



getting to the future **first**

AT&T Inc. 2011 Annual Report



To our investors:

Five years ago, we committed AT&T to a future of leadership and growth in the most transformative technology of our time — the mobile Internet.

We made that commitment knowing the potential was enormous — for customers, for society, for our economy and for our shareowners. And I am proud to say that, from the start, your company has led the way.

As bold as our vision was, and as fast as we've already grown, it's now clear that the mobile Internet revolution is exceeding everyone's expectations. Think about all that we've seen in just five short years:

▷ Smartphone adoption has soared — with more than 1 billion already sold worldwide, and mobile tablets and eReaders are now on a similar growth trajectory.

▷ Mobile applications that make smartphones and tablets even smarter have exploded; last year alone an estimated 12 billion were downloaded worldwide, up 10X over the past five years.

▷ To stay ahead of this tidal wave, AT&T and other providers have invested aggressively, deploying new generations of network technology in rapid succession — from 2G to 3G and now to 4G.

▷ Innovation has exploded across this high-growth ecosystem, and it continues to accelerate — encompassing network providers, device makers, app developers and customers.

This is without question one of the largest, fastest technology waves in history. As a result, how we live and do business is being reimaged at breakneck speed.

▷ The mobile Internet has made virtually everything more immediate and effortless — shopping, financial transactions, games, entertainment, social networking and more.

We're just beginning to realize the potential of this mobile revolution to accelerate commerce and drive human progress ...

► Five years ago, smartphones were mainly about email and messaging. Today, they possess amazing computing power with sensors, video cameras, music players, GPS capabilities and much more — to serve as a hub and give us instant access to the entire Internet and unprecedented control over our lives.

► Every industry is tapping into these capabilities to create new business models, reinvent their operations and improve productivity.

► And we're just beginning to realize the potential of this mobile revolution to accelerate commerce and drive human progress — bringing step-change improvements to everything from education to healthcare to energy.

AT&T has set the pace, delivering the mobile Internet to more customers than any other U.S. provider. Over the past five years:

► We invested more than \$115 billion into our operations and into acquiring spectrum and other assets that have enhanced our wireless and wired networks. Since 2006, AT&T has invested more capital into the U.S. economy than any other public company.

► Mobile data traffic on our network grew more than 20,000 percent, more than doubling in 2011 alone.

► Mobile data speeds on our network increased dramatically. The download speeds available on our 4G LTE network today are more than 50X faster than our 2G network five years ago.

► The number of smartphones, tablets and other advanced mobile Internet devices on our network soared to more than 43 million.

► Total mobile data connections on our network more than doubled to more than 74 million, and mobile data revenues increased 5X, from just over \$4 billion to more than \$22 billion.

► Our total wireless subscribers grew nearly 70 percent to 103 million, and our wireless revenues increased 68 percent.

These numbers say that your company is leading a transformative wave of innovation and growth. And what's most gratifying is how we built on that leadership position in 2011:

► We were again No. 1 among U.S. providers in mobile subscribers added — 7.7 million — and tops in virtually every key mobile-data-growth metric, including smartphone penetration and connected devices such as tablets and eReaders.

► We added more than 10 million smartphones to our network, and we closed the year with smartphones making up better than eight out of 10 new contract device sales, well above our industry-leading penetration rate.

► We exceeded our targets in every major mobile network initiative, enabling us to deliver a premier mobile Internet experience with best-in-class speeds.

A portrait of Randall Stephenson, Chairman, Chief Executive Officer and President of AT&T. He is a middle-aged man with dark hair, wearing a dark suit, white shirt, and a red and black striped tie. He is smiling and standing in front of a display that features the text "10x faster" and "4G LTE" with a blue bird-like logo. In the foreground, there are several tablets on stands.

Randall Stephenson

Chairman, Chief Executive
Officer and President

► We ended 2011 with 80 percent of our mobile data traffic running on our advanced 4G network, and AT&T's network lets iPhone 4S download 3X faster than our competitors.

► And now we're well under way with our rollout of the fastest, most advanced technology — 4G LTE — with plans to complete our deployment to 80 percent of the U.S. population by the end of 2013.

► We also significantly expanded our advanced capabilities for business customers — whose requirements are increasingly focused on mobile broadband connectivity — by creating a robust Internet cloud services platform for computing, storage, security and mobile apps.

And as we built these new growth platforms, we also delivered solid financial results. In 2011:

► Revenues from mobile data and advanced business services both grew at a strong double-digit pace, and our total revenues increased to a record \$126.7 billion.

► Cash from operating activities was a strong \$34.6 billion.

► We invested more than \$20 billion of capital in our networks.

► We also paid more than \$10 billion to our shareowners in dividends, and at the end of the year we announced our 28th consecutive annual dividend increase.

► This places your company among a select group of large, blue-chip companies with an exemplary record of consistent performance while returning increased value directly to shareowners.

► And in January 2012, we announced that we would immediately begin repurchasing shares under our existing 300 million share authorization. That's about 5 percent of our shares outstanding, representing approximately \$9 billion based on our stock price at the time of this letter. Our strong cash generation gives us the flexibility to execute these buybacks while maintaining a sound balance sheet.

total wireless subscribers

in millions >



wireless data revenues

in billions >



smartphones on AT&T's network

postpaid smartphones at end of year, in millions >



total mobile data traffic on our network

billions of MBs >



Rapid transitions to our new technology platforms — especially at the scale and speed we're seeing with mobile broadband — inevitably result in creative disruption, as new and better capabilities replace legacy services and drive economic growth.

▷ The essence of our business has always been to lead the way in this process — to get to the future first — so that our customers and our shareowners benefit.

▷ And in our own operations, this has driven significant changes in our business mix.

▷ Five years ago, wireless, wireline data and managed services represented roughly half of our overall revenues. Today, they account for more than three-fourths of the total, and in 2011 they had combined growth of 7.5 percent, showing considerable strength in a slow economy.

▷ Meanwhile, other parts of our operations — most notably our print directory business and voice-centered fixed-line consumer services — continue to decline as customers migrate from legacy technologies to newer platforms.

▷ These declines were reflected in the noncash charges we took in the fourth quarter of 2011; we wrote down the value of our directory

business to reflect peer values and made actuarial adjustments to our benefit plans, which were predominantly associated with our legacy operations' employees and retirees.

We expect this shift in our business to accelerate as we drive further mobile broadband growth and make strategic decisions to improve our overall growth profile.

▷ The gap between our growth businesses and our legacy operations continues to widen. That makes evaluating the best options for our low-growth and nonstrategic assets a top priority.

