



Your world. Delivered.

Infrastructure and Regional Initiatives

John Stankey

Group President-Telecom Operations
AT&T Inc.

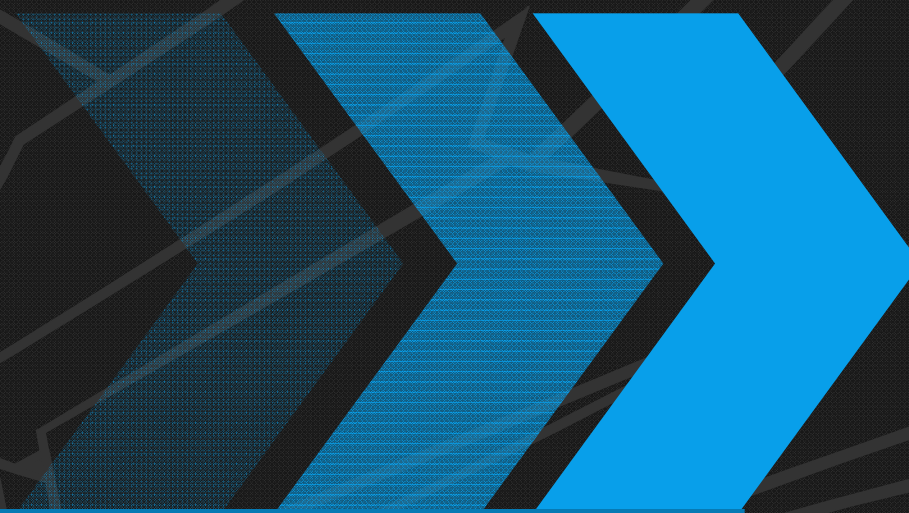
2007 Analyst Conference

Cautionary Language Concerning Forward-Looking Statements

Information set forth in these presentations contains financial estimates and other forward-looking statements that are subject to risks and uncertainties, and actual results might differ materially. A discussion of factors that may affect future results is contained in AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any obligation to update and revise statements contained in this presentation based on new information or otherwise.

These presentations may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are available on the company's Web site at www.att.com/investor.relations.

Small and Medium Business



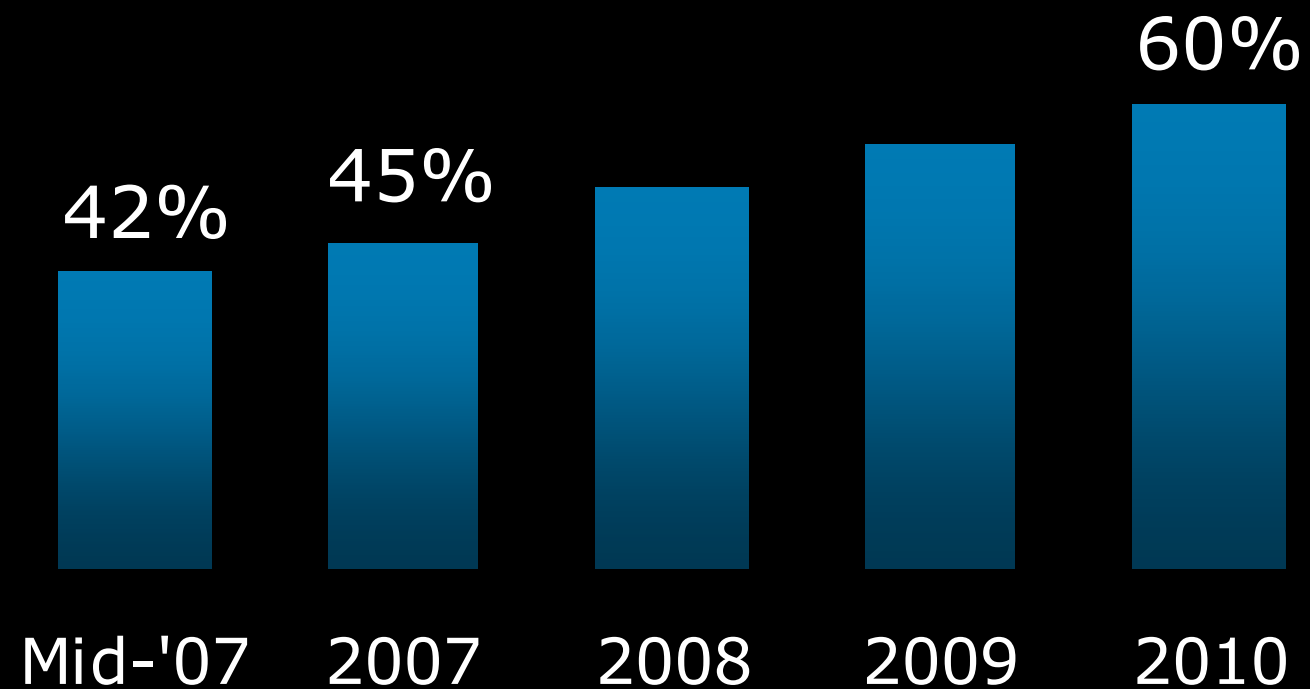
Key Strategies: Small and Medium Business

- » Differentiate with **Bundles** and **Applications**
- » Capitalize on **Wireless** advantage
- » Extend **Broadband** position
- » Deliver **IP** Solutions

Increase Bundle Penetration

Protecting Our Existing Base of Customers

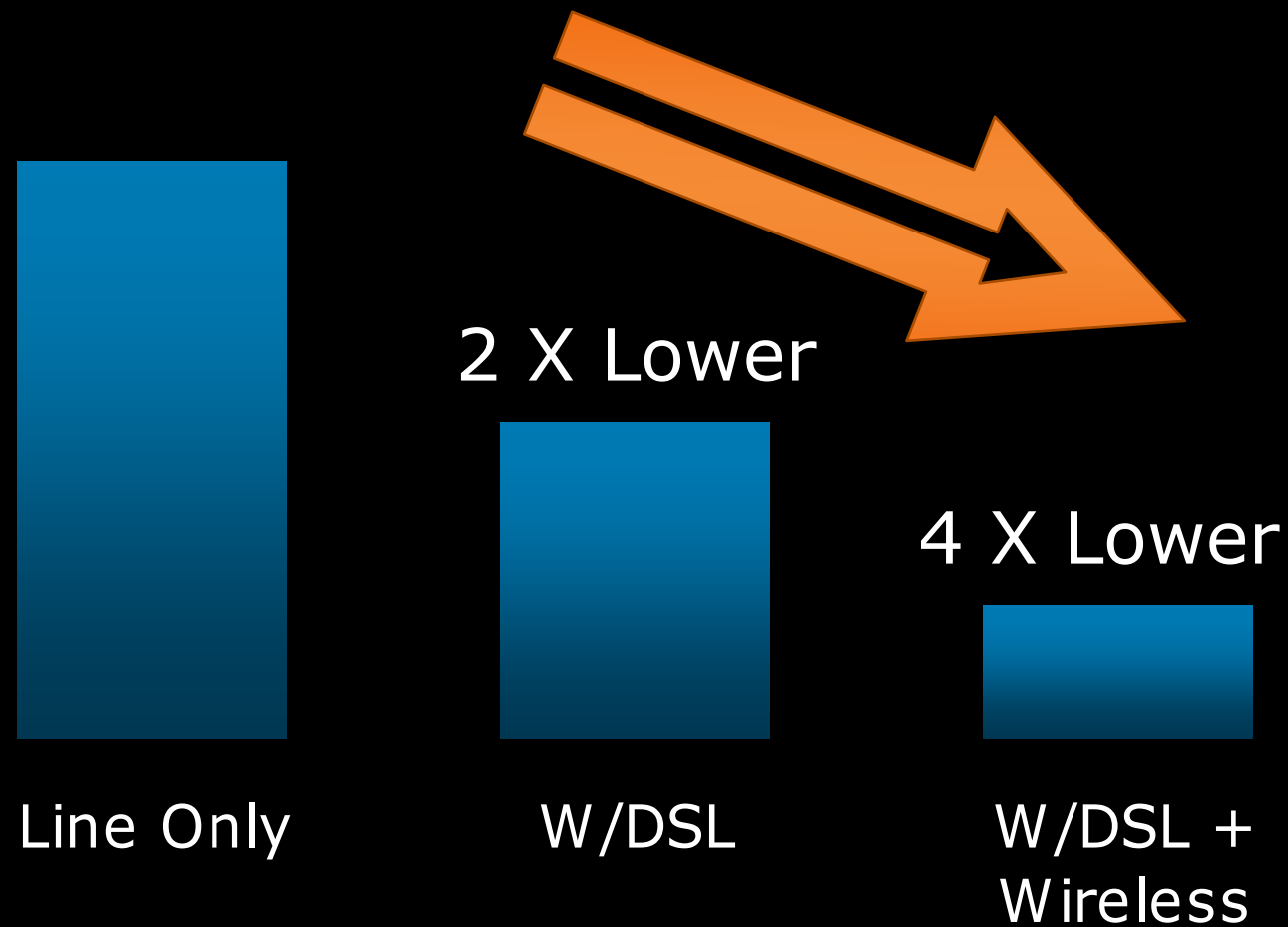
Small Business Package Penetration



- ⇒ Broad set of products to meet the needs of business customers
- ⇒ Long-standing customer relationships and term commitments
- ⇒ Simplified solutions for small business customers
 - Remote Vault
 - Remote Monitoring

Capitalize on Wireless Advantage

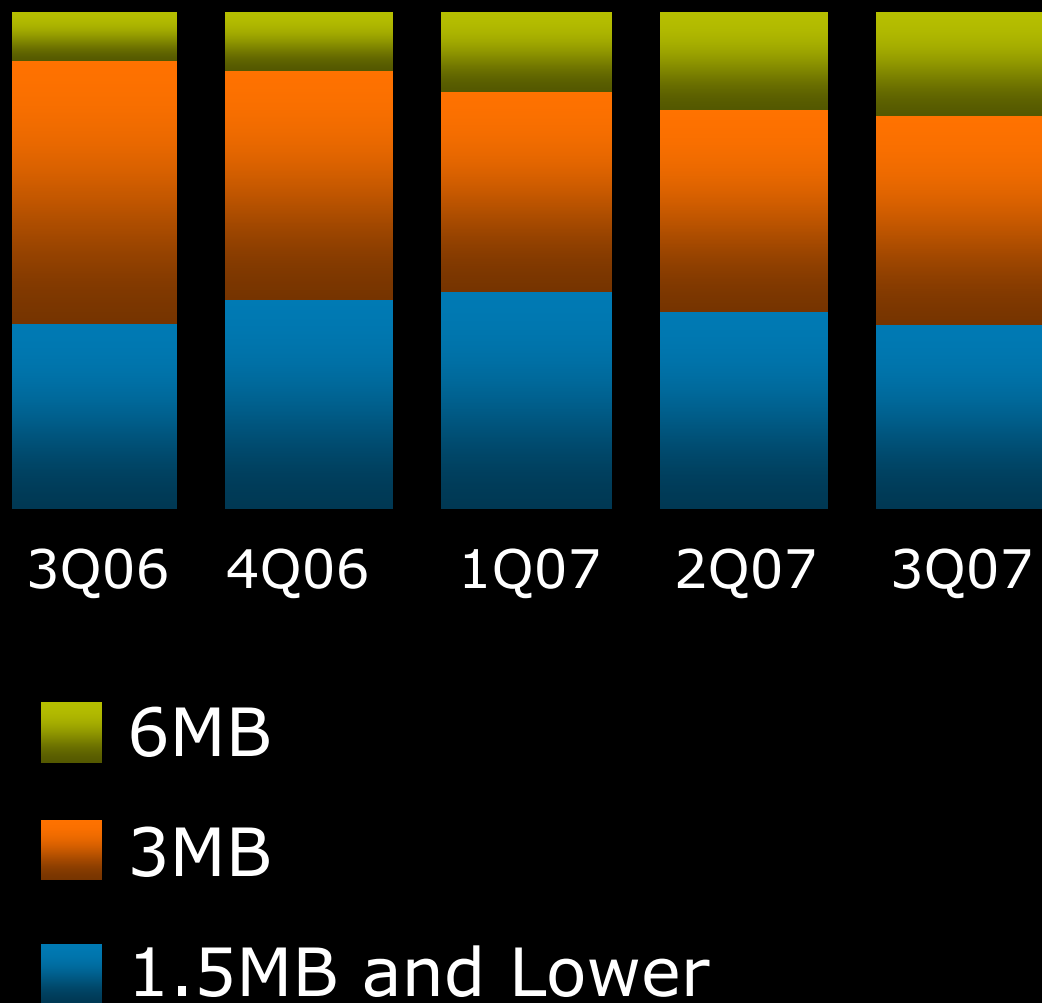
Total Monthly Churn Findings



- ⇒ Bolt on wireless to wired packages to reduce churn
- ⇒ Seamless wireless-wired solutions
 - Unified communications
 - Integrated wireless and premise telephony solutions
 - All-access data cards
 - Combined billing
- ⇒ Unified account management

