

# AT&T Investor Update

2Q08 Earnings Conference Call  
July 23, 2008



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# Agenda

Introduction

Brooks McCorcle

Senior Vice President-Investor Relations

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Results

Rick Lindner

Senior Executive Vice President  
and Chief Financial Officer

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Q and A

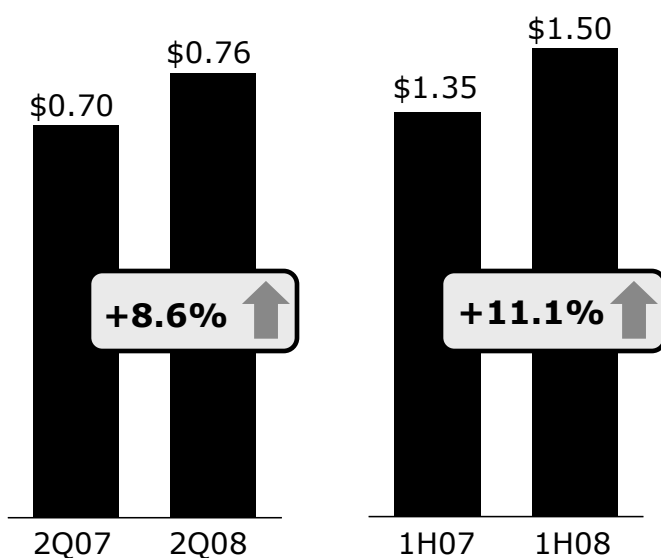
# Cautionary Language Concerning Forward-Looking Statements

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# EPS Summary

## AT&T Adjusted EPS Growth



	2Q08	2Q07	Growth
Reported EPS	\$0.63	\$0.47	34.0%
Adjustments:			
Merger integration costs		0.03	
Noncash merger-related costs	0.13	0.20	
Adjusted EPS	\$0.76	\$0.70	8.6%

Pretax adjustments to earnings:

- 2Q08: noncash intangible amortization of \$1,169 million. 2Q07: merger integration, noncash intangible amortization and purchase accounting effect of \$2,164 million.
- YTD 2008: noncash intangible amortization of \$2,377 million; workforce reduction charge of \$374 million. YTD 2007: merger integration, noncash intangible amortization and purchase accounting effect of \$4,470 million. Gain from wireless transactions of \$(409) million.

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

# **Rick Lindner**

Senior Executive Vice President and  
Chief Financial Officer  
AT&T Inc.



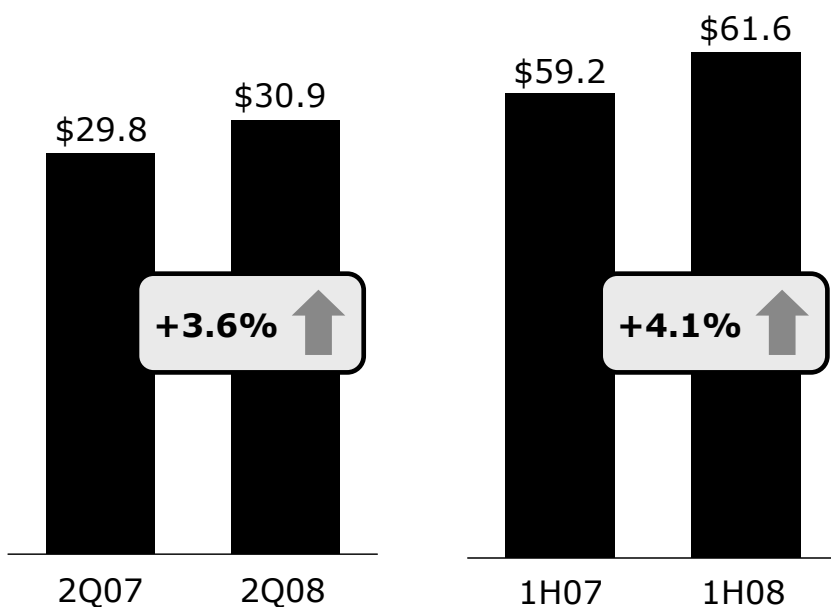
# AT&T 2Q08 Highlights: Great Assets, Focused and Disciplined Execution