▷ Meanwhile, we recognize that as swift and pervasive as the mobile Internet revolution has been, we're still early in the growth trajectory.

▷ So our dominant strategic focus will continue to be acquiring the spectrum and building the network capabilities we need for robust growth as the mobile Internet enters its next stage.

To advance that strategy, we undertook a major strategic initiative in 2011: our proposed acquisition of Deutsche Telekom's T-Mobile USA unit.

▷ This transaction was the right move at the right time because it would have increased overall network capacity at a pivotal time in

our industry's development — as the mobile Internet continues to disrupt yesterday's technologies and business models.

▷ Our two companies' compatible network technologies and spectrum holdings made this a unique opportunity — one that would have allowed us to greatly expand our nationwide deployment of the most advanced 4G LTE network technology to more small towns and rural communities.

▷ In the end, we weren't successful; the transaction was opposed by the Federal Communications Commission and the Department of Justice, resulting in breakup payments reflected in the \$4 billion charge we took in the fourth quarter.

▷ But the transaction served to dramatize the No. 1 forward-looking issue for our industry — making enough spectrum available to keep up with customer demand and enable the mobile Internet revolution to reach its full potential.

Customer demand for the mobile Internet continues to rise.

▷ Over the next five years, on top of the 20,000 percent growth we've experienced since 2006, we conservatively expect our mobile data traffic to grow more than 8X from today's levels — as more powerful networks connected to the cloud take hold and supercharge the next phase of the mobile revolution.

▷ This means spectrum availability is crucial for our customers, and it's *the* critical public policy issue for our industry.

▷ That's why we will continue to provide leadership on this issue and advocate for equal opportunities to acquire spectrum as soon as possible, both on the open market and through open auctions.

Meanwhile, we're not waiting around. We are leading the way on a number of fronts to help increase network capacity and mobile broadband accessibility while we continue to pursue additional spectrum.

▷ We've executed a number of smaller spectrum transactions.

▷ We've worked aggressively to add cell sites and make the most of existing spectrum.

▷ We've taken the initiative to help manage existing capacity responsibly through usage-based mobile data pricing and by managing the speeds of the highest-volume unlimited users. We want to ensure a better overall experience for all of our users.

▷ Now, we're accelerating deployment of 4G LTE technology. In addition to providing stunning speeds, this most advanced network technology provides a lift in network efficiency of roughly 30 to 40 percent over our current technology. But as impressive as this capacity lift is, with current rates of traffic growth, it's only a near-term help.

As dramatic as the first five years in the mobile broadband revolution have been, the next five years will surpass them by an order of magnitude ...



AT&T Executive Leadership Team

Left to Right: **Jim Cicconi**, Senior Executive Vice President-External and Legislative Affairs, AT&T Services, Inc.; **Ray Wilkins Jr.**, Chief Executive Officer-AT&T Diversified Businesses (*retiring March 30, 2012*); **Randall Stephenson**, Chairman, Chief Executive Officer and President; **Cathy Coughlin**, Senior Executive Vice President and Global Marketing Officer; **John Stephens**, Senior Executive Vice President and Chief Financial Officer; **Bill Blase Jr.**, Senior Executive Vice President-Human Resources; **John Stankey**, Group President and Chief Strategy Officer; **Ron Spears**, Senior Executive Vice President-Executive Operations; **Forrest Miller**, Group President-Corporate Strategy and Development (*retiring March 30, 2012*); **Wayne Watts**, Senior Executive Vice President and General Counsel; **Ralph de la Vega**, President and CEO, AT&T Mobility. (*Not Pictured: John Donovan*, Senior Executive Vice President-AT&T Technology and Network Operations; **Andy Geisse**, Senior Executive Vice President-AT&T Business and Home Solutions.)

▷ We also continue to pursue Wi-Fi as an alternative access strategy. We've assembled the United States' largest Wi-Fi network to provide our customers with alternative mobile access points, and growth has been dramatic. For the full year 2008, customers made 20 million Wi-Fi connections on our network. Last year, we hit that total every four days.

Adding capacity and expanding accessibility are critically important because the mobile Internet is on the verge of radically improving our lives and our economy.

▷ As dramatic as the first five years of the mobile broadband revolution have been, the next five years will surpass them by an order of magnitude.

▷ Why? Because our networks now provide super-high-speed connectivity to a virtually unlimited amount of content and number of applications that live in the Internet cloud.

▷ This is an incredibly dynamic combination, and it will spark the next wave of innovation and growth.

▷ Everything will be more connected, easier and more intelligent, as smartphones and tablets — where we lead the industry — serve as the hub of each person's mobile universe.

▷ This next chapter in the mobile revolution will be about much more than what we can do on our devices; it will be all about how the mobile Internet improves every aspect of our lives.

▷ We'll be able to remotely monitor every kind of machine and function — security and entertainment systems, air conditioners, water heaters, sprinklers and more — giving us unprecedented control over usage and costs.

▷ Sensors connected to our wireless network will revolutionize healthcare. Parents will be able to monitor their babies' health through sensors in infant clothing. Heart rate, blood pressure and other vital signs can be transmitted automatically to doctors for real-time diagnostics and alerts plus seamless record-keeping. This technology can help a growing number of seniors live more securely and independently at home.

▷ Cars will become smart devices — monitoring their own systems, alerting us before parts malfunction, avoiding traffic jams and delivering entertainment from the cloud to the kids in the back seat.

▷ In these and countless other ways, millions and millions of wirelessly connected machines will work harder and smarter, making our lives easier, safer and more productive.

This is the future of the mobile Internet — we've barely scratched the surface of what's possible — and we will continue to build AT&T's future at the center of this revolution.

▷ That's where we are investing for growth.

▷ It's also where we are focusing our work with the global ecosystem of app developers, to bring more innovation onto our network faster.

▷ And you can count on us to stay disciplined and aggressive in our pursuit of these opportunities.

We're also committed to another kind of investment, one that's simply part of who we are as a company.

▷ We will continue to invest in the future of our communities, with a strong emphasis on high school retention and workforce readiness.

▷ In 2008, we launched AT&T Aspire, a \$100 million initiative to support and expand programs with a demonstrated track record of improving educational outcomes.

▷ Through the end of 2011, we exceeded our targets to support projects focused on this objective, and in early 2012, we plan to launch a major expansion of AT&T Aspire.

▷ A skilled workforce and an educated, productive society are keys to our nation's health and our company's long-term success.

Every day, on all these fronts, our mission is to help our customers, our communities and our country get to the future first — bringing to life all that technology makes possible. It's a responsibility and a commitment we embrace.