Extend Broadband Position

DSL Speed Mix



Broadband Share

- ⇒ Shifting the mix to high speed
 - Driving revenue growth
- ⇒ Valued-added functionality
 - QoS, VPN, Managed Services
- ⇒ Launching 10 Mbps and higher broadband products
- ⇒ Capitalizing on current Lightspeed build to serve SMB
- ⇒ Reducing overall churn

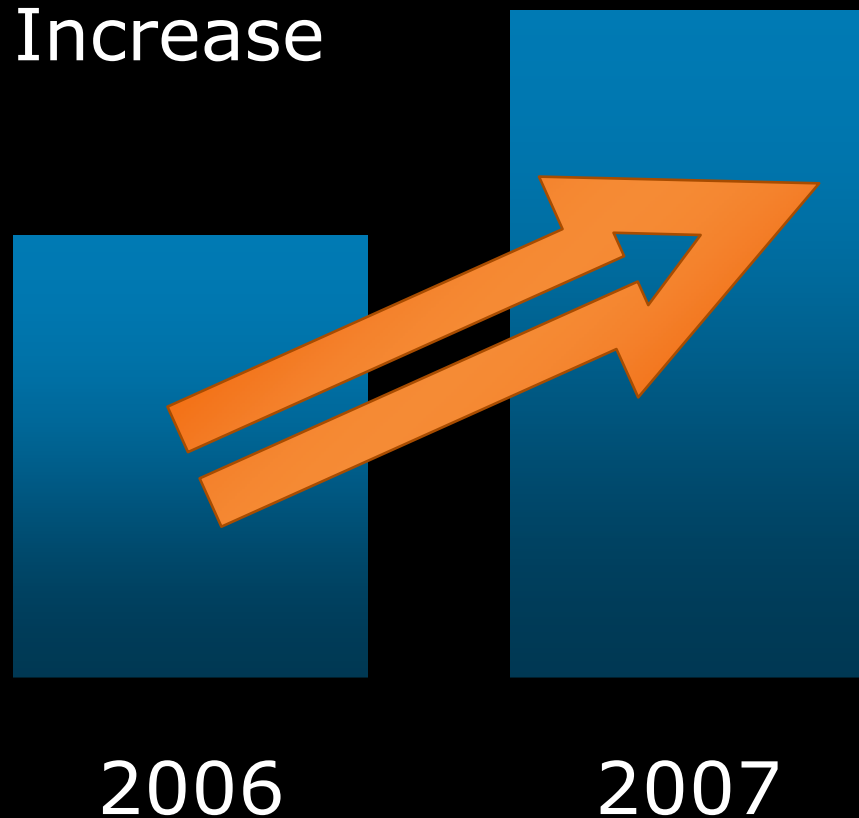
Grow IP Connections

Drive Enterprise Offerings Down Market

MIS/VPN Orders

50%

Increase



Extensive IP Expertise



Delivering core bundles and competitive price points



Full range of solutions across the data continuum

- VPN/MIS
- IP Flex Reach
- Hosted Voice
- Ethernet

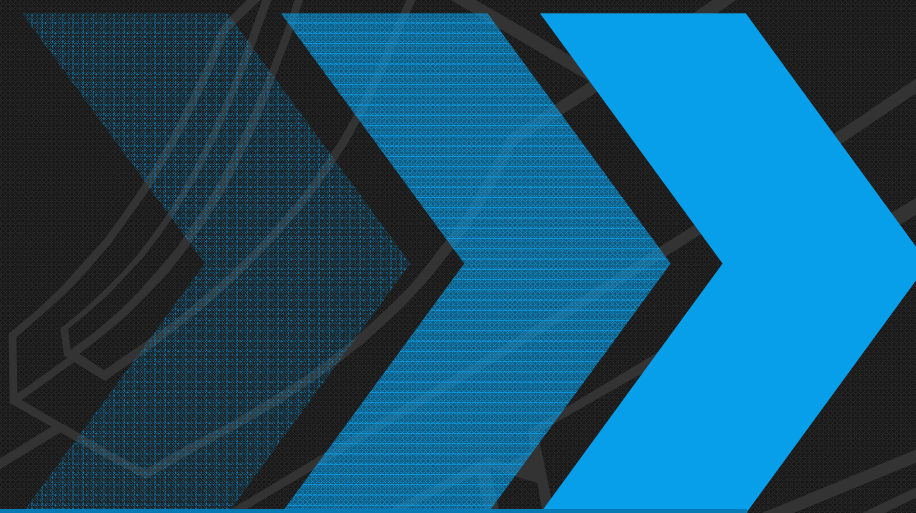


AT&T has unmatched capabilities to serve all business customers from small to large

Small and Medium Business Summary

- »» Broad Set of **Solutions**
- »» Existing Customer **Relationships**
- »» **Extensive Broadband** Reach
- »» Unmatched in **Wireless** and **IP** Data

Consumer Market



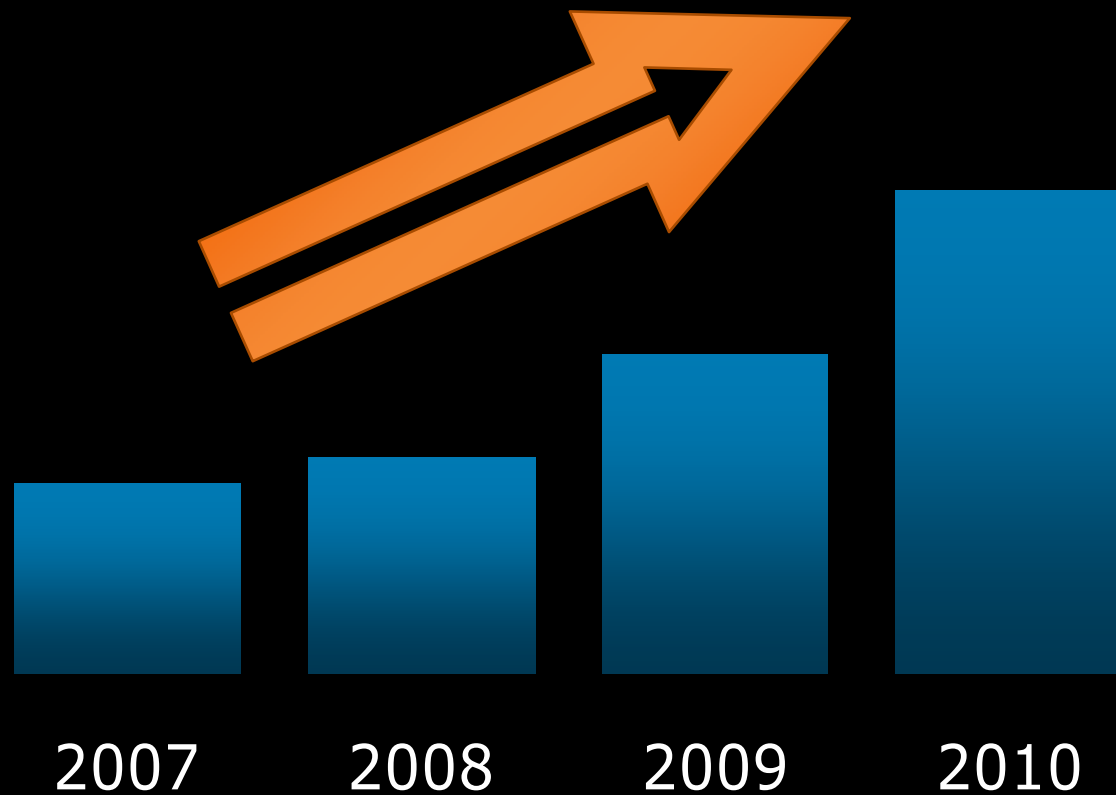
Key Strategies: Consumer

- »» Continue **Connection** growth
- »» Differentiate with **Wireless**
- »» Unmatched **Distribution**
- »» Extend **Broadband** position
- »» Dramatically grow **Video**

Consumer Connections

Video and Broadband Offset Voice

AT&T Connections



Total consumer revenues and connections are growing



Revenue per customer growing from upper \$50s today to more than \$70 by 2010



Flowshare of wired voice is improving in spite of increased cable competition

We will win at the local level

Consumer Connections

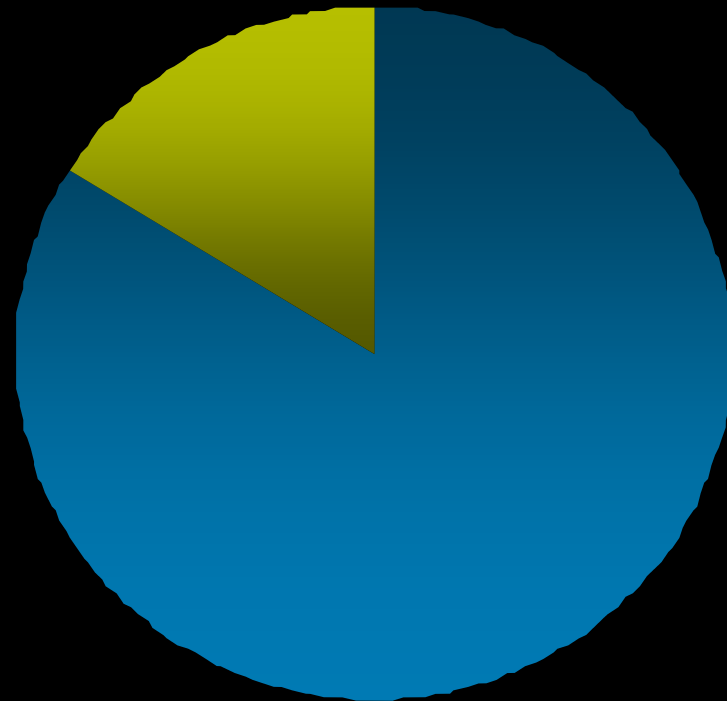
Capture a Higher Share of Inwards

Mover Opportunity

16% of the base will move each year

Better Identification

Higher Conversion Rate



Capturing movers within the AT&T footprint

Product focus

AT&T-connected communities

➤➤ Movers have a higher propensity toward wireless and broadband

Differentiate With Wireless

Roll Out Anytime, Anywhere Solutions

»» **Goal:**
Integrate wireless,
wired and
Wi-Fi to enable
seamless connectivity



AT&T Unity plan, nation's largest calling community



Free Wi-Fi with **3 and 6 Mbps broadband** and wireless **3G Cards**



Converged services:

- Web DVR Control
- Remote Home Monitoring
- AT&T/Yahoo! Mail
- CVoIP Preferred Routing



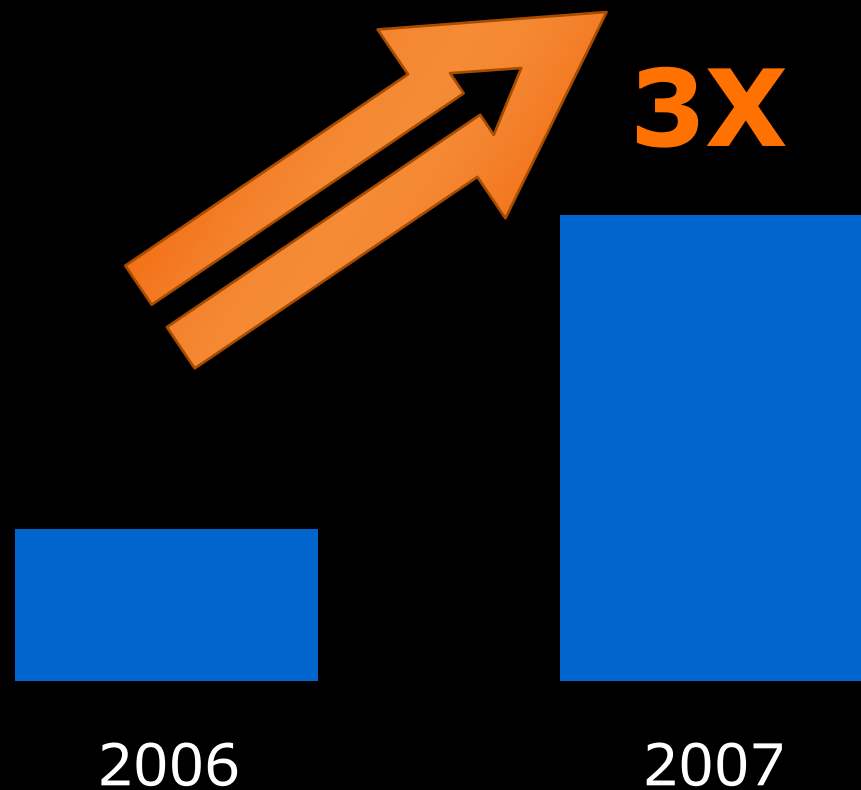
DSL Direct offer combining broadband with wireless voice