- **Strong wireless growth** – total revenues up 15.8%, wireless data revenues up 52.0%, further reduction in postpaid churn
- **Further advance in wholesale turnaround** – solid demand, reduced impact from carrier migration
- **Enterprise fundamentals remain solid** – sales and new service adoption remain strong
- **Continued ramp in AT&T U-verse<sup>SM</sup> TV** – 170,000 net adds to reach 549,000 in service, on trajectory to exceed 1 million in service by year end
- **Cost initiatives on track** – 25.1% adjusted consolidated operating income margin, full benefits of wireline reorganization to be realized in 2H08
- **Substantial value returned to shareowners** – 1H08 dividends paid totaled \$4.8 billion, share repurchases totaled \$6.1 billion

# Consolidated Revenue Growth

## Adjusted Consolidated Revenue Growth Rates

Year-Over-Year, Pro Forma



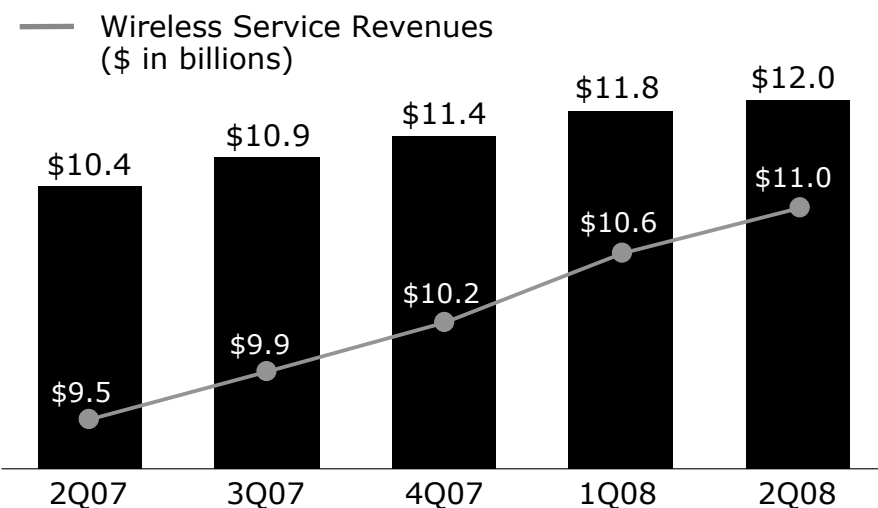
Revenues for 2007 are adjusted to exclude merger-related directory accounting impact.

### Major 2Q drivers:

- Continued strength in wireless with mid-teens wireless service revenue growth
- Significant improvement in wholesale revenue trends
- Strong double-digit growth in IP data

# Strong Wireless Growth

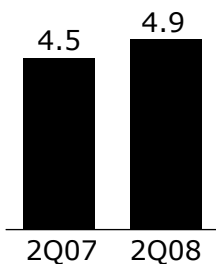
## AT&T Total Wireless Revenues



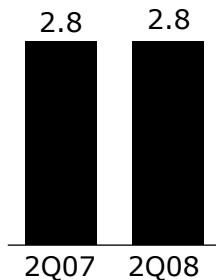
**Total wireless revenues up 15.8%, service revenues up 14.8%. Major drivers:**

- **Solid subscriber gains**
  - 1.3 million total net adds
  - 894,000 postpaid net adds, up >26% from 1Q08 levels
- **Strong flow share** with 4.9 million 2Q08 total gross adds
- **Further improvement in postpaid churn** – down both year over year and sequentially to 1.1%
- **Growth in postpaid subscriber ARPU** – up 3.5% year over year and up 1.5% sequentially

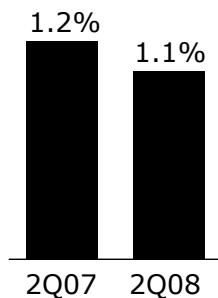
### Total Gross Adds (in millions)



