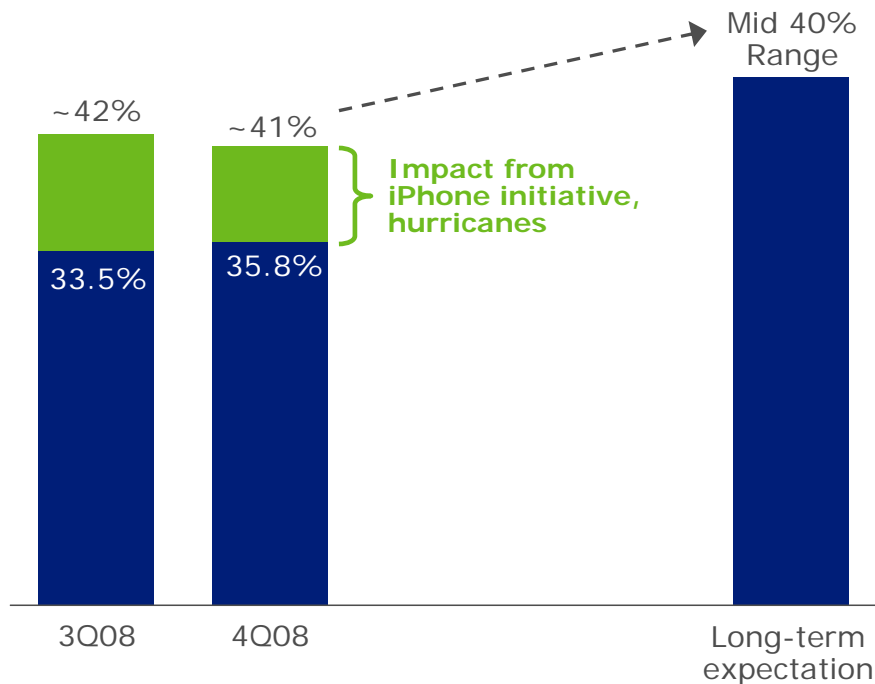
- ~60% of 4Q08 postpaid net adds selected integrated devices
- Integrated device subscriber ARPUs average 1.6x postpaid base

## iPhone 3G results confirm plan assumption, outlook:

- 1.9 million activations in 4Q08 and >4 million in less than six months; ~40% new AT&T subscribers
- High ARPU
- Low churn
- High recurring margin
- Net present value is >2x average postpaid subscriber

# Wireless Margin Expansion

## AT&T Wireless Unadjusted OIBDA Service Margin

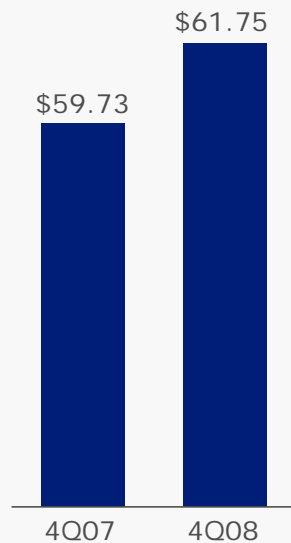


## Clear path to substantial wireless margin expansion

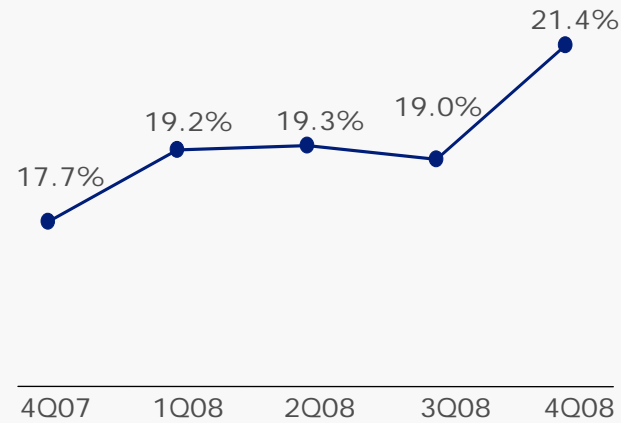
- ARPU and churn characteristics of iPhone 3G customer base drive margin expansion
- 230 basis point sequential increase in unadjusted OIBDA service margin in 4Q08 — driven by iPhone 3G economics
- Expect to achieve wireless OIBDA service margins in the low 40% range by end of 2009 and mid 40% range longer term