Our achievements in this regard are a tribute to AT&T's employees around the world. During a time of grinding economic pressures and historic industry transition, they have kept their focus and executed extremely well. I know you join me in expressing gratitude and respect for their work. On their behalf, I thank you for your continued confidence and support. Together, we will work tirelessly to continue leading the mobile Internet revolution.

Sincerely,



Randall Stephenson

Chairman, Chief Executive Officer and President
February 13, 2012

Like oxygen, the network's all around us.

We can't live without it.



With the network ... we're closer, even when we're apart. Safer, even when we're alone. More productive, even when we're pressed for time. And smarter all of the time.

MAKING EVERYTHING MOBILE On top of our world-class network, we're expanding the benefits of mobile connectivity. There's practically no limit to what we can connect to our network — from eReaders to cars to health monitors.

A Drive to Stay Connected When building its first all-electric sedan, **Ford** turned to AT&T to take the driving experience to the next level. The Ford Focus Electric, which will hit the streets in 2012, will enable drivers to control their cars through the MyFord Mobile smartphone app, connected to an embedded AT&T wireless connection. This technology, combined with Ford's innovative faster-charging feature, lets owners charge the vehicle in half the time and at half the cost.

Drivers will also get MapQuest-powered features to help them calculate how much electric charge they'll need to get to their desired destination, locate the nearest charging stations and plan future routes. And budget-conscious drivers can use a feature that lets them program their cars to begin charging when the price of electricity is lowest. All from their smartphone.

We're helping Ford's drivers get to the future first — at the electric equivalent of 100+ miles per gallon.

MOVING TO THE CLOUD As we expand our deployment of 4G LTE wireless technology and cloud services that enable businesses to easily and cost effectively manage network capacity, we're opening up a new world of possibilities. Our network, layered with world-class security and threat protection, gives us the power to transform lives, businesses and the world.

For example, **Simpson Gumpertz & Heger Inc. (SGH)** is a U.S. engineering firm that's regularly counted among the best employers in its industry. SGH works on thousands of projects every year, from new building design to water pipeline investigation. The amount of computing power needed for each project can vary by a factor of 20, and can require up to 100 computer servers for such complex jobs as analyzing the seismic risk to power plants.

To manage it all efficiently, SGH depends on AT&T's cloud capabilities. With AT&T cloud services, SGH can scale its computing power depending on demand, while also realizing significant savings in capital investment. Says Michael Kushakji, SGH's director of IT, "AT&T's cloud computing gives us the flexibility we need ... with a lot fewer man hours and less capital."

Whether working on projects like Boston's Harbor Islands Pavilion (shown here) or analyzing a structure's potential risk from earthquakes, engineering firm Simpson Gumpertz & Heger Inc. relies on cloud solutions from AT&T. And with access to the cloud from smartphones and tablets, the "office" can be nearly anywhere — even at a construction site 30 stories above ground.



The cloud solution also helps SGH better serve its customers. “Fast turnaround is increasingly important to our clients — they want us to do more in less time,” says Frank Kan, a principal at SGH. “With AT&T’s cloud solution, we’re able to deliver results on schedule. And that keeps our customers coming back.”

BETTER FOR BUSINESS When it comes to serving our business customers, the AT&T network helps large enterprises and small businesses alike work more efficiently and effectively.

Powering an Industry Leader From mobility to cloud services, the AT&T network keeps **Mohawk Industries** connected. As this leading multinational flooring manufacturer and distributor faced pressure from the historic slowdown in the housing industry during the recession, Mohawk turned to AT&T to help enhance its ongoing productivity initiatives and maintain its No. 1 position in the flooring industry.

AT&T is arming the company’s carpet sales reps with tablets that allow them to immediately provide customers with up-to-the-minute pricing, new product information and updates on their orders.

“Our top priority is to make our sales people more effective,” says Jevin Jensen, Mohawk’s information systems senior director.

“AT&T worked with us to understand our needs and to develop a solution that helps us provide our reps with a superior tool kit to deliver great service to our customers.”

Meanwhile, Mohawk faced the challenge of supporting multiple external websites. The marketing teams often needed to deploy campaigns that would drive consumer traffic to those sites, but this was difficult to do quickly. Today, a cloud solution from AT&T gives Mohawk the flexibility the company needs to dial capacity up or down without investing significant capital.

“AT&T gave us a cost-effective way to deliver the computing power our marketing team needs without building out our in-house capacity,” says Jevin.

High Speed, High Fashion Lizzie Mesa and Rebecca Reinbold have built their Los Angeles-based company, **Dell et Ruhs Public Relations**, on supporting the fast-paced businesses of their fashion industry clients. And AT&T and iPhone 4S deliver the combination of speed and connectivity they need to keep their business growing.

Only AT&T’s network lets Lizzie and Rebecca download files and video three times faster on iPhone 4S and surf the Web and talk on their phones at the same time. So when they’re on the phone with a reporter, they can quickly download and then email a client’s design portfolio from the virtual showroom on their website without missing a beat.


When Lizzie’s on the go, she prefers to travel light. Since she can save and access the files she needs from her iPhone 4S, she can leave her laptop at the office when she takes meetings with clients in the relaxed atmosphere of her favorite coffee shop. She stays connected — and manages her data usage — via the AT&T Wi-Fi Hot Spot.

Rebecca, who recently switched to AT&T from another carrier, said the big difference for her was AT&T’s coverage when she visits family in the U.S. Virgin Islands. “I go home three or four times a year,” says Rebecca. “It’s a long trip from LA, so I’ll stay as long as a couple of weeks. My iPhone 4S lets me keep up with work while I’m there.”

Adds Lizzie, “Our clients count on us, and with AT&T and iPhone 4S, we know we can deliver for them ... no matter where in the world we are.”

GLOBAL SOLUTIONS FOR ENTERPRISE

In addition to world-class wireless and cloud solutions, our business customers have access to a network that reaches countries representing 99 percent of the world’s economy. So we can keep multinational corporations connected nearly everywhere they operate.



Only AT&T's network lets iPhone 4S download three times faster. AT&T delivers the speed Lizzie Mesa and Rebecca Reinbold need to keep pace with their clients in the fashion industry.

That includes companies such as **Carl Zeiss AG**, an international leader in the fields of optics and optoelectronics — everything from semiconductor to eyeglass lenses. AT&T provides Carl Zeiss with innovative, scalable networking services to connect its tens of thousands of employees in more than 30 countries — from its HQ in Germany to its manufacturing operations in Asia.