### Postpaid Gross Adds (in millions)

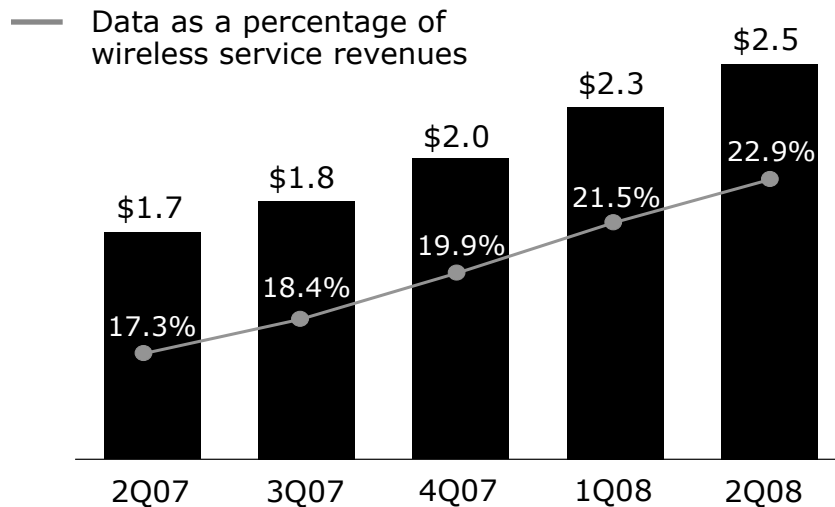


### Postpaid Churn



# Wireless Data Revenues up 52%

## Wireless Data Revenues (\$ in billions)



### 2Q08 YOY Wireless Data Revenue Growth

Internet access	>100%
E-mail	>50%
Messaging	>50%
Data access	>50%

## Wireless data growth coming from both consumer and business users

- Internet access revenues more than doubled 2Q07 levels
- Revenues from e-mail, messaging and data access all up more than 50%
- Multimedia messages up >170%
- Early in the adoption curve:
  - Approximately 18% of postpaid subscribers now use integrated devices, with ARPU roughly double the company average
  - 13 million 3G handsets in customer base

# Accelerating a New Era of Wireless Data Growth



## Outstanding Spectrum Position

- Contiguous, unencumbered 700 MHz spectrum in 100% of top 200 markets
- Average 90 MHz of spectrum in top 100 markets

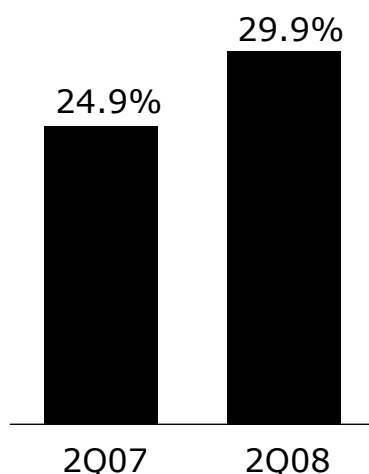
## Powerful, Cost-Efficient Technology Path

- Nation's fastest 3G network
- 3G deployment covering 300 U.S. markets, to reach approximately 350 markets by year's end
- Only U.S. carrier to have fully deployed HSPA in its 3G network
- Interim steps to substantially increase speeds on way to 4G, all backward compatible