Unmatched Distribution

Serve Customers the Way They Want to Be Served

Company-Owned Retail

In-store sales of wired products

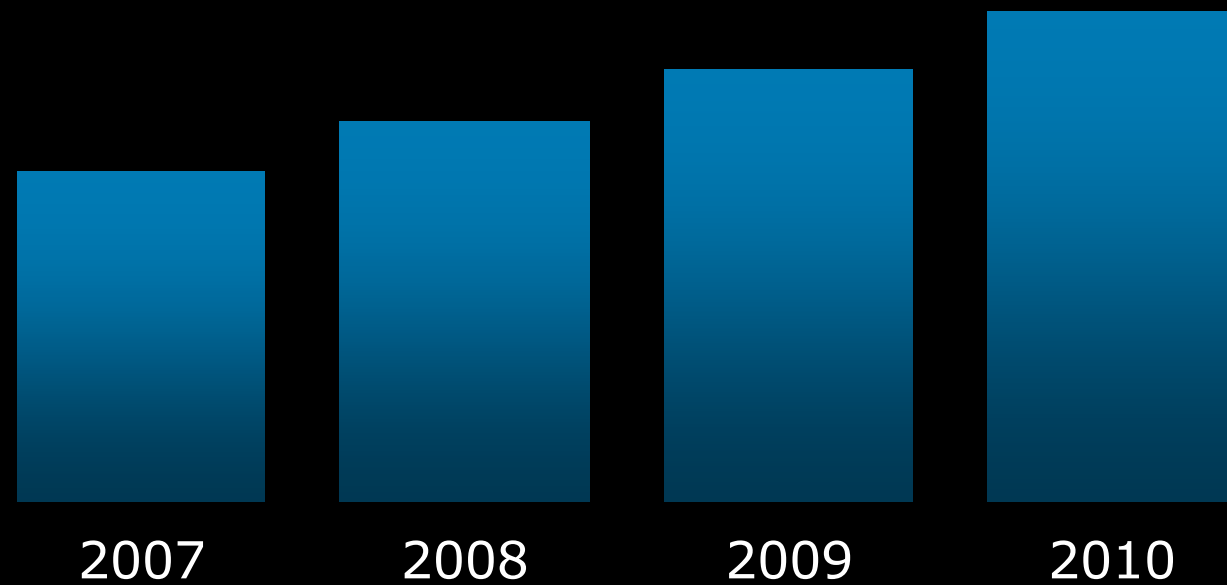


- ⇒ Unmatched presence with more than 1,200 **Company-Owned Retail** locations in the 22-state footprint
- ⇒ **Consumer Centers** take more than 100 million customer contacts per year
- ⇒ **att.com** was the fifth most visited retail site on Black Friday (11/23/07)
- ⇒ Extensive and diverse set of **Alternate Channels** and partners

Extend Broadband Position

Continue Growth Through Unique Position

Consumer Broadband Revenue



Integration With Wireless

- Seamless wired/3G/Wi-Fi customer experience



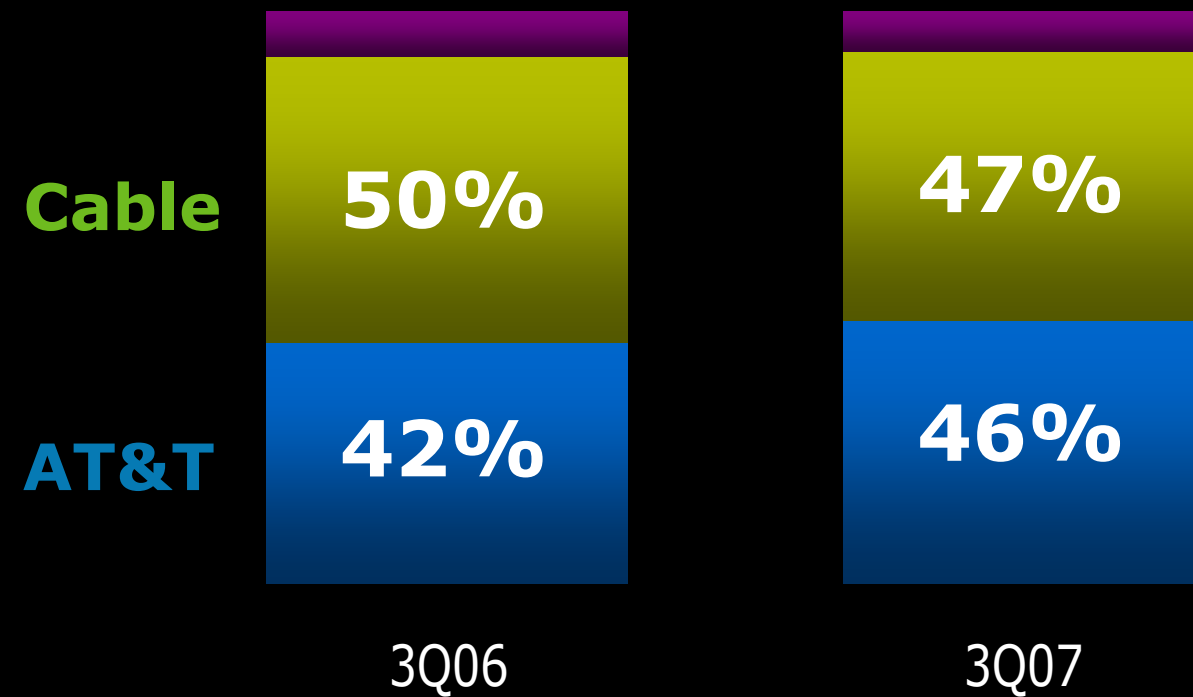
Video Success

- Currently seeing more than a 90% broadband attach rate with U-verse
- 40% are new broadband users

Extend Broadband Position Competing in the Marketplace

Broadband Share

AT&T Footprint



Increasing **Broadband Share** with current offers, messaging and channel execution



Launching in 2008 **10 Mbps** service utilizing U-verse architecture

* Source: AT&T market research

Dramatically Grow Video

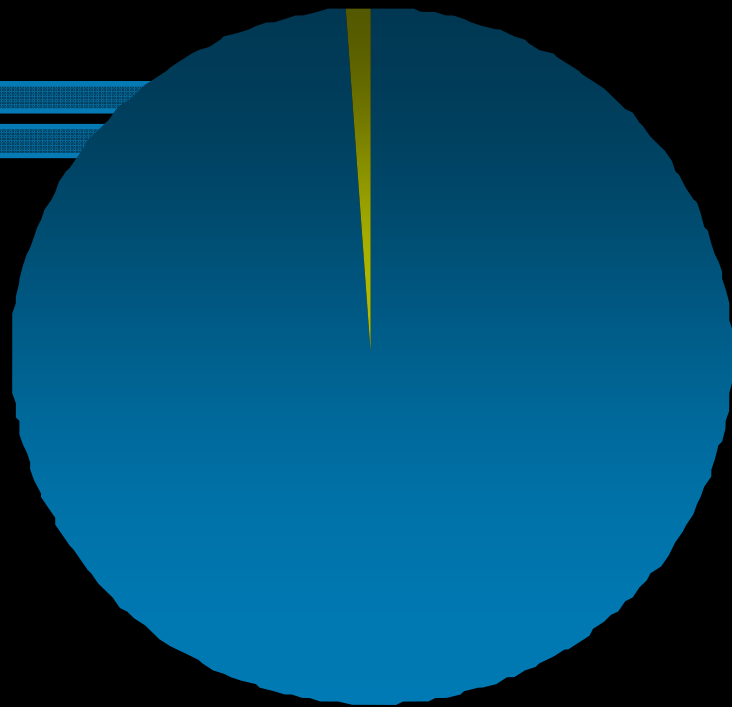
Capitalize on Market Potential

AT&T Has 1% Revenue Share of Growing Video Market

AT&T's Share Today

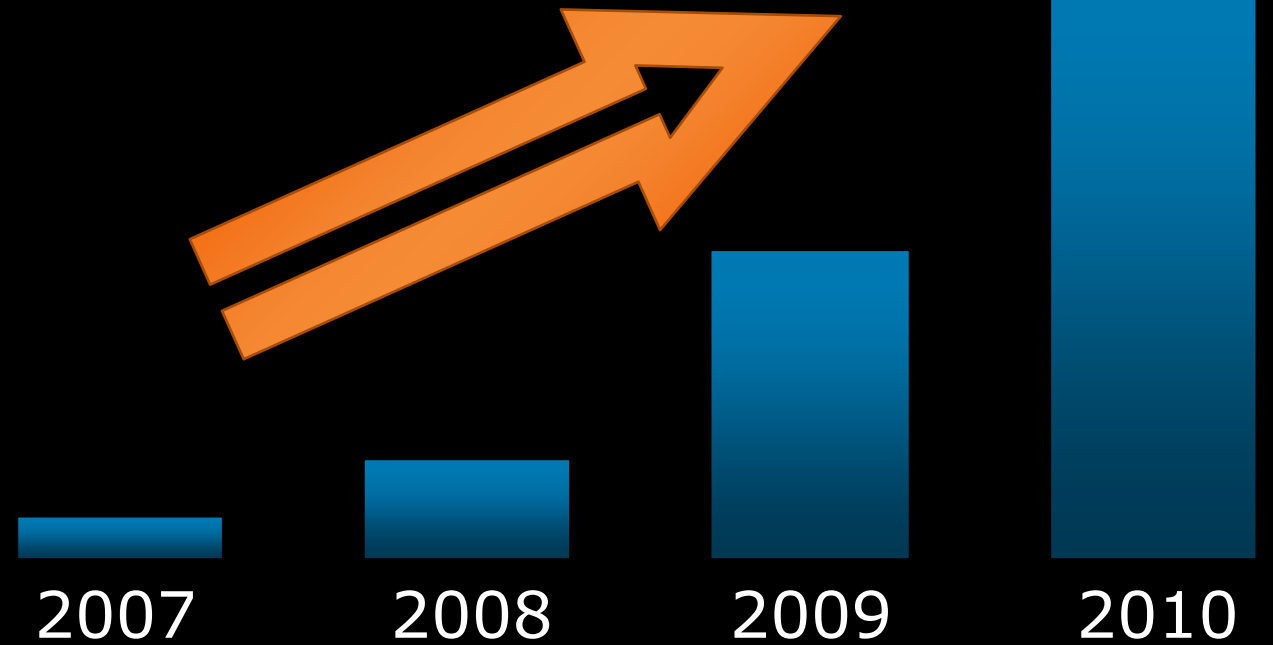
\$35 Billion Opportunity

In AT&T Footprint



Video Revenues

Multibillion-dollar AT&T opportunity



Dramatically Grow Video

AT&T Advanced TV Available to All Customers

»» Better Control

DVR programming
with PC or wireless

Four-stream DVR
recording

Whole-home DVR
(2H08)

»» Better Content

AT&T U-bar w/
customized portal

Photos and home
media (1Q08)

NFL Network/Big 10

YELLOWPAGES.COM
searches

»» Richer HD

More HD than cable

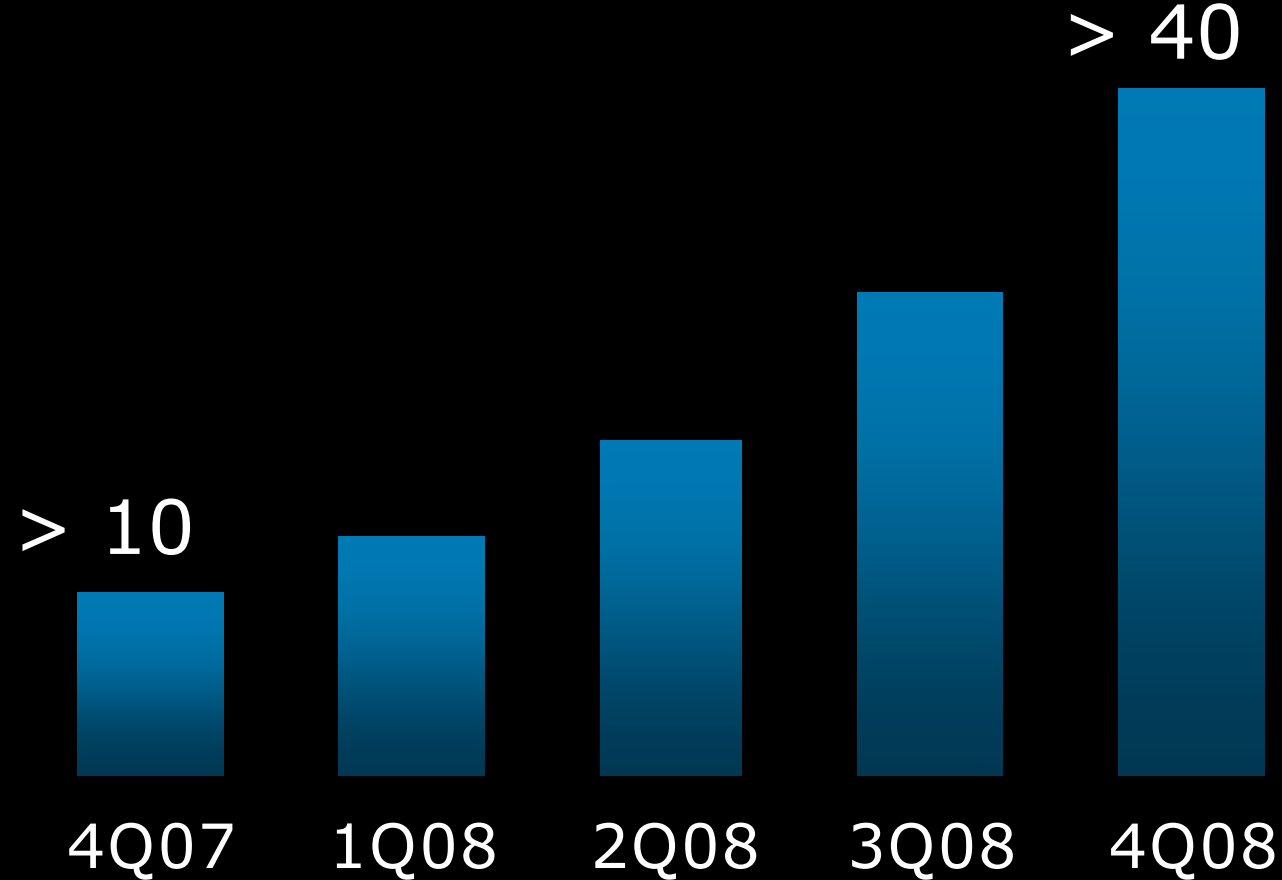
Two HD streams
(2Q08 – 3Q08)