Today, Carl Zeiss benefits from a flexible suite of AT&T capabilities, including telepresence, global security solutions and network management services. Meanwhile, we're connecting tens of thousands of mobile devices and PCs to the network so Carl Zeiss' people can be more productive.

"AT&T has helped us reduce operating costs and increase productivity," says Hans Schreitmueller, vice president corporate IT, Carl Zeiss AG. "And we're able to better serve our customers as a result."

AWARD-WINNING TV SERVICE In 2011, we reached our build-out target of more than 30 million living units for our award-winning video service, AT&T U-verse® TV. Launched in 2006, U-verse is now a nearly \$7 billion revenue stream for us.

We've attracted more than 2.7 million U-verse video subscribers in the past three years, and we continue to add new features like:

- The industry's first wireless receivers, which allow customers to watch TV virtually anywhere in their homes.
- Apps to expand the viewing experience to all three screens — wireless, PC and TV — and make it more social.
- The ability to pause and rewind live TV on any U-verse receiver in the home.

In 2012, we'll continue to bring U-verse services to more families and businesses and to enhance the U-verse experience with new features.

Personal. Smart. Fast. Friendly.

That's how we want our customers to describe AT&T.



A powerful network is our foundation. But what truly differentiates AT&T is a drive to deliver a rich, unique and effortless customer experience.

It's an experience that flows from the energy, integrity and commitment of our people: the tens of thousands of retail store reps who put the power of mobile broadband into our customers' hands; the technicians who bring our award-winning U-verse services into millions of homes; and the specialized consultants who work to make businesses more competitive — from startups working out of their homes to multinational corporations that operate on several continents.

Across the board, we've stepped up our focus on the people and places that represent AT&T to the world. In the process, we've opened up a new world of possibilities for our customers.

OUR STORES: THE FACE OF AT&T Our more than 2,300 retail stores — and the employees who work there — are the face of AT&T for the customers who visit more than 150 million

times each year. So each customer visit begins with a promise that we'll provide personal, smart, fast, friendly service. We listen carefully to make sure we understand customers' needs, earn their trust and recommend the very best solutions.

This starts with giving our reps the tools they need — from training to technology — to provide excellent service. As a result, our store reps are unsurpassed nationally for customer satisfaction, according to a third-party research firm.

And in one new store, we're taking the retail experience to new heights. Our new AT&T Retail Innovation Center in Arlington Heights, Ill., opened in late 2011, is a "lab" that allows AT&T to test new ideas for improving the customer experience and export the best ideas to our other stores.

The store has an open layout — to encourage exploration — and a Solutions Center that allows customers and store reps to sit side by side for more personalized service. The new store is making the retail experience more engaging and interactive.

Store employees Dennis Foster and Lindsay Wadelton are proud of the new AT&T Retail Innovation Center — a live laboratory that tests new ideas for enhancing customer service. Says Dennis, “This place is like nothing I’ve ever seen!”



“An extraordinary customer experience is the most important service we provide ... so I’ve asked every member of my team to make a personal commitment to excellence.”

– Paul Roth, President, AT&T Retail Sales & Service

“To give our customers the best experience, we have to have the right people, set clear expectations, keep people accountable and, most important, lead by example,” says Dennis Foster, store manager. “The goal is to go beyond sales transactions to build and strengthen customer relationships.”

And leading by example is what employee Lindsay Wadelton is all about. She’s a recent graduate of AT&T’s Retail Leadership Development Program (RLDP). The program, a mix of classroom and in-store training, prepares candidates with strong leadership potential for a future with AT&T.

Lindsay credits the RLDP with giving her a strong grounding in our values as well as with preparing her to instill those values — like earning trust by always treating our customers with integrity — in the people on the front lines of customer service.

This training, Lindsay says, helped her develop a game plan. And when she enters the store? “It’s go time.”

Our customers are taking notice. “The store layout is beautiful, and the people are friendly. They ask ‘What would you like? What do you need?’

They make sure you’re taken care of!” says Barbara Nemeroff, a customer who recently visited our Arlington Heights store.

BUILDING TRUST AND LOYALTY ONLINE

While our retail stores are the foundation, today more customers want to learn, explore and buy online. Each month more than 80 million people visit www.att.com, and in 2011 we processed more than 200 million transactions through the site.

Last year, we redesigned our site and deployed new technology to help customers get what they need faster and more easily, whether they’re shopping, managing their accounts or looking for answers to questions.

Improved site navigation helps customers find product categories and information with fewer clicks and helps them more easily compare service plans and packages. And we’ve included interactive videos to improve the shopping and service experience.

We’re also creating apps to help everyone from U-verse and wireless users to small business



Mobile solutions from AT&T help NE Iowa Freight provide better service to its customers across the country.

and enterprise customers more easily manage their accounts. For example, during our biggest product launch of the year — iPhone 4S — AT&T introduced the iPhone Upgrader App. The free app allowed customers to quickly check their upgrade eligibility, select and purchase an iPhone model and choose a rate plan and features. AT&T was the only carrier to offer fast, convenient upgrades through a mobile app.

HELPING AN ENTREPRENEUR KEEP ON TRUCKING Our focus on the customer experience doesn't stop with our own customers. We're also providing solutions that help the businesses we serve deliver a world-class experience to their customers.

Case in point: **NE Iowa Freight Services**, with its fleet of 16 trucks serving customers across the U.S.

"When Michelle Hardy from AT&T asked if she could talk to me, I told her that we already had a wireless provider," says the company's owner, Lou Somerville. "But I'm awfully glad she didn't take no for an answer. With the solutions

AT&T created for us, we're not just running our business more efficiently, we're serving our customers better."

Time was, when customers asked about the status of their shipments, Lou's staff had to contact drivers on personal cell phones from a variety of providers. Connections could be hit or miss, and slow response times were compromising customer service.

Today, with the GPS-powered Telenav Asset Tracker™ from AT&T, Lou and his staff at their home office in Wyoming, Iowa, can instantly track all their trucks' locations and give customers real-time updates. And when the going gets tough due to weather, road construction or accidents, they can connect with drivers quickly to recommend a detour.

"Our customers love it when we tell them exactly where their shipments are, so they can get their crews ready to unload," says Lou. "That's important in a business where a few hours can mean the difference between a happy customer and one that leaves for your competitor."

A network that's open to innovation. It's the bedrock of our promise to get to the future first.



We've led the way in engaging the entire communications innovation ecosystem. Giving app developers around the globe more opportunities. Inspiring new ideas from within. And as a result, we're providing our customers with more choices and delivering them sooner.

