



## “Helping people who are helping people ...”

That’s how Charlotte Anderson portrays the vital role that AT&T plays for ADDS Health Services. This St. Louis-based in-home health care provider serves hundreds of patients, many of whom are poverty-stricken and elderly. It’s a 24 x 7 x 365 calling. And that’s where AT&T comes in.

“When we prepared to open our doors, the very first call we made was to AT&T,” said Anderson, who has served as operations manager since the company was founded in 2000. “We are licensed and certified with Medicare and Medicaid, and that carries with it a lot of privacy and security responsibilities. AT&T was the one company we could trust to manage those needs—plus the need to link our office staff of eight with our 40 employees in the field.”

ADDS relies on a combination of wireless, broadband and wired services. “AT&T keeps us all connected,” Anderson said. “Our smartphones are lifesavers when we’re out in the field. Many of the patients don’t have home phones, so we rely on ours for everything—including access to the Internet and e-mail.” Anderson also noted that mobile phones are the single most important communications tool in ADDS’ state-required disaster plan.

According to Anderson, ADDS’ broadband service is crucial for transmitting and storing patient information and for electronic billing. It’s also a pipeline for staff training, much of which is done via teleconference. And AT&T’s local search and directory services fuel many of ADDS’ referrals.

“To make a difference, you have to have a lot of heart—but also a lot of help,” Anderson said. “And we always know that AT&T is right there with us.”



*AT&T’s hosting solutions allow Marriott Vacation Club International (MVCI) Asia Pacific members access to a collection of MVCI properties globally, like this one in Phuket, Thailand.*

We continually innovate and add new services. For example, to help our business customers boost productivity and stay even more connected, last year we introduced AT&T Connect—a solution that allows customers to move seamlessly among voice conference calls, video conferencing, document sharing and instant messaging.

In 2007, our ability to deliver compelling customer solutions was a key factor in winning three new major contracts, each worth up to \$1 billion:

- The U.S. Department of the Treasury tapped AT&T to build its next-generation enterprise network to connect 100,000 employees at more than 1,000 locations.
- General Motors selected AT&T for a five-year contract—one of the largest commercial contracts in our history—to provide next-generation global telecommunications capabilities.
- IBM chose AT&T as its global primary managed network services provider for the next five years.

And in April 2007, through our affiliate in India, AT&T became the first foreign telecom company to offer service in the Indian market. We also launched a new business in Vietnam in 2007 to support the growing number of multinational customers based there.



*"Information technology is a key component of GM's global business strategy, and AT&T's global reach, reliability and knowledge of our networks are helping us achieve our objectives. Their expertise allows us to stay focused on what we do best ... build and sell great cars and trucks," said Ralph Szygenda, group vice president and CIO of GM, pictured in a Chevrolet Malibu, 2008 North American Car of the Year.*



*AT&T Connect allows our customers to collaborate better by moving easily among different services—including e-mail, chat, teleconferencing and document sharing.*

## No Business Is Too Small for Big Solutions

More than 3 million small and midsize businesses look to us for integrated communications solutions that deliver high quality, security and continuous innovation. For instance, in 2007, we introduced our Complete Office Solution bundle—unlimited local and nationwide calling, wireless service, high speed Internet, AT&T Unified Messaging and an AT&T Real Yellow Pages listing, all on a single consolidated bill.

We're also answering the call as more small and midsize businesses demand mobility and integrated voice and data solutions. We've expanded our popular IP Flexible Reach solution to integrate with existing analog telephone systems. That lets businesses use Voice over IP (VoIP) technologies without replacing their existing systems. And AT&T's wireless leadership enables us to provide the mobile voice and data solutions that businesses of all sizes need to compete.

## 10,000 Branches Across North America and the United Kingdom

That's the scope of financial services leader Edward Jones' operations. Given the speed of the global economy, maintaining the company's focus on individual service across its entire network of offices demands fast connectivity solutions.

In 2007, Edward Jones retired its 20-plus-year-old satellite system and teamed with AT&T to create the Global Branch Network to deliver voice communications, always-on Internet access and critical market data.

"The satellite system was no longer able to serve our growing branch network," said Vinny Ferrari, chief information officer for Edward Jones. "We worked with AT&T to design a technology upgrade that gives us the bandwidth we needed to ensure that our employees have access to applications and to complement our trademark face-to-face customer service."