Every STB we install
is HD-capable

Dramatically Grow Video

Scale U-verse TV Sales and Operations

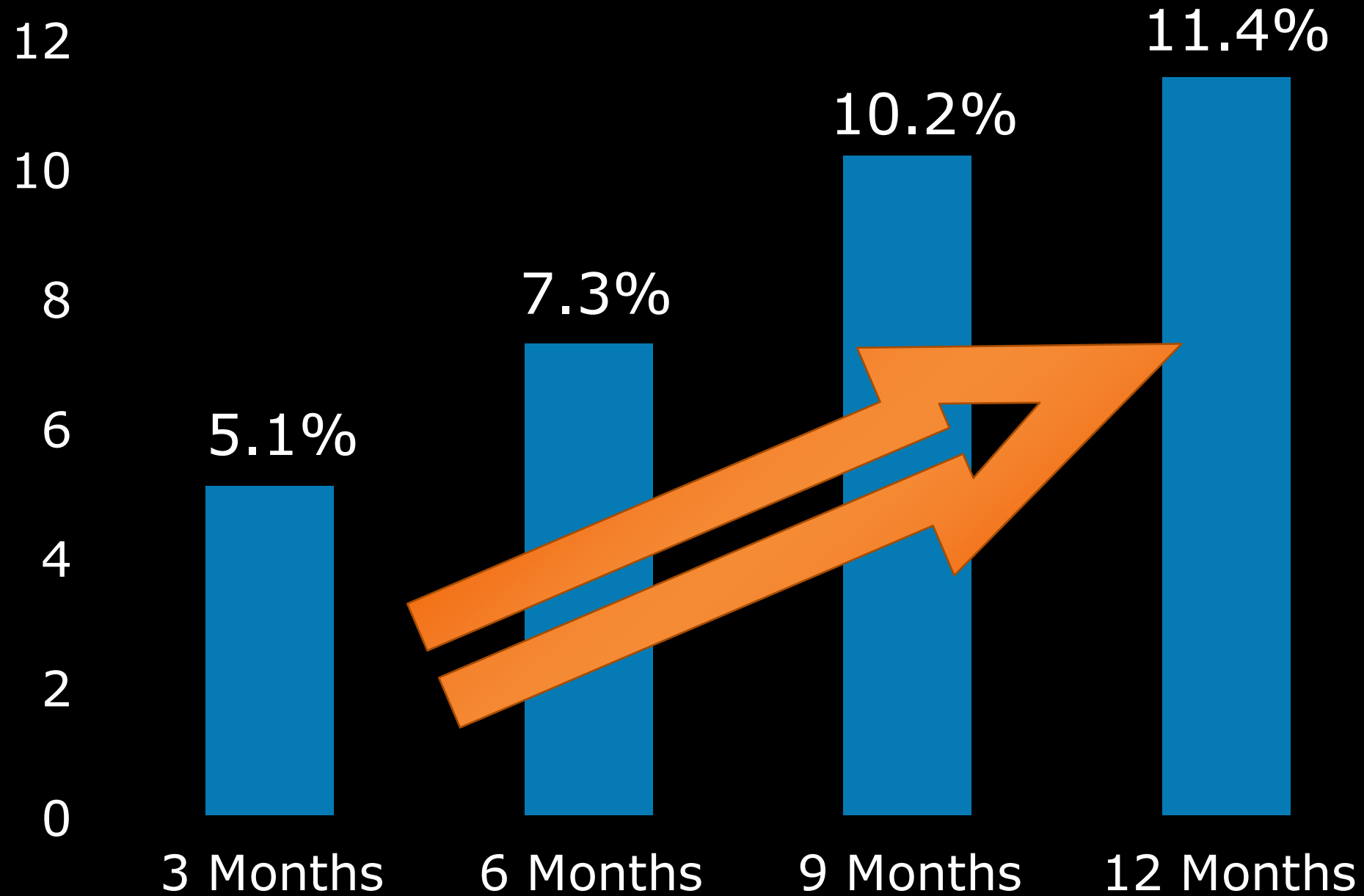
Installs per Week (000s)



- More than 1 million by the end of 2008
- Weekly installs ramping to over 40,000 by end of 2008
- Customer trouble contact rates have been cut in half in 2007
- Managed home services opportunity with broadband and video offerings

U-verse Penetration by Living Unit Age

Key Penetration Milestones

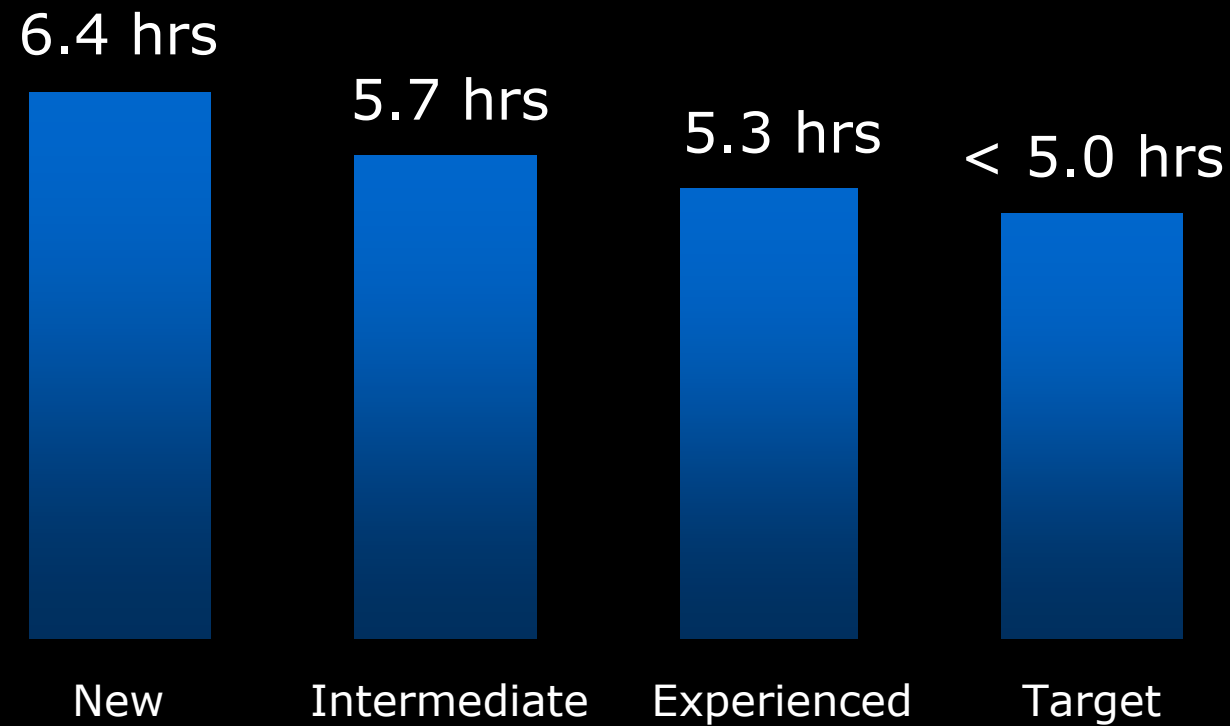


Dramatically Grow Video

Improving U-verse Operations

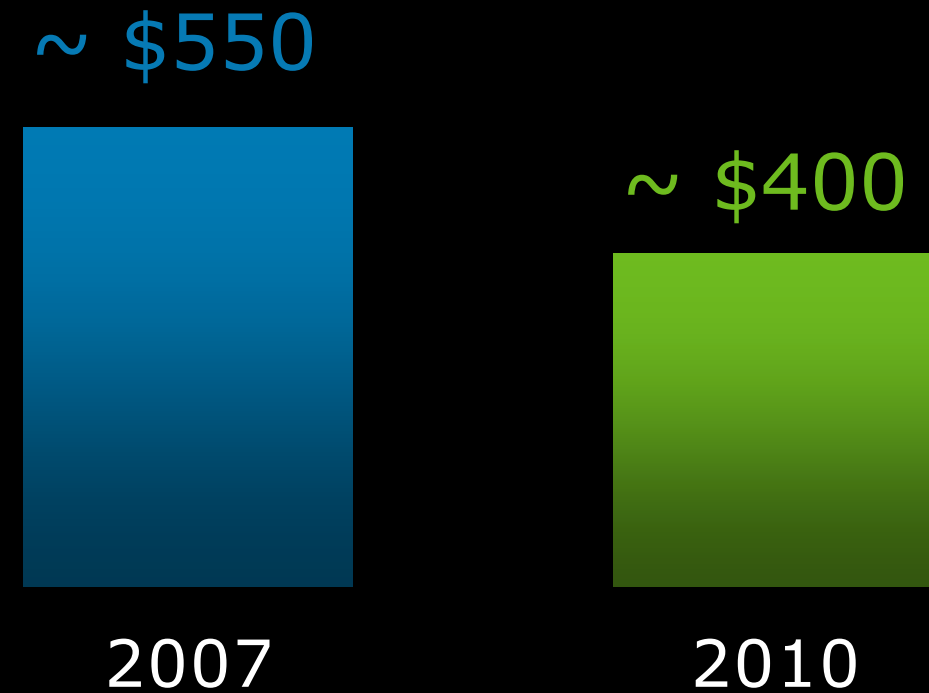
Installation Times

Technician Results by Tenure



➤➤➤ Experienced techs completing installs one hour faster than new techs

CPE Cost/Sub

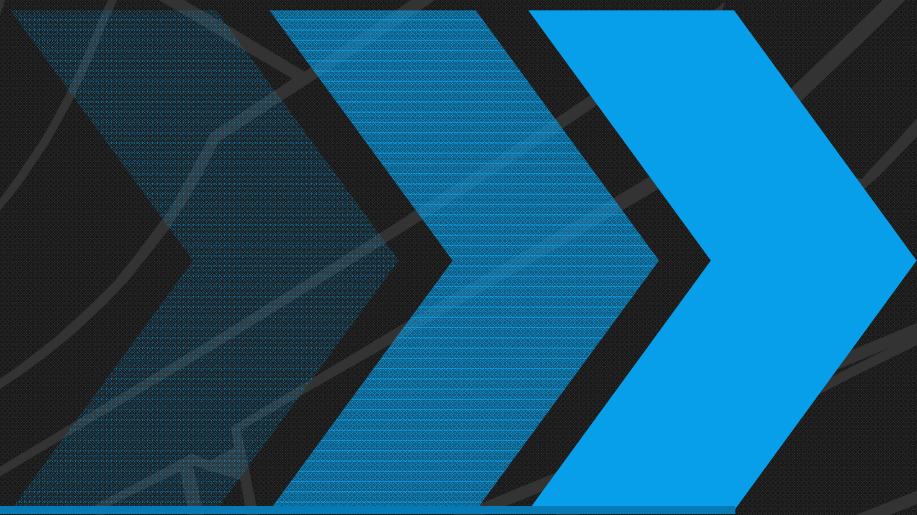


➤➤➤ CPE costs benefit from improving economies of scale

Regional Operations Summary

- » Ubiquitous, **feature-rich IP solutions**
- » **Capitalizing** on wireless
- » Converged products with **high-bandwidth** access
- » Unmatched distribution and **end-to-end capabilities**

Improving Cost Structure



Merger Integration on Track

AT&T and BellSouth Merger Cost Synergy Run Rates

Expense and Capital
(\$ in billions)



> \$3.5 billion merger savings achieved through 2007, ~ 75% expense and 25% capital

⇒ Labor savings on plan

- AT&T/SBC - 90% complete
- AT&T/BLS - 50% complete

⇒ Network and traffic migration initiatives on track

- > 60% Private line migration opportunity remaining
- > 80% Frame/ATM and IP migration remaining

⇒ Advertising, corporate efforts on track

Further Cost Opportunities ...