# Wireline Consumer ARPU Growth Driven by AT&T U-verse TV and Broadband

AT&T Regional Consumer Revenue Per Household Served



Total Consumer IP Revenue Year-Over-Year Growth — Includes Broadband and AT&T U-verse Services



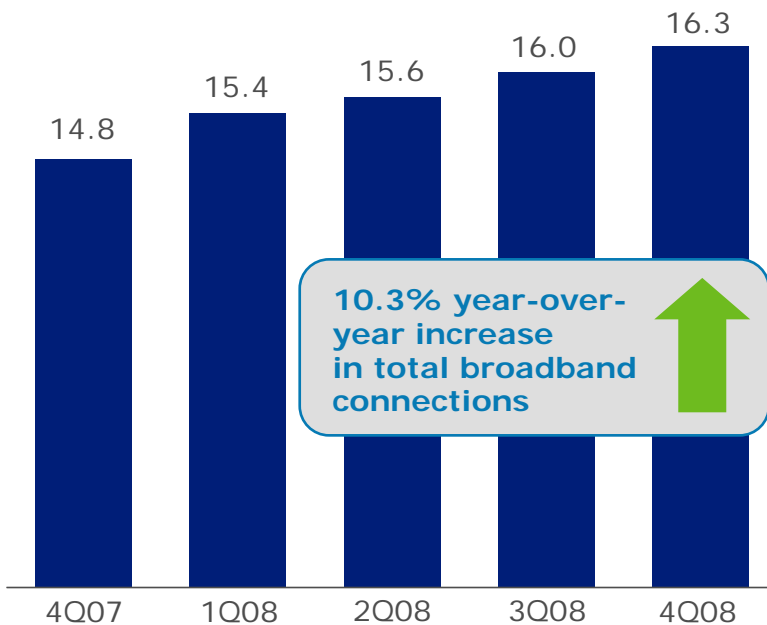
AT&T consumer IP data revenues up 21.4% versus 4Q07, driven by growth in U-verse TV and broadband

- 3.4% year-over-year increase in average revenue per household served, continuing trends of recent quarters
- Improved access line trends in U-verse TV market areas
- Accelerated ramp in AT&T U-verse TV, with >90% broadband attach rate

# Broadband Growth

## AT&T Total Broadband Connections

Wireline Broadband Users Plus Wireless 3G  
LaptopConnect Users  
(in millions)