Our approach to innovation is built upon four pillars that combine to deliver the future first.

AT&T LABS: EPICENTER OF INNOVATION

"The sky's the limit!" says Krish Prabhu. He's talking about the work coming out of AT&T Labs — an organization with a rich history of making big bets on new technology.

As AT&T's chief technology officer, Krish has responsibility for AT&T Labs, which has a threefold mission: make the network smarter, deliver new types of service over the network and improve people's lives. That's a tall order, even for an organization that already has thousands of patents and eight Nobel Prizes in its heritage.

But it's Krish's job to bring that mission to life — a challenge he shares with more than 1,200 other researchers. Together, they're exploring new communications possibilities. They're envisioning a world in which you don't

have to carry your wallet because your purchases and other transactions are secured by the sound of your voice. A world in which technology lets you have a real-time conversation with someone who speaks a completely different language. A world in which you can check into a hotel room on your smartphone, have an electronic room key wirelessly sent to your device and enter the room with a wave of your phone over the door handle.

At AT&T Labs, these possibilities and more are all in a day's work.

AT&T FOUNDRY: WHERE IDEAS ARE MADE

AT&T Labs makes big bets that pay off in months, or even years. AT&T Foundry moves quickly on new ideas that come to life in a matter of days and weeks.

In 2011, AT&T opened three AT&T Foundry locations. These innovation centers are designed to drive new ideas to reality in highly focused "sprints" that can bring new products and services to our customers three times faster than normal.

Today AT&T gives tens of thousands of app developers access to unique network services, and AT&T Foundry facilities in Israel, Dallas and Silicon Valley are enhancing the value we

At the AT&T Foundry location in Palo Alto, AT&T is accelerating the pace of innovation by increasing collaboration with developers. Danika Patrick and Ari Lerner are working with developers to create new mobile solutions in healthcare. (See page 20 to learn more.)



bring to these relationships. Less than a year after opening our first AT&T Foundry location, more than 100 active projects were under way. And we've already gone to market with ideas developed out of AT&T Foundry — one, a business customer platform that enables smartphone users to set up separate profiles for personal or work use, was introduced in 2011 as AT&T Toggle™.

FAST PITCH: BUILDING AN INNOVATION ECOSYSTEM With support from venture capital firms, we're engaging even more developers and startups via "fast pitch" sessions. Think of it as speed dating for entrepreneurs who want to collaborate with AT&T. From California to India, we held more than 500 of these sessions last year, helping us quickly determine which applications and infrastructure innovations are the best fit for our network. And more pitches are set for 2012.

Startups whose ideas are selected gain access to AT&T resources to help them quickly turn their ideas into real-world products. Take **Ringbow Ltd.**, an Israeli startup that is working with AT&T to create a wearable ring that lets the user interact in a new way with various touch- and gesture-sensitive devices, controlling everything from games to business apps to presentations.

Ringbow co-founder and CEO, Efrat Barit, credits AT&T with helping her company get to market quickly. "Support from AT&T allowed us to shorten the time it takes to move from prototype to product development and a launch plan."

THE INNOVATION PIPELINE: FOSTERING A CULTURE OF INNOVATION AT&T is innovating from within, as well, with The Innovation Pipeline (TIP), which we believe is the world's largest idea sourcing site for employees.

TIP is an internal website that harnesses the power of the individual. Any AT&T employee can submit an idea or vote for others' ideas. More than 120,000 employees have collectively generated and enhanced more than 14,000 ideas. Only the best concepts advance — and they're often from the front lines of our company.

And many of the ideas generated have shown that our people share a passion for using technology to benefit society. For example, Shavonne Jones' nephew Marquis was researching the dangers of texting and driving for a school paper. Determined to do something to help keep Marquis and others safe from distracted drivers, Shavonne submitted a solution to help stop texting and driving.

AT&T DriveMode began as a TIP idea and was launched in 2011. It's a smartphone app that reduces the temptation to text and drive by allowing customers to suspend functions like text messages and email while they're on the road.

"I'm grateful to AT&T for giving me the tools to turn an idea into an app that can help avoid a senseless tragedy," says Shavonne.

"AT&T Labs is delivering new capabilities that help businesses operate smarter and people live better lives." – Krish Prabhu, Chief Technology Officer, AT&T



AT&T Chief Medical Information Officer (CMIO) Dr. Geeta Nayyar is helping us revolutionize the delivery of healthcare to patients across the U.S. (She is pictured at the Florida International University Herbert Wertheim College of Medicine, where she teaches and practices medicine.)

TRANSFORMING INDUSTRIES, CREATING THE FUTURE AT&T's laser focus on innovation, coupled with our collaboration with the best minds, leads to solutions that help transform entire industries. We're particularly proud that we're improving productivity and bettering the lives of millions of people through our work with organizations in the healthcare, energy and education arenas.

Healthcare AT&T has worked with large hospital systems and smaller care delivery organizations for decades. And today, we're helping deliver better care to patients across the nation — including through quicker, cloud-enabled access to medical images and fast, highly secure electronic sharing of medical records. As a result, healthcare was a \$5 billion revenue stream for us in 2011.

The AT&T ForHealth practice area addresses a challenge facing the healthcare industry: Most patients rely on a series of individual practitioners — doctors, nurses, pharmacists and others — who too often work in isolation.

We're improving the quality of care, and reducing costs, by offering providers a portfolio of cloud-based solutions that make more integrated care possible.

For example, **Baylor Health Care System** is one of many organizations working with AT&T to improve patient care by creating an enterprise health information exchange — AT&T Healthcare Community Online (HCO).

HCO provides highly secure, virtually anytime, anywhere access to such patient information as medical history and current medications. And that includes access on smartphones and tablets.

Greater access to this data will better enable doctors to diagnose and treat patients at the point of care.

"Each year we see millions of patients in more than 250 locations," says Billy Hensley, an IT director for Baylor. "We have to earn their trust every day, and we work hard to provide our staff the tools they need to provide quality care to our patients."

Indiana Health Information Exchange, Inc. is also implementing AT&T HCO. "Our vision is to establish a model of health information exchange for the nation," says President and CEO Harold J. Apple. "We operate the most advanced system for connecting healthcare IT systems in the U.S., and with AT&T we're taking our efforts to the next level."

To bring even more value to our healthcare customers, in 2011 we added a new team member to help us, in her words, "bridge technology, business and clinical medicine." Dr. Geeta Nayyar is AT&T's first CMIO. She's also a practicing physician and a clinical assistant professor in the Department of Medicine at the Florida International University Herbert Wertheim College of Medicine. Geeta is passionate about the potential of communications to create a healthier world.