Additional ~ \$1.5 Billion Run-Rate Savings



~ \$500M

Network Operations

~ \$250M

Call Centers

~ \$750M

**Corporate Shared
Services**

Network Operations Opportunities: Additional ~ \$500 Million Run-Rate Savings

⇒ Technology Transformation

- Lightspeed Deployment ... shorter loops
- Increased Mechanization and Systems Integration ... improving tech response

⇒ Consolidation and Standardization

- Mass Market and Enterprise Care Centers ... nationalization and standardization
- Global Network Operations ... create national, automated work flow

Call Center Opportunities:

Additional ~ \$250 Million Run-Rate Savings

Shift to mechanization in Consumer, Regional Business, and Credit and Collection Centers

⇒ Unproductive call reduction

- Simplify bills and customer offerings
-

⇒ Increase self-service capabilities

- Enhance call routing and Web capabilities
-

⇒ Improve first call resolution

- Integrate systems and information

Corporate Shared Services Opportunities:

Additional ~ \$750 Million Run-Rate Savings

⇒ Strategic IT sourcing strategy

- Rationalize and simplify delivery models
- Compelling price points to achieve “best in class” cost structure
- In-sourcing of midrange ops

⇒ IT application rationalization

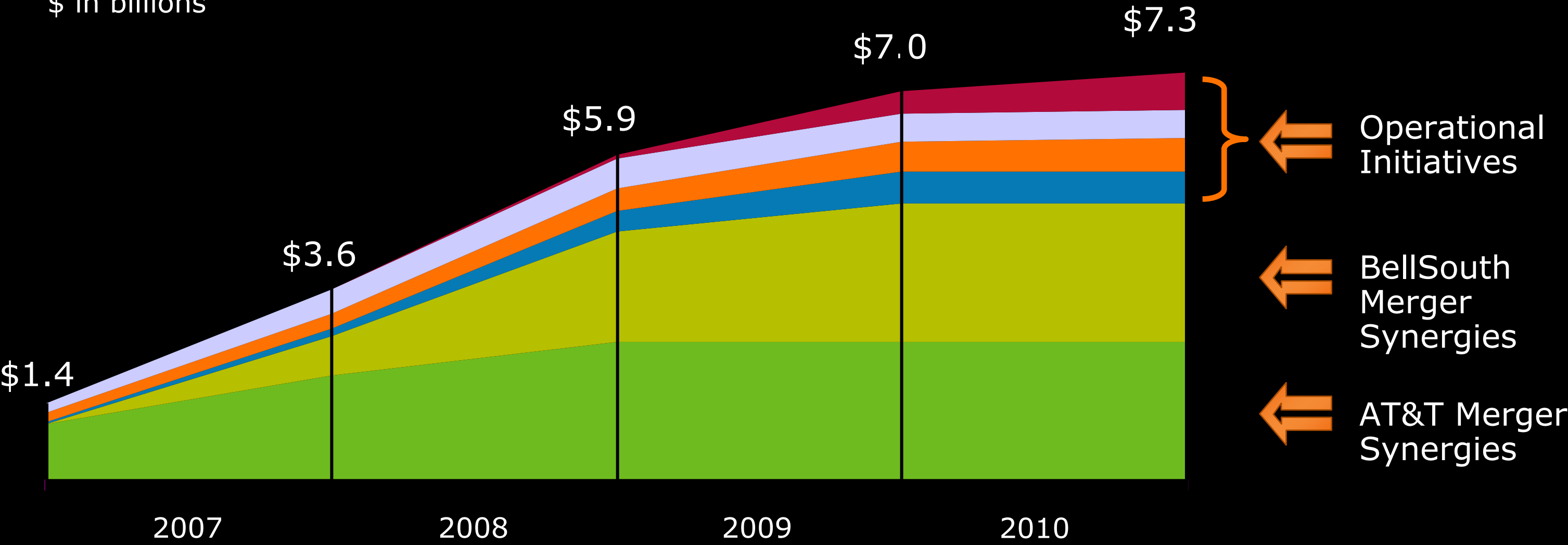
⇒ IT automation and process improvements

⇒ Procurement and corporate real estate initiatives

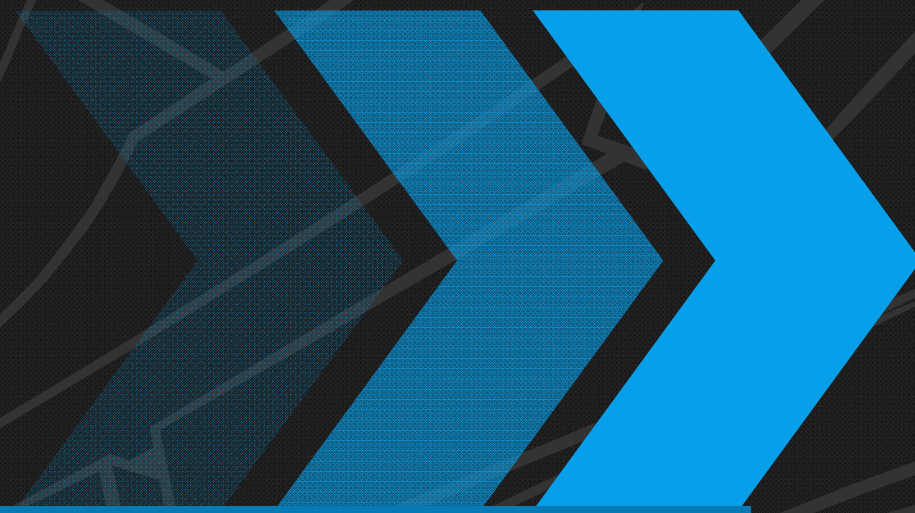
\$3.7 Billion Additional Expense Opportunity Over the Next Three Years

Expense Savings Run Rates

\$ in billions

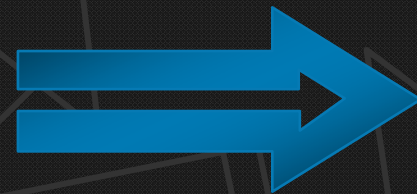


Network Strategy and Initiatives



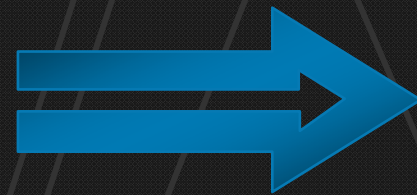
The Network Is Relevant: Race to Aggregate Volumes

**Existing and
Unmatched
Capabilities**



- Wired/Wireless Voice
- High Speed Internet
- Enterprise Data and IP
- Wholesale Transport
- Video

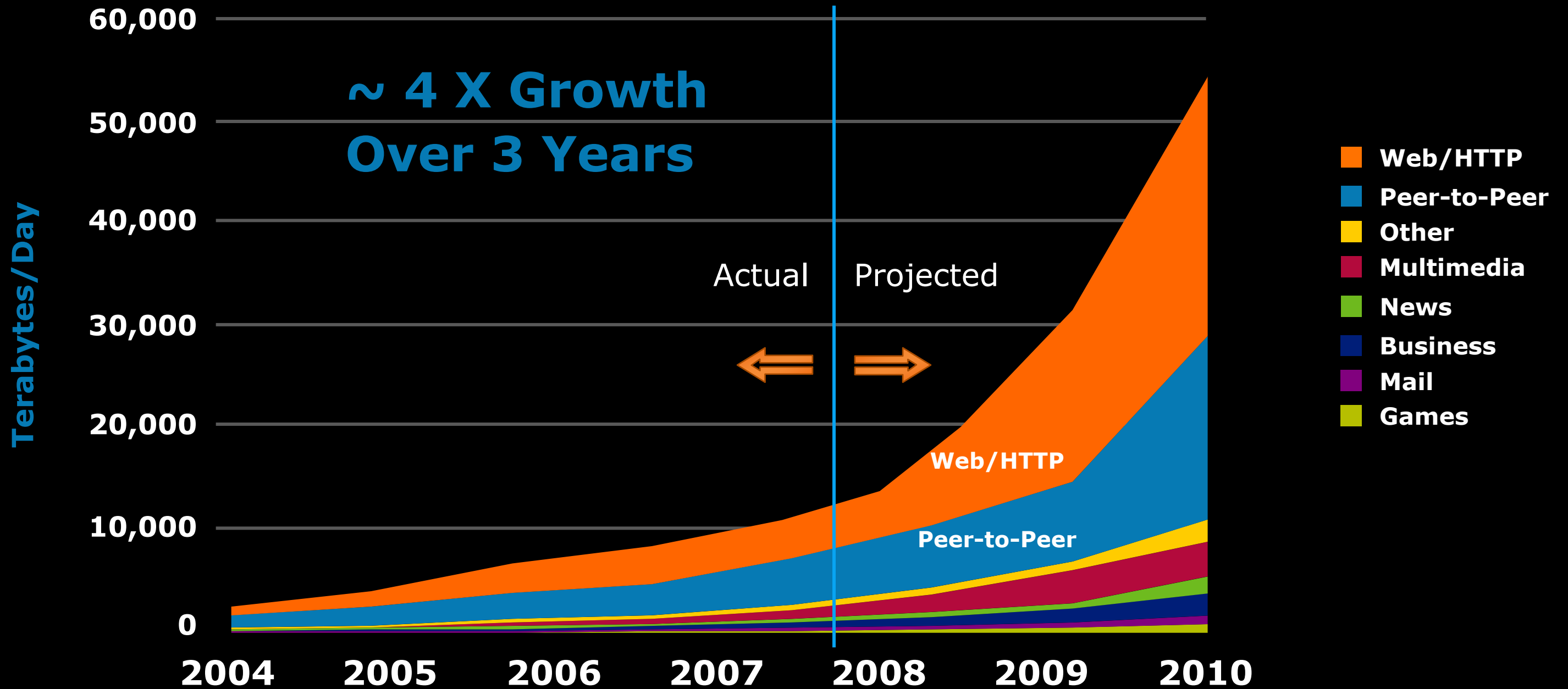
**Customers
Demand**



- IP Access at the Edge
- Feature-Rich IP Services
- Seamless Network Integration

The Network Is Relevant:

AT&T IP Backbone Projected Traffic Growth



10 terabytes equal the entire printed collection of the Library of Congress.

Game Plan:

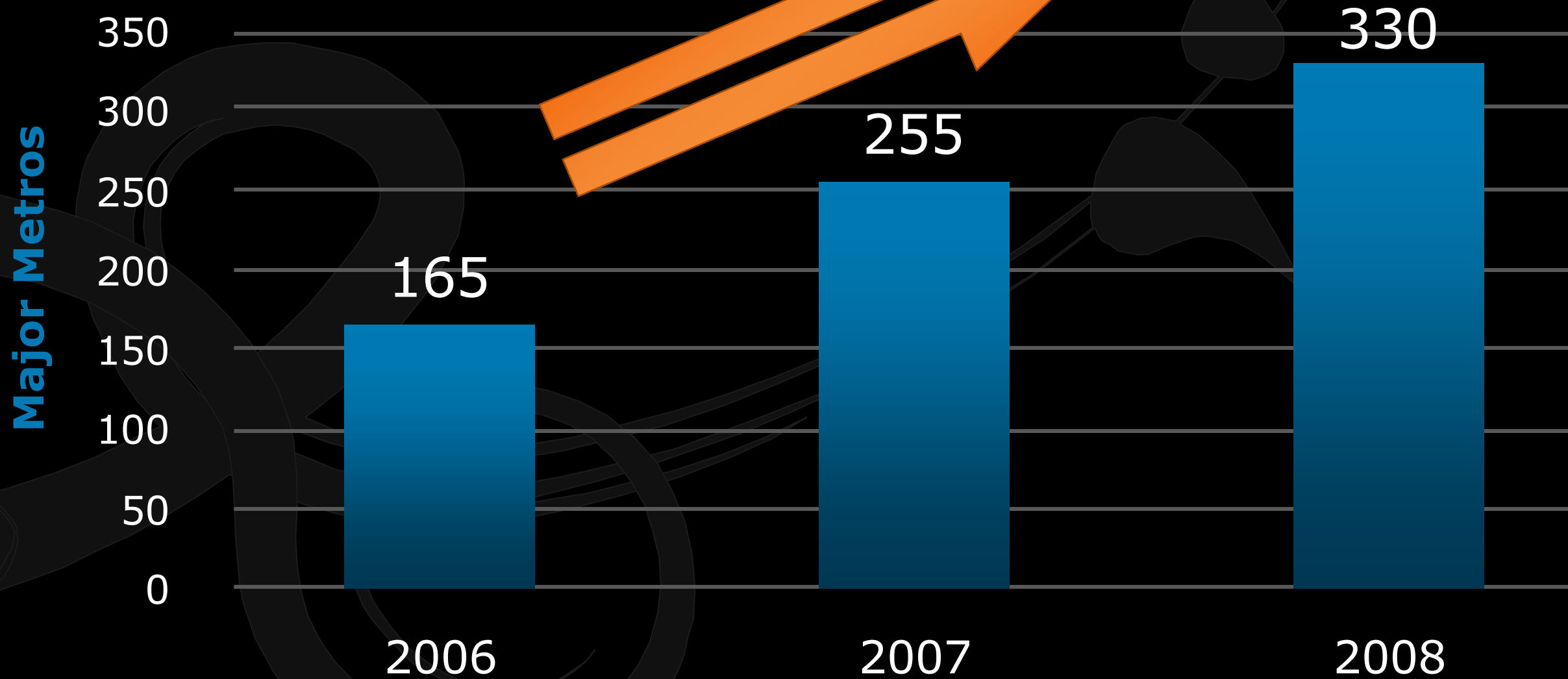
Seamless IP Access at the Edge

Expanding next-generation (3G) **wireless broadband** network

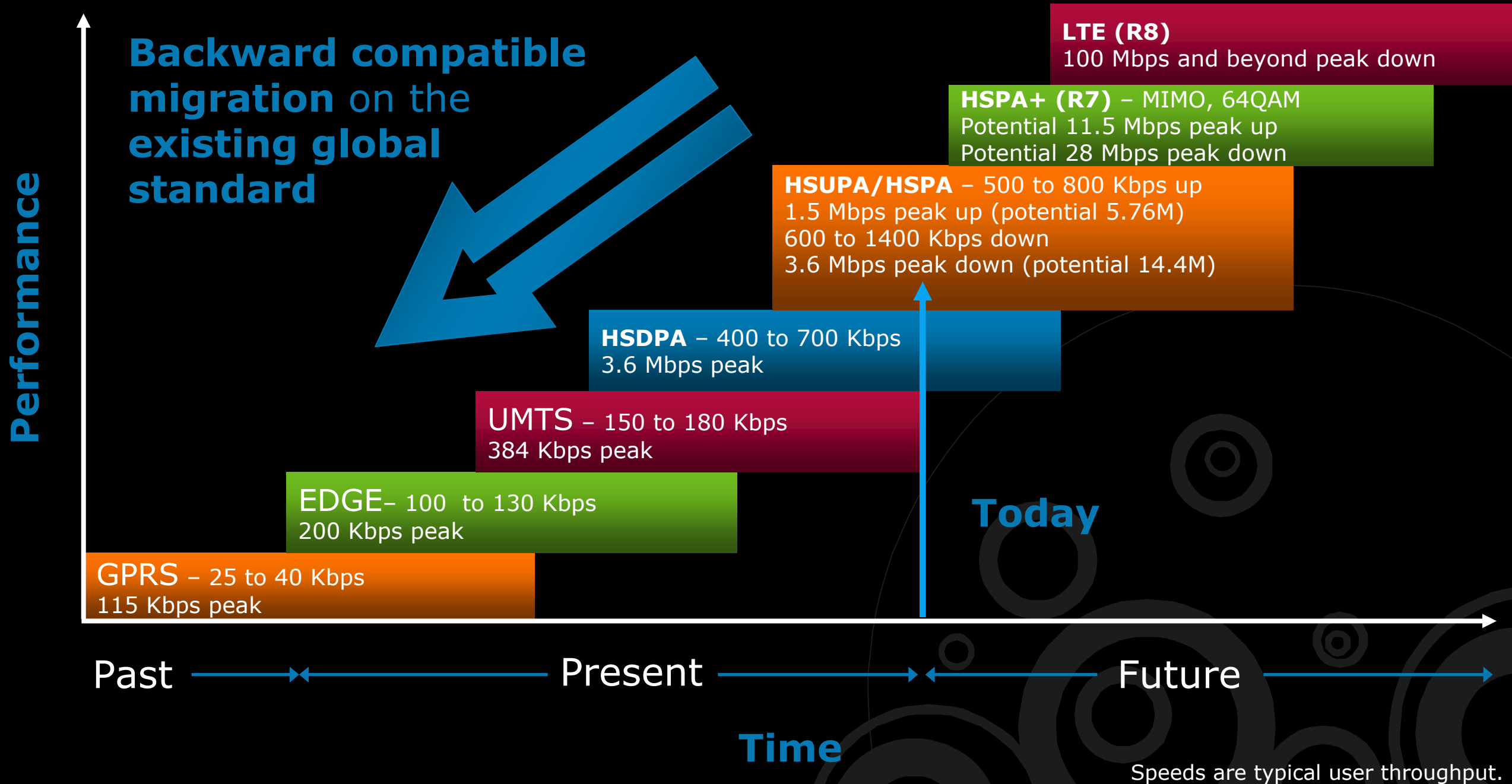
High-bandwidth local access **loops** (U-verse)

Metro **fiber-based** services

Seamless Network Access: Expand 3G Wireless Broadband Network

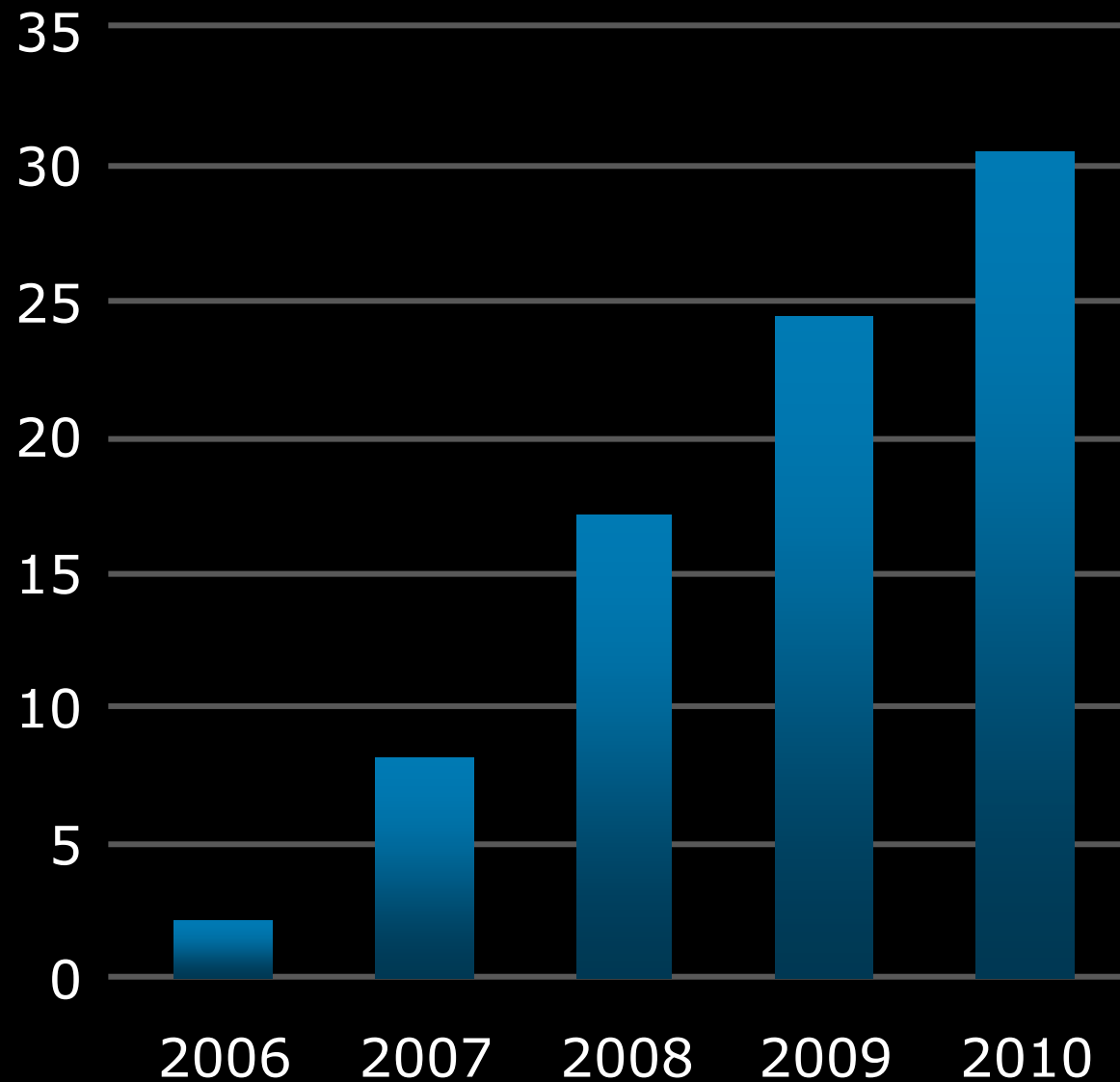


Seamless Network Access: Continue Mobile Broadband Evolution



Seamless Network Access: U-verse Expansion

Targeted Living Units Passed (Millions)



- ⇒ FTTN/IPTV is **best** and **lowest cost** route
- ⇒ U-verse to cover **about 50% of living units** and **33% of businesses** in 22 states
- ⇒ Cost per living unit passed to remain in the **low-\$300** range
- ⇒ Nearly doubling throughput capabilities with **pair bonding** ... and reducing installation times with **iNID** ... by 2H08

U-verse Bandwidth Requirements

Service Scenario	Today	Future
HD Streams	1	4
SD Streams	3	0
Overheads (Mbps)	2.3	4
High Speed Internet (Mbps)	6	10
CVoIP (Lines)	2	2
Throughput Required	21.4	36.4

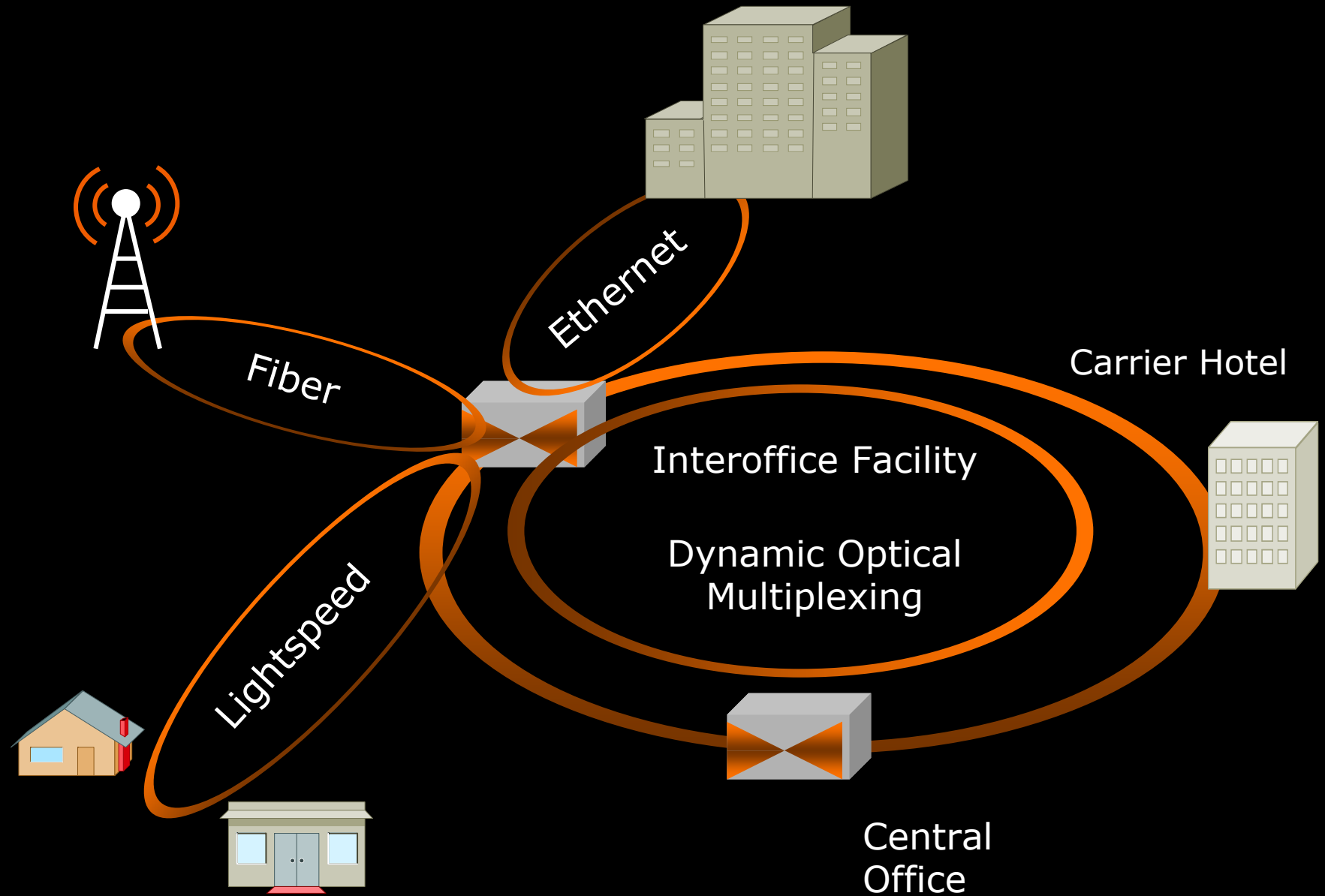
2HD + 2SD + 10MB HSIA to 80% of footprint on a single pair
and
4HD + 10MB HSIA to more than 80% of footprint with pair bonding*

*Does not include nine-state former BellSouth region.