**Initial July iPhone 3G sales volume nearly double 2007 2G iPhone launch**

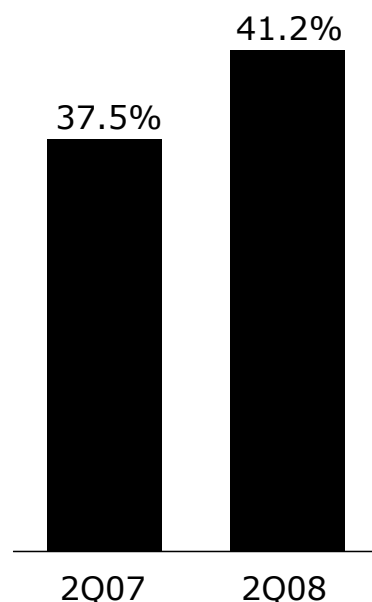
# Wireless Margin Expansion

## Adjusted Operating Income Margin



15.4%      25.5%

## Adjusted OIBDA Service Margin



35.8%      41.2%

Unadjusted Results

**Adjusted service OIBDA margin up 370 basis points year over year. Major drivers:**

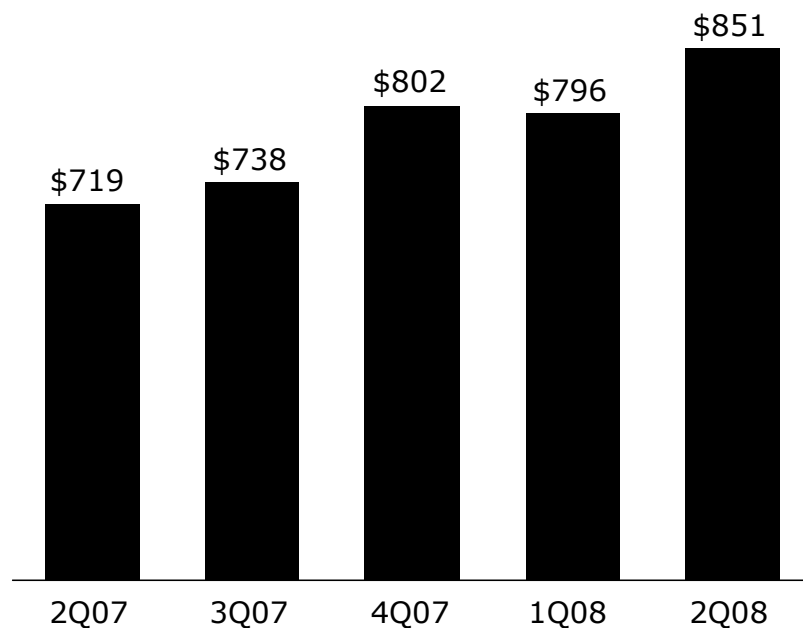
- Strong revenue growth
- Improved network cost structure
- Continued operational improvements in areas such as customer service and billing

Merger integration and amortization costs excluded from adjusted operating income margins: \$983 million in 2Q07 and \$529 million in 2Q08.  
Excluded from adjusted OIBDA service margin: \$163 million in 2Q07.

# Continued Enterprise Strength Led By Strong IP Data Growth

## Enterprise IP Data Revenues

Includes Virtual Private Networking,  
Hosting, Managed Internet Services,  
IP Conferencing Services  
(\$ in millions)



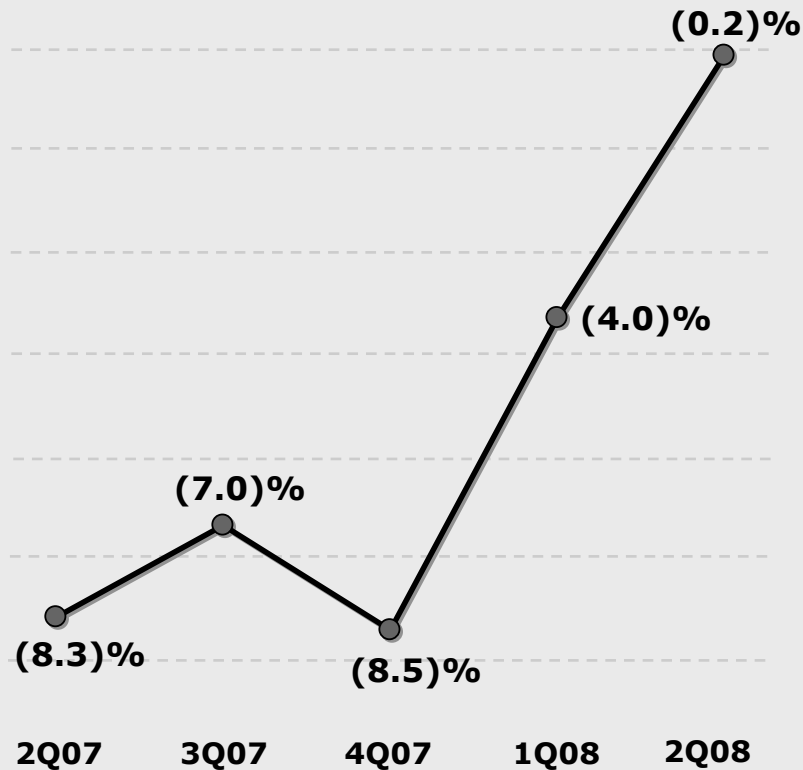
## Fundamental enterprise trends in terms of sales and new service adoption remain solid