"There's no doubt that the future of medicine is in mobility and telehealth," she says. "I'm incredibly excited to work with a healthcare leader like AT&T and to have the opportunity to make a difference in many more patients' lives than I could through my practice alone."

Geeta defines her CMIO role as "bringing a unique perspective that helps AT&T create solutions to some of the problems facing the industry."

What does success look like? "AT&T is focused on solutions that improve outcomes, reduce costs, increase access and deliver more personalized care. When providers are routinely using these solutions and patients are living better, healthier lives — we'll know we've succeeded."

Meanwhile, AT&T employees Danika Patrick and Ari Lerner are two of the creative engines behind a new platform for app developers focused on healthcare. The platform helps close the gap between health and mobility by providing secure storage for data from an array of apps and devices that track health and wellness information.

"The developers are the key," says Danika. "We're giving them the tools and processes they need to create applications that will help us all live healthier lives. It's not about owning the data or collecting it; it's about connecting it. That's what we do."

Adds Ari, "We're enabling developers to create tools that help patients track their health information and securely manage and share access to their data, so doctors have more and better information for diagnosis and treatment."

With mobile health technologies forecasted to reach 1.2 billion users by 2020, this new developer platform may be just what the doctor ordered.¹

Energy AT&T is helping to modernize the nation's electric grid. We enable two-way wireless communications between electric meters and power providers in more than 13 million locations across the nation.

Today, AT&T is working with companies like **Digi International Inc.** to go beyond the meter and make the grid even smarter. Through advanced applications and wireless machine-to-machine connections, our network supports Digi X-Grid™ solutions that give utility companies greater control of power grids. When demand peaks, they can now remotely distribute energy where it's needed most — for example, by prioritizing hospitals over homes.

Meanwhile, the Digi Energy Smartlee™ mobile app lets consumers monitor and manage energy consumption and electric bills from their smartphones. Or in exchange for discounts or credits on their bills, homeowners can give power companies permission to remotely turn off discretionary devices such as pool heaters at peak usage times. That conserves energy and helps families save money.

Education AT&T is also helping to transform the educational experience at colleges and universities across the U.S. **The University of South Florida (USF)** collaborates with AT&T to find ways to keep its more than 47,000 students, as well as its faculty and staff, connected.

USF has embraced the power of mobile communications: A custom app from AT&T and Verivo Software — iUSF — provides everything from course listings to campus maps to bus schedules on any mobile device. So students can stress about their next exam, not about getting around campus.

USF was the first university in the nation to deploy an application using Verivo's enterprise mobility platform from AT&T, which lets organizations build and deploy apps for all major mobile devices.

And the software makes updates easy and instantaneous across all devices, allowing USF to add more functionality to iUSF, keeping up with ever-more-mobile student lifestyles.

"The iUSF app lets us give students, faculty and staff easy access to the information they need," says Michael Pearce, USF System Vice President of Information Technology. "We can make content, even classes, available to our students on demand, which makes it easier for them to manage their course loads and make the most of their time on campus."

A custom app from AT&T and Verivo Software helps University of South Florida students get around campus and stay on top of their studies.



People helping people ... working together to advance human progress. It's at the core of who we are.



People helping people is a commitment we live out on many fronts — from financial support for important causes, to the selfless volunteer efforts of our employee team. From the heroic way our employees respond when disaster strikes one of our communities, to the innovative ways we work to reduce our impact on the environment.

AT&T invests significant resources to advance education, strengthen communities and improve lives. In 2011, we contributed \$115 million through corporate, employee and AT&T Foundation giving programs.

GIVING STUDENTS A GLIMPSE OF THEIR POSSIBILITIES In 2008, we launched AT&T Aspire — a \$100 million philanthropic initiative focused on reversing the high school dropout trend. It's designed to help at-risk students graduate prepared for success — either in finding jobs or continuing their educations. AT&T believes that investing in a well-educated workforce may be the single most important thing we can do to help America remain the leader in a digital, global economy.

As an important part of Aspire, we've joined with Junior Achievement on the AT&T/JA Worldwide Job Shadow Initiative. Through this effort, AT&T employees donate their time to team up with students, helping them learn about careers and understand the educational and workforce skills they will need to succeed on the job. Since the initiative started in 2008, nearly 94,000 students have participated in 212 cities. AT&T employees have dedicated more than 270,000 volunteer hours. And by early 2012 we expect to have provided job shadow opportunities for 100,000 students — a goal reached far ahead of schedule thanks to the passion of our employees.

WHEN DISASTER STRIKES On Sunday, May 22, 2011, Joplin, Mo., was struck by a massive tornado. Packing winds greater than 200 mph, the ¾-mile-wide storm stayed on the ground for six miles and took more than 150 lives, making it one of the deadliest tornadoes in U.S. history.

In the tornado's wake, our people swung into action, demonstrating AT&T's commitment to our neighbors and our communities and restoring vital

"Job Shadow has given me a different outlook on my future ... and it made me feel important," says Elizabeth Briones, who job shadowed with a manager at AT&T headquarters in Dallas.



In Memory ...

Among the many lives cut short by the Joplin storm were two of our employees: Regina Bloxham and Sharyl Nelsen. They were members of our AT&T family. We miss them. And we won't forget them.



(left) May 22, 2011: Eyewitnesses said the tornado that hit Joplin was “like an atomic bomb.”

(above) January 26, 2012: There's optimism and rebirth in the air as the people of Joplin rebuild.



communications. Within hours, recovery teams and vehicles descended on Joplin and went right to work, just as they've responded to a variety of other natural and man-made catastrophes.

The tornado hit at 5:41 p.m. Sunday evening. By 1 a.m., our network disaster recovery team had deployed a mobile satellite cellular tower to one of Joplin's most critical sites — the heavily damaged St. John's Regional Medical Center — and by Monday afternoon began providing wireless service for medical and emergency personnel and others.

Meanwhile, dozens of local AT&T employees stepped up to help. Three of them were later recognized for their heroic efforts with our company's highest honor for customer service — the Whitacre Award, named for former AT&T Chairman and CEO Ed Whitacre:

Jeff Dawson worked tirelessly to help those who lost phones, batteries and chargers to get reconnected as quickly as possible. He led the effort to open three temporary locations — one was open within 48 hours — and provided charging stations for use by nearly 20,000 people.

John Divine worked 16 to 18 hours a day for 30 straight days, playing an essential role in restoring service to emergency workers and government organizations. Under his guidance, we were able to restore critical services to Freeman Hospital in less than 18 hours; within 48 hours he had provided the network designs that helped bring many other emergency service locations back online.