Seamless Network Access: Metro Fiber-Based Services

➡ Deploying Fiber Services
Where They Count

- **Mobility**
(Fiber to the Cell)
- **Enterprise Business**
(Ethernet)
- **Consumer/SMB**
(Lightspeed)
- **Wholesale**
(Fiber)



Game Plan:

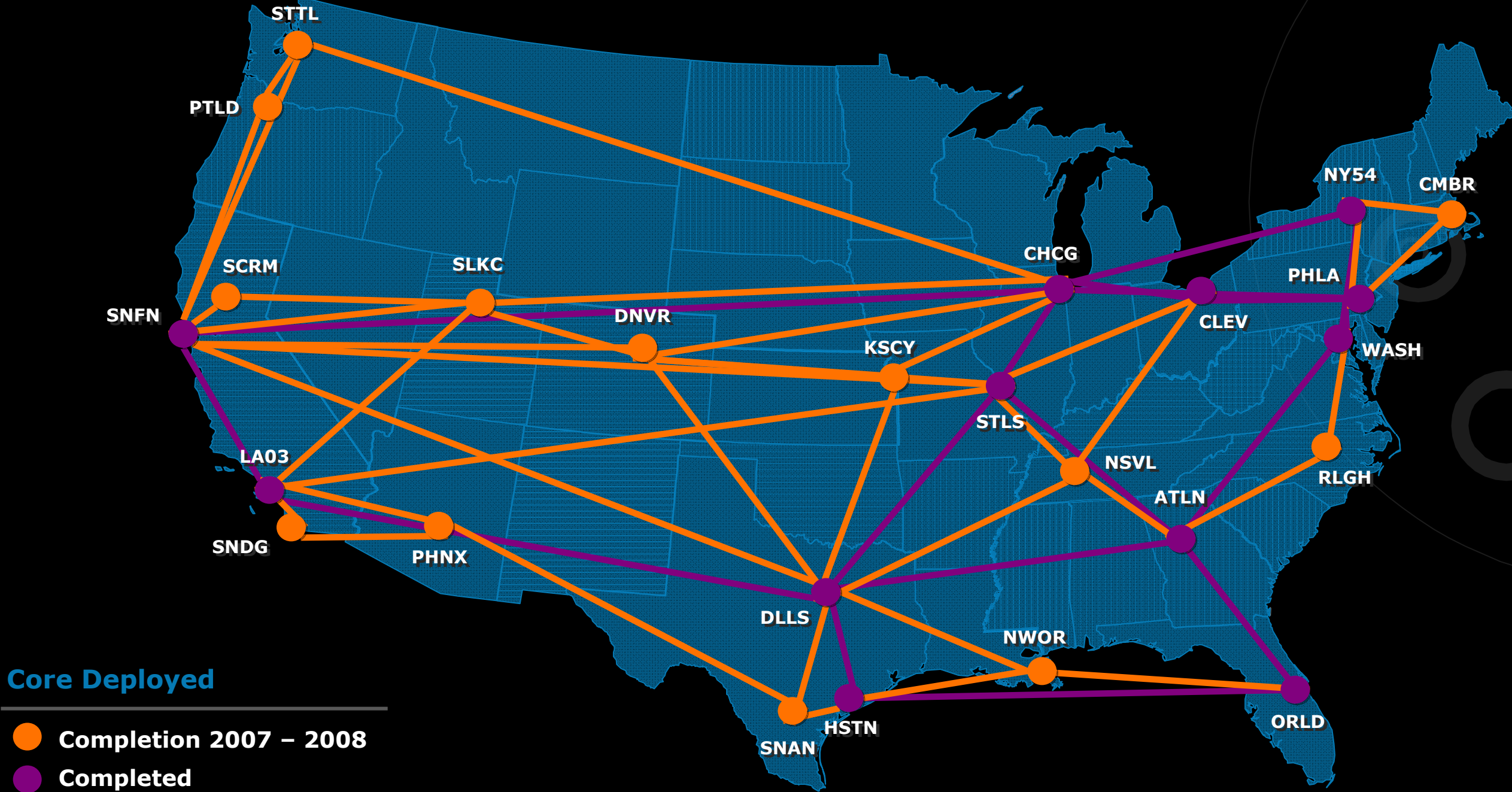
Cost-Efficient Capacity in the Core

Increased **backbone** and **access** capacity

IP driving **lower marginal cost**

International reach following
our business customers

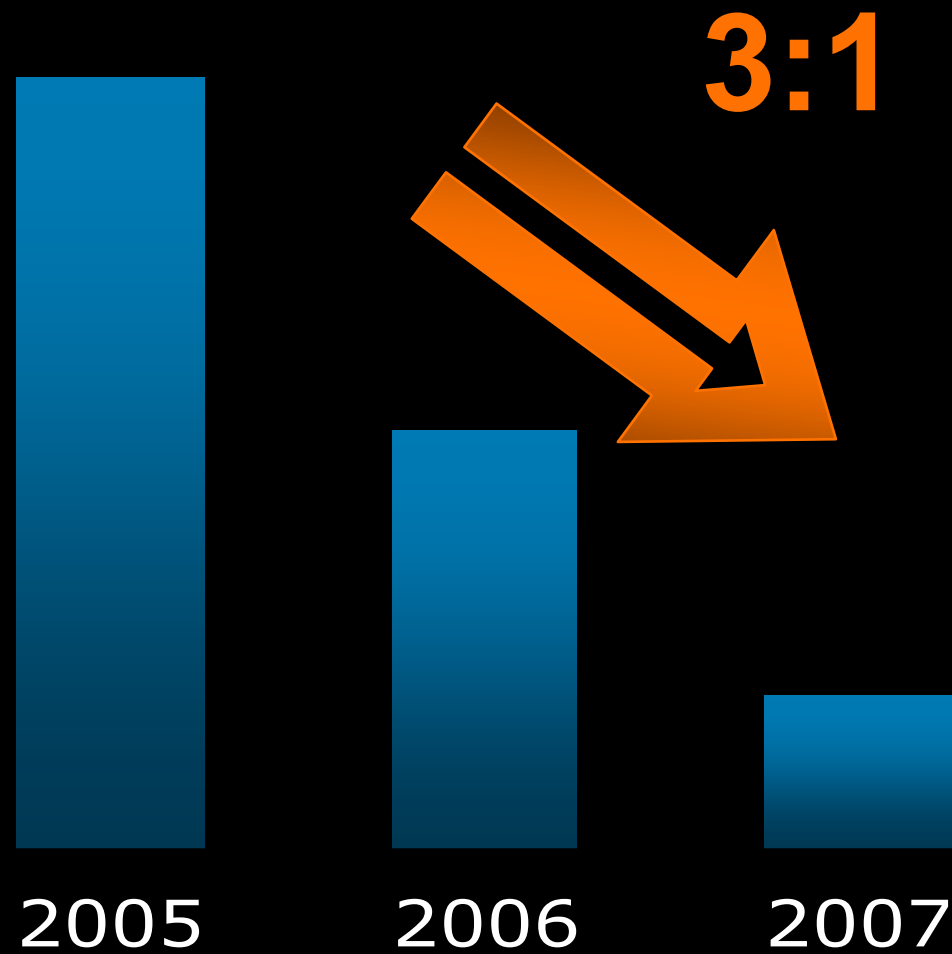
Next-Generation IP MPLS Backbone



IP MPLS Driving Lower Marginal Costs

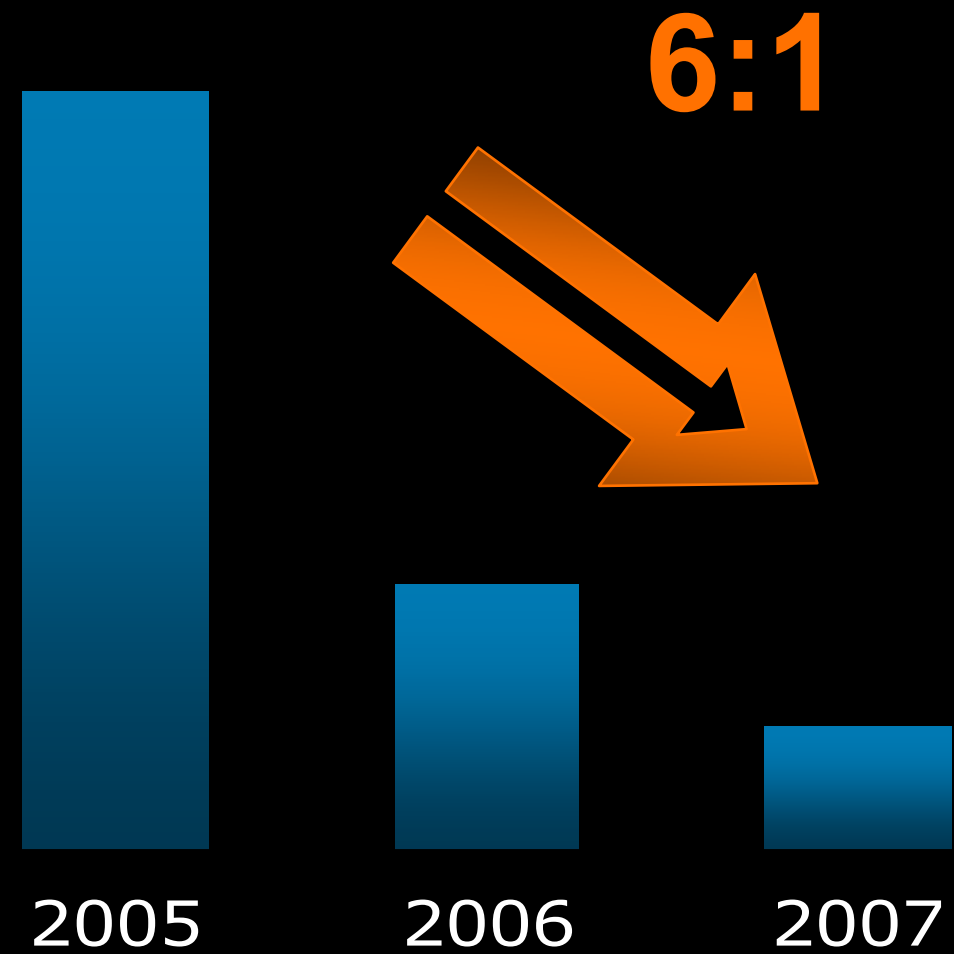
IP Backbone Cost-Efficiencies

(per Megabit)



Transport Cost-Efficiencies

(per OC-192)



Investing for Growth in International Traffic

Up 145% Since 2005

— Existing Fiber Routes

● Existing IP POPs

— New Undersea Fiber/Route

● New Core Routers

● New POPs
to Global Network



Game Plan:

Feature-Rich IP Services

Content and **Storage** Management

Hosting and Application **Services**

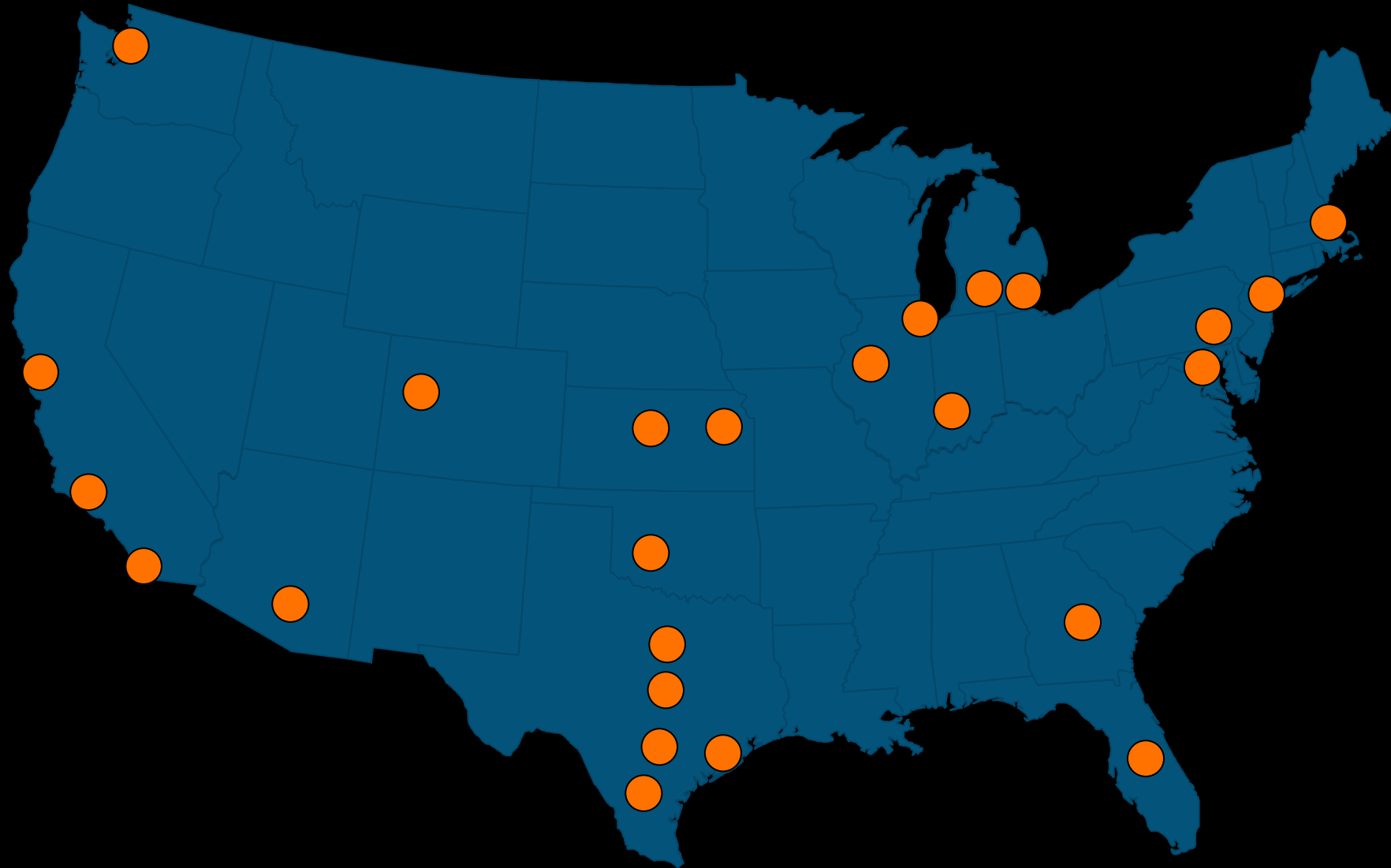
Intelligent **Network Routing**

VPN

Network-Based **Security**

Feature-Rich IP Services: Content and Storage Management

▶▶ We are deploying content servers at key locations



Enables managed delivery of streaming video and other content

⇒ Content is stored at AT&T facility

⇒ Content distribution is managed by the AT&T network

⇒ Faster delivery of Web content

⇒ Enables AT&T to manage investment levels on the network

Feature-Rich IP Services: Hosting and Application Services

Capacity expansions to meet demand



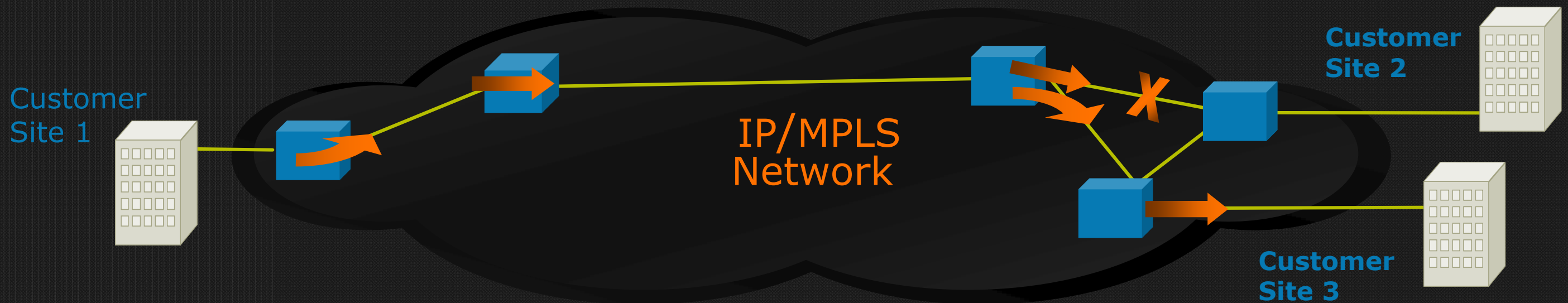
Services initiatives to shift the mix

- ➔ Utility computing offering
- ➔ New fully managed hosting offering
- ➔ On-demand application services for SMB
- ➔ Seamless AT&T/USi integration

Feature-Rich IP Services: Intelligent Overlay Routing

Differentiating Transport Services:

- ⇒ Proprietary technology developed by AT&T
- ⇒ Customer control through dynamic routing capabilities
- ⇒ Application and location awareness



Feature-Rich IP Services: AT&T VPN Portfolio

- ① We have the VPN options to meet our customers' needs ...
 - Network-Based
 - Premises-Based
 - Remote Access
- ② ... and they can access however they want to ...
 - IP/Frame/ATM
 - Broadband/Ethernet
 - Wireless/Wi-Fi/Dial
 - Available Worldwide
- ③ ... with a robust set of options that differentiate our portfolio ...

Value-Added Options	Security Options
<ul style="list-style-type: none">– BusinessDirect e-Portal– VoIP and Unified Communications– Multicast and other advanced routing	<ul style="list-style-type: none">– Managed/personal firewalls– Internet Protect

Feature-Rich IP Services: AT&T VPN Portfolio

“AT&T's IP VPN services ... are very threatening to competitors, because the carrier combines the reach and reliability of the AT&T Global Network with a comprehensive portfolio of IP VPN.”

... Current Analysis Report: AT&T VPN Solutions Product Assessment - August 2007

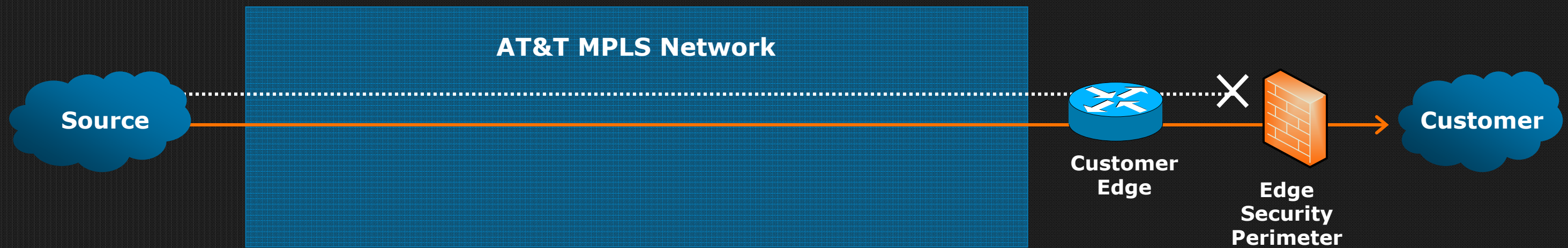
Feature-Rich IP Services: AT&T VPN Portfolio

“AT&T hits leader stride
in Global WAN Services.”

... Forrester Wave, 6/28/07

Feature-Rich IP Services: Network-Based Security

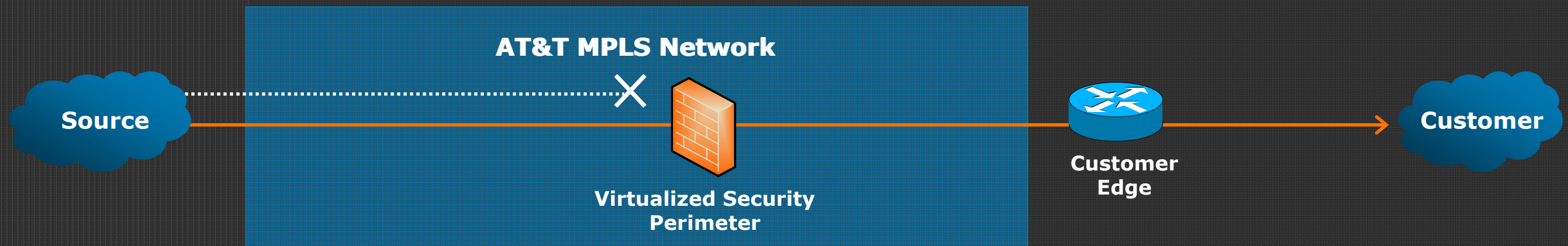
Traditional Approach:



Expensive, Poor Scale, Dubious
Threat Coverage, Complex Architecture

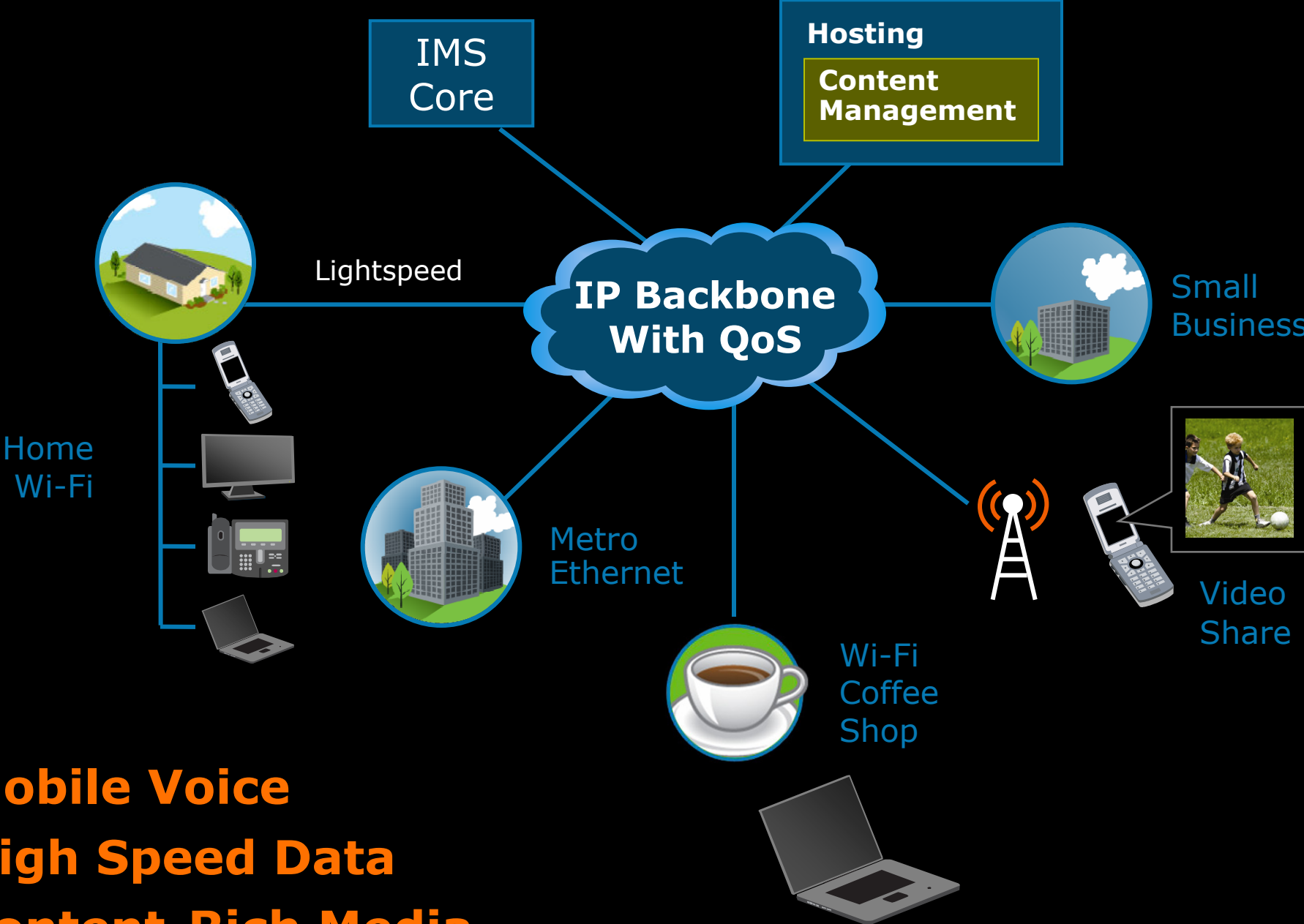
Feature-Rich IP Services: Network-Based Security

AT&T's Approach:



Amortized Costs, Massive Scale, Extensive Threat Coverage,
Simplified Architecture

Seamless Network Integration



- **Seamless Mobile Voice**
- **Seamless High Speed Data**
- **Seamless Content-Rich Media**

Summary

Focus on **investing** for the long term ... and leading the **convergence to IP**

Networks are evolving, converging and becoming **more efficient** and **capable**

Cost-reduction opportunities continue **indefinitely**

We are capturing **growth opportunities** in our SMB and consumer markets

Capex remains at **midteens** as a percent of revenue



Your world. Delivered.

Infrastructure and Regional Initiatives

John Stankey

Group President-Telecom Operations
AT&T Inc.

2007 Analyst Conference