- Strong IP data growth of 18.4%
- Revenues from major new contracts expected to begin ramping in 2H08
- Continue to expect positive enterprise revenue growth for the full year 2008

# Turnaround in Wholesale Trends

## Wholesale Revenues

Year-Over-Year Growth Rates

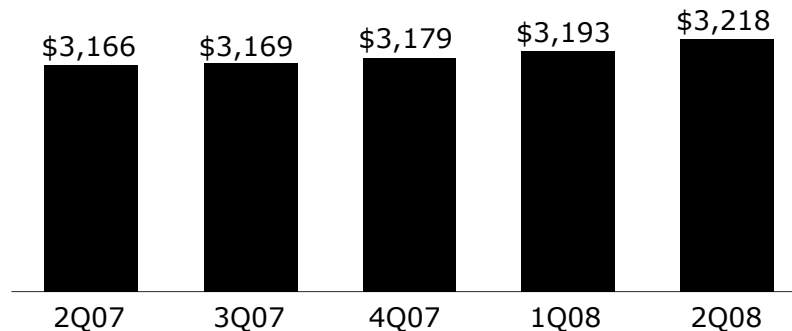


**Wholesale revenue trends continue to stabilize, significant 2Q08 improvement in year-over-year growth rate**

- Second consecutive quarter of sequential growth in total wholesale revenues
- Improved fundamentals driven by data services, wireless growth, reduced impacts from carrier traffic migration
- Merger conditions have passed one-year anniversary
- Further ramp in revenues from IBM agreement expected in 2H08

# Sustained Growth in Regional Business

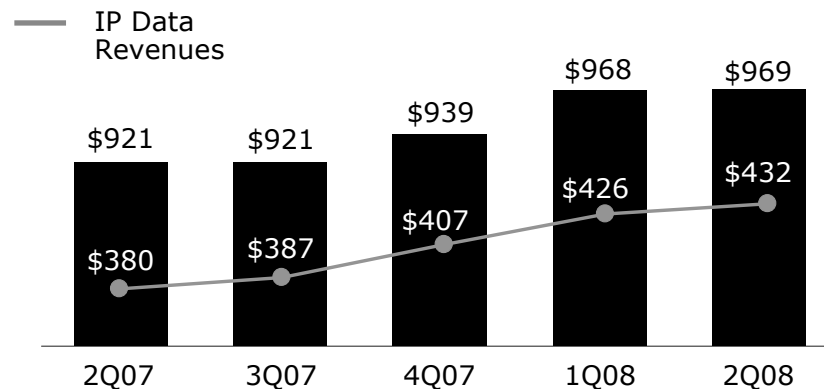
**Regional Business Total Revenue**  
(\$ in millions)



**Total regional business revenues up 1.6%**

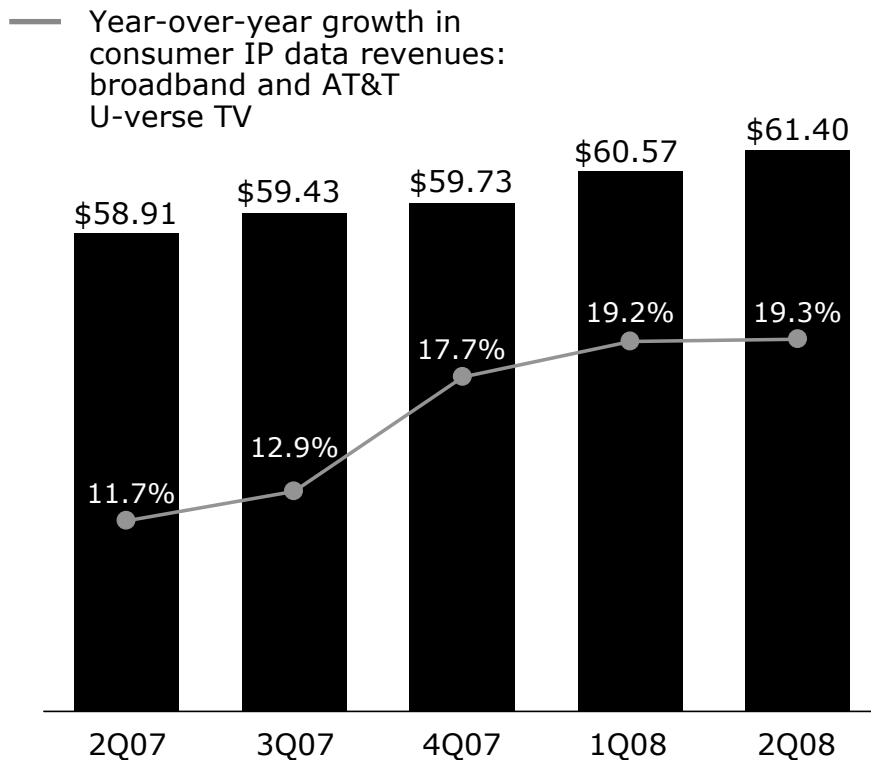
- 5.2% increase in data revenues, with double digit growth in IP data
- Strong double digit growth in Ethernet, VPN, managed Internet services
- Increased focus on business bundles, including wireless
- Delivering business broadband services over U-verse platform