Billy Rice directed the deployment of four “cell on wheels” mobile cell towers and 14 portable generators to restore service to cell sites that had lost power. Thanks to his leadership, within days service levels in the Joplin area actually exceeded what was available before the tornado.

Thanks to the unflagging efforts of our people — those who are trained to respond to such a crisis and those who were simply acting on a sense of responsibility to a community in need — wireless capacity was at 95 percent of pre-storm levels within 37 hours, while connections to key locations were restored in a matter of days.

50.1M

pounds of network scrap materials

kept out of landfills through reusing, selling and recycling materials in 2011

3.0M

cell phones

collected for reuse or recycling in 2011

5,114

alternative-fuel vehicles

deployed through 2011 across the U.S. as part of our 10-year commitment to deploy approximately 15,000 of these vehicles through 2018, one of the largest such commitments by any U.S. company

INNOVATIVE SOLUTIONS, SUSTAINABLE ALTERNATIVES At AT&T, we know that our responsibility to the people we serve extends beyond the communities where we live and work to the natural world we all share. That's why we're developing solutions that enable people and businesses to make more sustainable choices that reduce both environmental impact and costs.

For example, more of our business customers are working to improve productivity and conserve travel budgets, while addressing their carbon footprints. We offer a suite of solutions to help them address all three priorities, including AT&T Telepresence Solution®, AT&T Connect® Collaboration Services, IP VPN services and cloud services as both a service and a platform.

An AT&T-sponsored study — Cloud Computing: The IT Solution for the 21st Century — conducted by the Carbon Disclosure Project and Verdantix, found that by 2020, large U.S. companies² that use cloud computing can achieve annual energy savings of \$12.3 billion and annual carbon reductions equivalent to 200 million barrels of oil — that's enough to power 5.7 million cars for one year.³

And we're working to minimize our own environmental impact. That's why we're investing in energy-efficiency projects, as well as alternative energy — including alternative-fuel vehicles, solar, fuel cell technology and wind. In 2011, our energy-efficiency efforts paid off in the form of \$42 million in annualized savings.

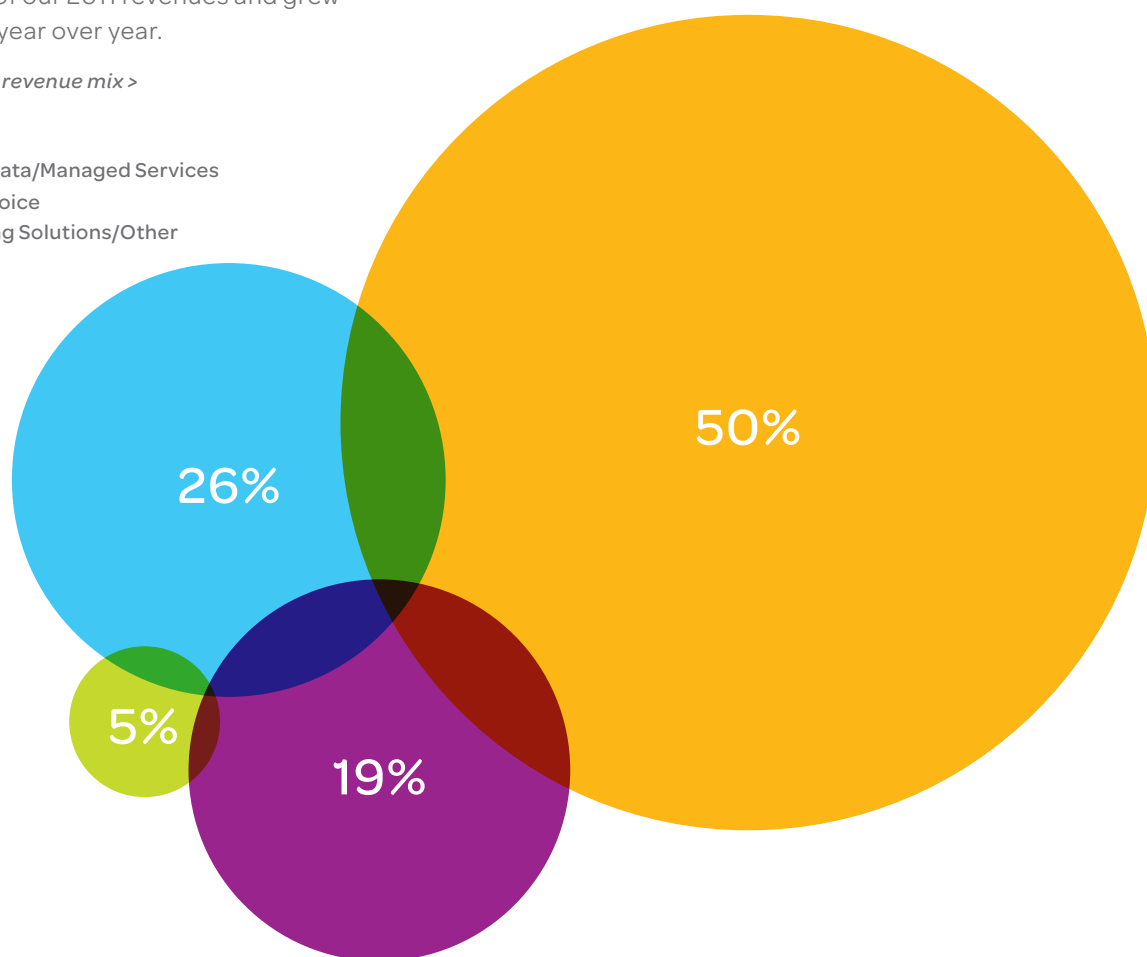
2011 by the numbers ...

strong revenue growth engines

AT&T's growth engines – wireless and wireline data/managed services – represented 76 percent of our 2011 revenues and grew 7.5 percent year over year.

full-year 2011 revenue mix >

- Wireless
- Wireline Data/Managed Services
- Wireline Voice
- Advertising Solutions/Other



\$20.3B

Capital invested in 2011, including an increase in investment in wireless and mobile broadband capabilities.

103.2M

Wireless connections on AT&T's network, an increase of 7.7 million in 2011.

\$10.2B

Amount paid to our stockholders via our dividend. In December 2011, AT&T increased its dividend for the 28th straight year.