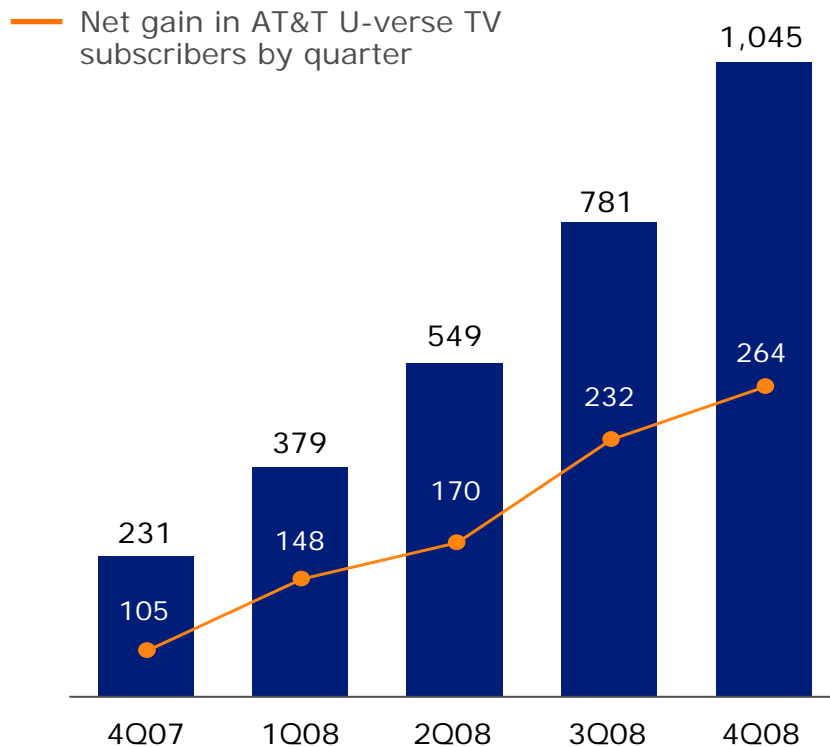


**1.5 million net gain in total broadband connections over past year; 357,000 added in 4Q08**

- Rapid growth in AT&T U-verse high speed Internet connections
- 3G LaptopConnect cards in service nearly doubled over past year
- Continued strong growth in wireless/broadband bundles
- Wireless and wired broadband subscribers benefit from AT&T's Wi-Fi footprint — industry's largest with nearly 20,000 U.S. hotspots

# Strong AT&T U-verse Ramp

## AT&T U-verse TV Subscribers in Service (in thousands)

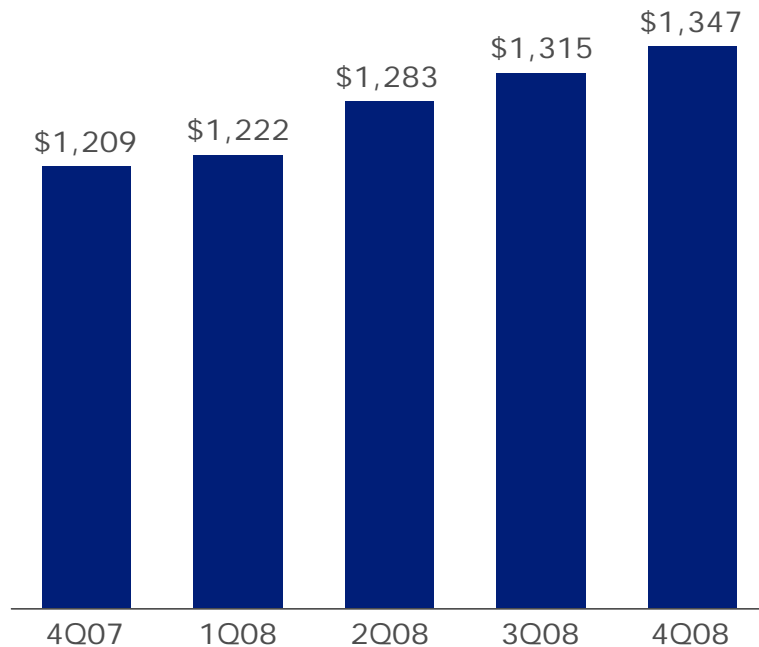


## Strong sales trends, operational progress and new service features drive mass-market success story

- Total Home DVR rollout and second HD stream migration completed in 2H08
- AT&T U-verse TV scored highest in customer satisfaction in North Central, South and West regions by J.D. Power and Associates
- Achieving mid-teens penetration within 18 months of launch
- Network deployment now reaches 17 million living units
- Multibillion-dollar revenue opportunity during next few years

# Business Trends Driven by Continued Strong IP Data Growth

**AT&T Retail Business IP Data Revenues — Enterprise and Regional Business**  
(\$ in millions)



Retail business revenue trends reflect continued double-digit IP data growth offset by expected economic pressures on voice and transport volumes