**Regional Business Data Revenue**  
(\$ in millions)



# Regional Consumer Driven by Broadband and Video Connections

## Regional Consumer Revenue Per Household Served

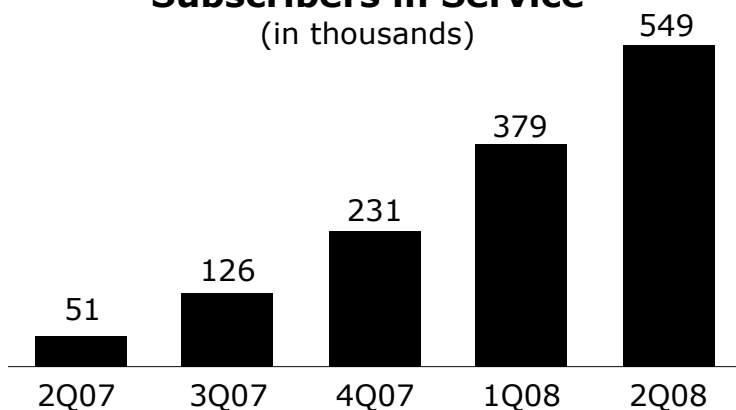


**AT&T is leading in the transformation of consumer communications centered on mobility, broadband connectivity and IP-based services**

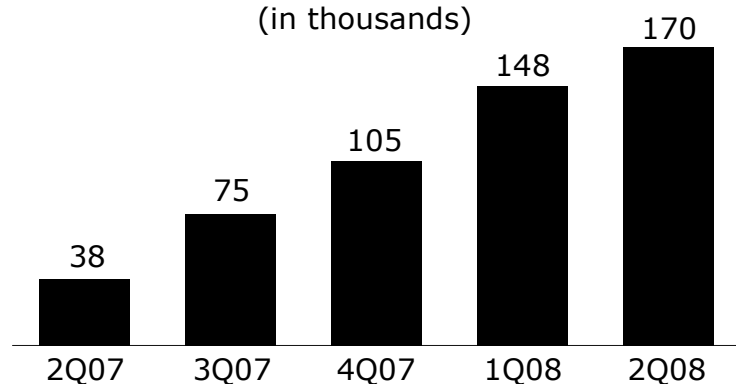
- Average revenue per household served is up 4.2%, continuing trends of recent quarters
- Strong growth in AT&T U-verse TV with high broadband attach rate
- Improved access line trends in U-verse TV market areas
- Strong market reception to wireless/broadband bundle
- Overall access line and broadband connections reflect 2Q seasonality and macro-economy