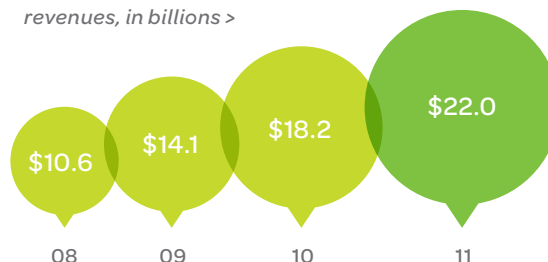
\$34.6B

Cash generated from operating activities.

mobile broadband leadership

With annual wireless data revenues of \$22 billion, up 21.0 percent year over year, AT&T continued to lead the industry in delivering the benefits of mobile broadband to our customers. Since 2008, wireless data revenues have more than doubled.

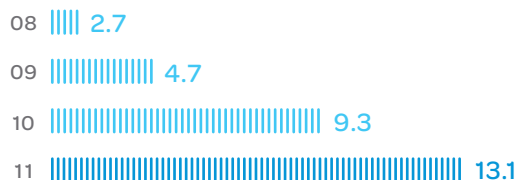
AT&T annual wireless data revenues, in billions >



leadership in connected devices

AT&T continues to lead the industry in connected devices such as eReaders, automobile monitoring systems, security systems and other emerging products, with more than 3.7 million added in 2011.

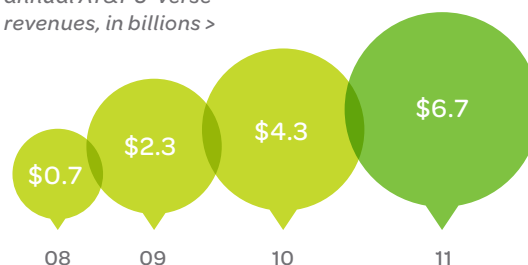
end-of-year connected devices on AT&T's wireless network, in millions >



video leadership

Driven by strong subscriber growth, in 2011, AT&T U-verse services revenues grew more than 53 percent year over year.

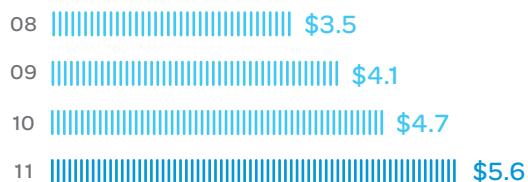
annual AT&T U-verse revenues, in billions >



strong growth in strategic business services

Revenues from AT&T's most advanced business solutions increased 18.4 percent in 2011, driving positive trends in the wireline business category.

annual AT&T strategic business services revenues, in billions >



AT&T is one of the world's most honored companies.

Recognition we've earned includes:

best global coverage

For five years straight, *Business Traveler* magazine has recognized AT&T for delivering the **Best Mobile Phone Coverage in The World.**

Gartner

Leading industry analyst firm Gartner recognizes AT&T in the **Leaders Quadrant** for: Global Network Service Providers; Pan-European Network Service Providers; Managed Security Service Providers, North America; Web Conferencing; Asia/Pacific Network Service Providers and U.S. Telecommunications Service Providers.⁴

most innovative

AT&T ranks third, and is the **only wireless carrier in the top 10**, on The Patent Board's telecommunications patent scorecard.

best customer service

AT&T ranked **No. 1 in wireless customer service** for the second half of 2011, according to Vocalabs' National Customer Service Survey.⁵

sustainable business practices

For the second straight year, AT&T was included in the **Dow Jones Sustainability Index North America.**

highest ranking in tv

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 2011 Residential Television Service Provider Satisfaction Study.^{SM 6}

Frost & Sullivan

Frost & Sullivan awarded AT&T the **2011 North American Product Line Strategy Award** in the Mobile Network Market for our plans to deploy HSPA+ and LTE simultaneously.⁷

good corporate citizen

AT&T was named among the 2011 **100 Best Corporate Citizens** by *Corporate Responsibility Magazine.*

a responsible investment

AT&T is listed on the **FTSE4Good Index**, based on corporate responsibility standards.

top company for leaders

AT&T is one of the **North American Top Companies for Leaders**, according to a study by Aon Hewitt, The RBL Group and *Fortune* magazine.

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:

- Account inquiries
- Requests for assistance, 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 or visit the website at 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.

Annual Meeting

The annual meeting of stockholders will be held at 9 a.m. Mountain time Friday, April 27, 2012, at:

The Grand America Hotel
555 South Main Street
Salt Lake City, UT 84111



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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.

Investor Relations

Securities analysts and other members of the professional financial community may call the Investor Relations staff as listed on our website at www.att.com/investor.relations.

Independent Auditor

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MOHAWK windpower The Mohawk logo icon is a stylized, abstract shape resembling a feather or a flame, enclosed within a square border.

¹ Strategy Analytics, mHealth: Managing Lifestyles, Logistics and Chronic Disease, June 2011.

² Represents the 2,653 firms generating annual revenues of more than \$1 billion in the U.S.

³ Based on Bureau of Transportation Statistics average miles per gallon, Federal Highway Administration average annual mileage and the Energy Information Agency gallons of gasoline per barrel of oil.

⁴ The Gartner Magic Quadrants are copyrighted 2011 by Gartner, Inc. and are reused with permission. The Magic Quadrant is a graphical representation of a marketplace at and for a specific time period (and not as of the date of this annual report). It depicts Gartner's analysis of how certain vendors measure against criteria for that marketplace, as defined by Gartner, at the specified period of time. Gartner does not endorse any vendor, product or service depicted in the Magic Quadrant and does not advise technology users to select only those vendors with the highest ratings. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose. Magic Quadrant for Global Network Service Providers (Neil Rickard and Robert Mason, March 2011); Pan-European Network Service Providers (Neil Rickard and Katja Ruud, March 2011); Managed Security Service Providers, North America (Kelly M. Kavanagh and John Pescatore, November 2011); Web Conferencing (Bern Elliot and Daniel O'Connell, November 2011); Asia/Pacific Network Service Providers (To Chee Eng, Bjarne Munch, Vincent Fu and Kenshi Tazaki, December 2011) and U.S. Telecommunications Service Providers (Robert F. Mason, Phillip Redman and Ted Chamberlin, December 2011).

⁵ Vocal Laboratories National Customer Service Survey of Mobile Phone Customer Service, Q3 2011 and Q4 2011 (www.vocalabs.com/published-research).

⁶ 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 2011 Residential Television Service Satisfaction StudySM. Study based on 23,880 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. 2010, Jan. 2011, April 2011 and July 2011. Your experiences may vary. Visit jdpower.com.

⁷ Frost & Sullivan, 2011 North American Product Line Strategy Award in the Mobile Network Market.

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