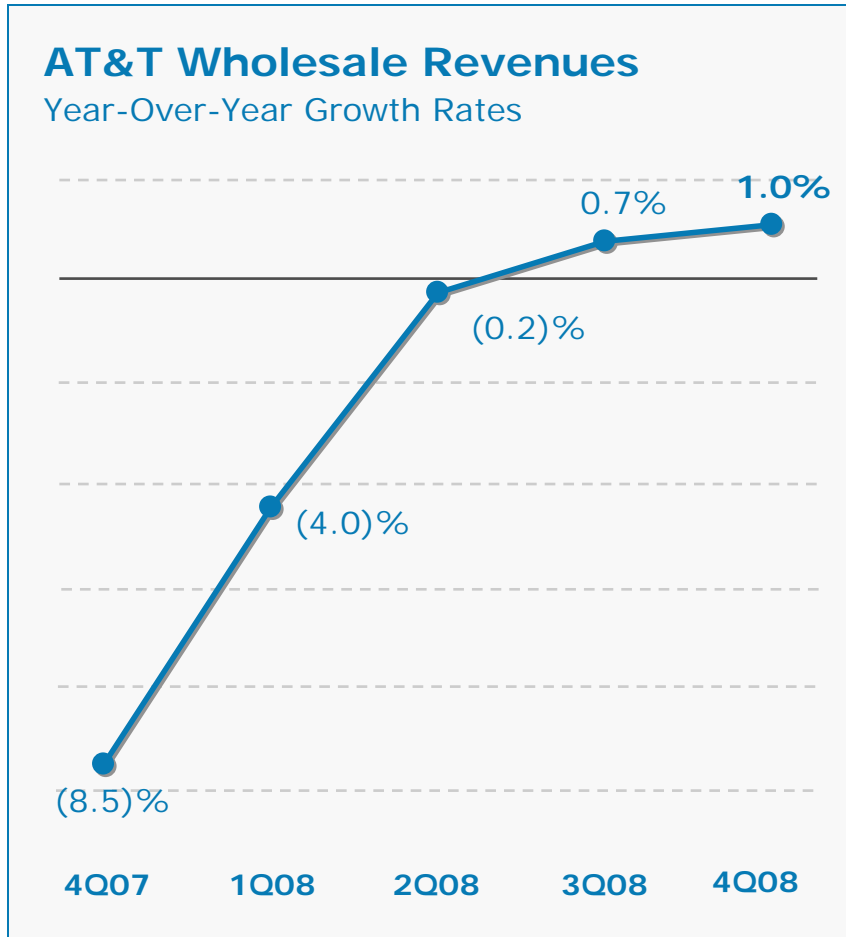
## Enterprise

- Wireless an increasing advantage in contract wins
- Double digit growth in IP data revenues with >20% VPN revenue growth

## Regional Business

- 13.3% growth in IP data revenues, solid mid-single-digit growth in transport data revenues
- 18.3% IP data and Ethernet revenue growth

# Wholesale Turnaround



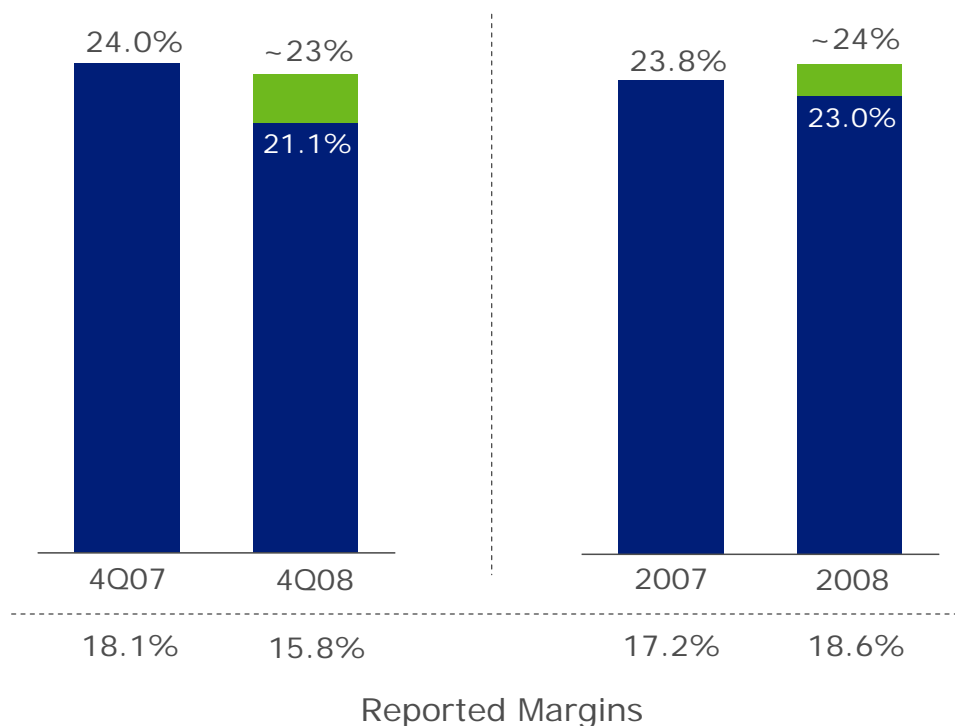
**Significant improvement over past year with solid demand for data services offsetting expected declines in local voice**