# Further Ramp in AT&T U-verse TV

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



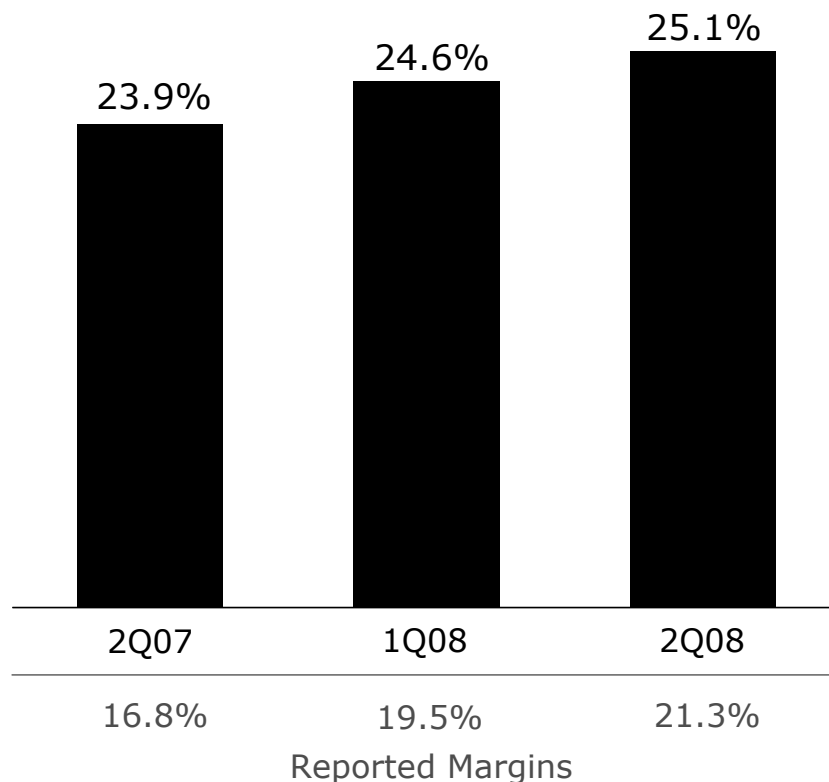
**AT&T U-verse TV  
Net Subscriber Additions**  
(in thousands)



- Network deployment now reaches more than 11 million living units, service available in 53 markets
- More than 10% penetration reached in established market areas in less than 12 months
- On track to reach target of more than 1 million subscribers by the end of 2008
- Average install times down nearly 15% since 4Q07
- 2<sup>nd</sup> HD stream migration to be completed in 3Q
- Total Home DVR in trial phase, full rollout by EOY

# Margin Expansion

## AT&T Adjusted Operating Income Margin



Merger integration and amortization costs and other one-time items excluded from adjusted operating income margins: \$2,164 million in 2Q07, \$1,582 million in 1Q08 and \$1,169 million in 2Q08.

## Consolidated margin expansion driven by progress on major cost initiatives, disciplined execution

- Continued strength in wireless margins
- Wireline margins reflect merger synergy initiatives and operational cost initiatives
- On track to deliver incremental 2008 expense savings of more than \$2 billion
- Majority of savings from wireline reorganization savings will be realized in 2H08
- Expect adjusted operating income margin of approximately 24% for the full year 2008

# Strong Cash Profile, Sound Balance Sheet, Attractive Yields

Strong cash flow allows for investments in operations while returning substantial value to shareowners

## 2Q08 Cash Summary

<b>Cash from Operations</b>	<b>\$8.5B</b>
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<b>Free Cash Flow</b>	<b>\$3.2B</b>
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<b>Cash returned to Shareowners</b>	<b>\$4.4B</b>
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- \$2.0 billion in share repurchases in 2Q08
- Continued strong balance sheet and credit ratings
- Free cash flow yield of 6.7%\*

### Outlook Reaffirmed:

- Expect 2008 free cash flow in the \$16 billion range

\*FCF yield was calculated as of 7/18

## Focused and Disciplined Execution, Solid Momentum Heading into 2H08

- **Strong wireless momentum** – total revenues up 15.8%, wireless data revenues up 52.0%
- **Strong iPhone 3G launch** – nearly 2x 2007 iPhone sales
- **Enterprise fundamentals remain solid** – major contracts expected to ramp further in 2H08
- **Wholesale turnaround continuing** – sound fundamental demand and further ramp in IBM revenues ahead
- **Continued ramp in AT&T U-verse TV** – with improving operational metrics
- **Cost initiatives on track** – full benefits of wireline reorganization to be realized in 2H08

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