- Solid fundamentals driven by wireless growth, reduced impacts from carrier traffic migration
- Connections with more than 600 carriers in more than 220 countries and territories
- Revenues from AT&T's global network alliance with IBM continue to increase, with further ramp expected in 2009

# Consolidated Margins

## AT&T Adjusted Operating Income Margin

■ Impact from iPhone 3G initiative, hurricanes



Merger integration and amortization costs and other items excluded from adjusted operating income margins: \$1,800 million in 4Q07 and \$1,673 million in 4Q08; \$8,168 million in 2007 and \$5,520 million in 2008.

**Margins reflect revenue growth, operational improvements, near-term pressure from iPhone 3G initiative and hurricane-related costs**

- Merger synergies and execution of major operational cost initiatives on track
- Hurricane impacts totaled ~\$120 million in 4Q08 and \$265 million for the full year
- iPhone dilution of ~\$450 million in 4Q08 and ~\$1.3 billion for full-year 2008
  - High-margin subscribers
  - Impacts expected to decline over next few quarters

# Solid Cash Generation, Sound Balance Sheet

## AT&T Cash Summary

(\$ in billions)

	4Q08	2008
<b>Cash From Operations</b>	\$10.9	\$33.7
<hr/>		
<b>Capital Expenditures</b>	\$5.5	\$20.3
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<b>Free Cash Flow</b>	\$5.4	\$13.3
<hr/>		
<b>Cash Returned To Shareowners</b>	\$2.4	\$15.6

Totals may not foot due to rounding.

**Solid cash flow provides financial flexibility for continued investments in growth drivers while returning substantial value to shareowners**

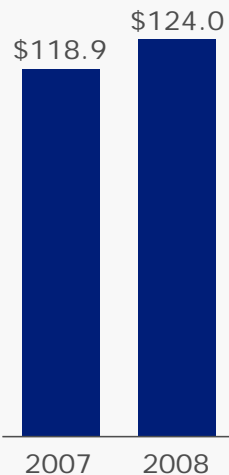
- Continued strong balance sheet and credit ratings
- Current focus on debt reduction and dividends ahead of share repurchases
- Total debt reduced by \$5.2 billion in second half of 2008

# 2009 Outlook

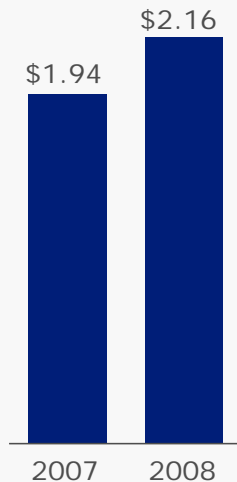
To simplify reporting, and with major merger integration projects now largely complete, in 2009, AT&T will no longer adjust results for merger-related costs and instead will present reported financial quarterly results accompanied by detail on factors impacting results.

## AT&T 2008 Reported Consolidated Results

### Revenues (\$ in billions)



### Earnings Per Share



## 2009 Expectations

- Grow consolidated revenues in low single digits
- Manage costs aggressively
- Expand wireless OIBDA margins to low 40% range by end of 2009 with a long-term expectation of reaching the mid 40% range
- Deliver stable consolidated earnings and margins excluding noncash pension/retiree benefit pressure
- Execute a focused, disciplined capital program, while investing in key growth initiatives
- Deliver free cash flow stable with 2008 levels
- Continue strong record of returning value to shareowners

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