AT&T provides a global Virtual Private Network (VPN) service that offers a single secure network to connect numerous business locations, such as branch offices, headquarters and remote users. The results for Edward Jones? Increased reliability, faster traffic flow, easier management and the ability to expand quickly.

"We worked closely with Edward Jones to deploy a network that is robust, resilient and redundant to support the 'always-available' nature of its business," said AT&T's José Gutiérrez, executive vice president of Enterprise Business Sales. "We give them an infrastructure that's adaptable and expandable enough to meet their needs as their business grows."

*Ray Wilkins demonstrates YELLOWPAGES.COM mobile search, just one of the ways AT&T connects advertisers to ready-to-buy consumers in real time.*

# Local Search

When consumers need a plumber, florist, tailor or other local service, they want to be able to find the right person for the job quickly and easily. Today, in addition to their trusty AT&T Real Yellow Pages books, consumers also want to search via their PCs, mobile devices and televisions. No other company is better-positioned to connect these buyers to sellers—anytime, anywhere—than AT&T.

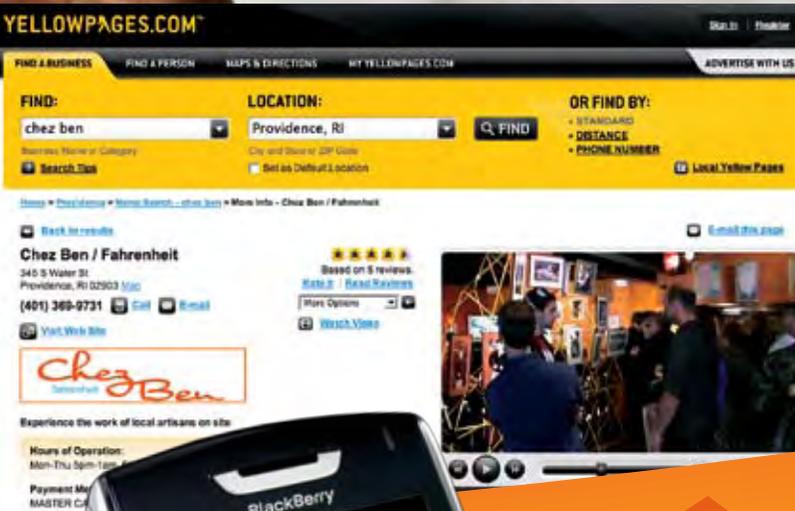
People searched the AT&T Real Yellow Pages for a local business about 4 billion times in 2007, consulting the 175 million books we print in 22 states. AT&T's YELLOWPAGES.COM online local search site connected buyers to sellers on mobile devices, PCs and U-verse TV screens more than 1.5 billion times in 2007. That was a 50 percent year-over-year increase in the number of YELLOWPAGES.COM searches.

In 2008, we're introducing a capability that enables advertisers to pay only for the calls generated by their AT&T ads, wherever they may appear.

As more and more people search for local businesses while they're on the run, we're making the task even easier with YELLOWPAGES.COM applications for AT&T mobile devices, including the Apple iPhone.



Customers locate Chez Ben/Fahrenheit through AT&T's print, online and mobile Yellow Pages ads. "The result is a full house every night," said restaurant owner Ben Weiss.



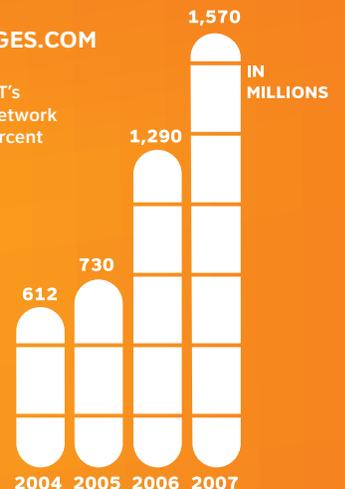
## "You Should Taste Our Steaks!"

Ben Weiss of Providence, R.I., opened a steakhouse in his hometown featuring the same "je ne sais quoi"—and local paintings—as his favorite Paris bistro. To capture the unique atmosphere, he included a video with his YELLOWPAGES.COM listing. These days, business at Chez Ben/Fahrenheit is cooking.



### AT&T YELLOWPAGES.COM SEARCHES

Local searches on AT&T's YELLOWPAGES.COM network have increased 150 percent since 2004.



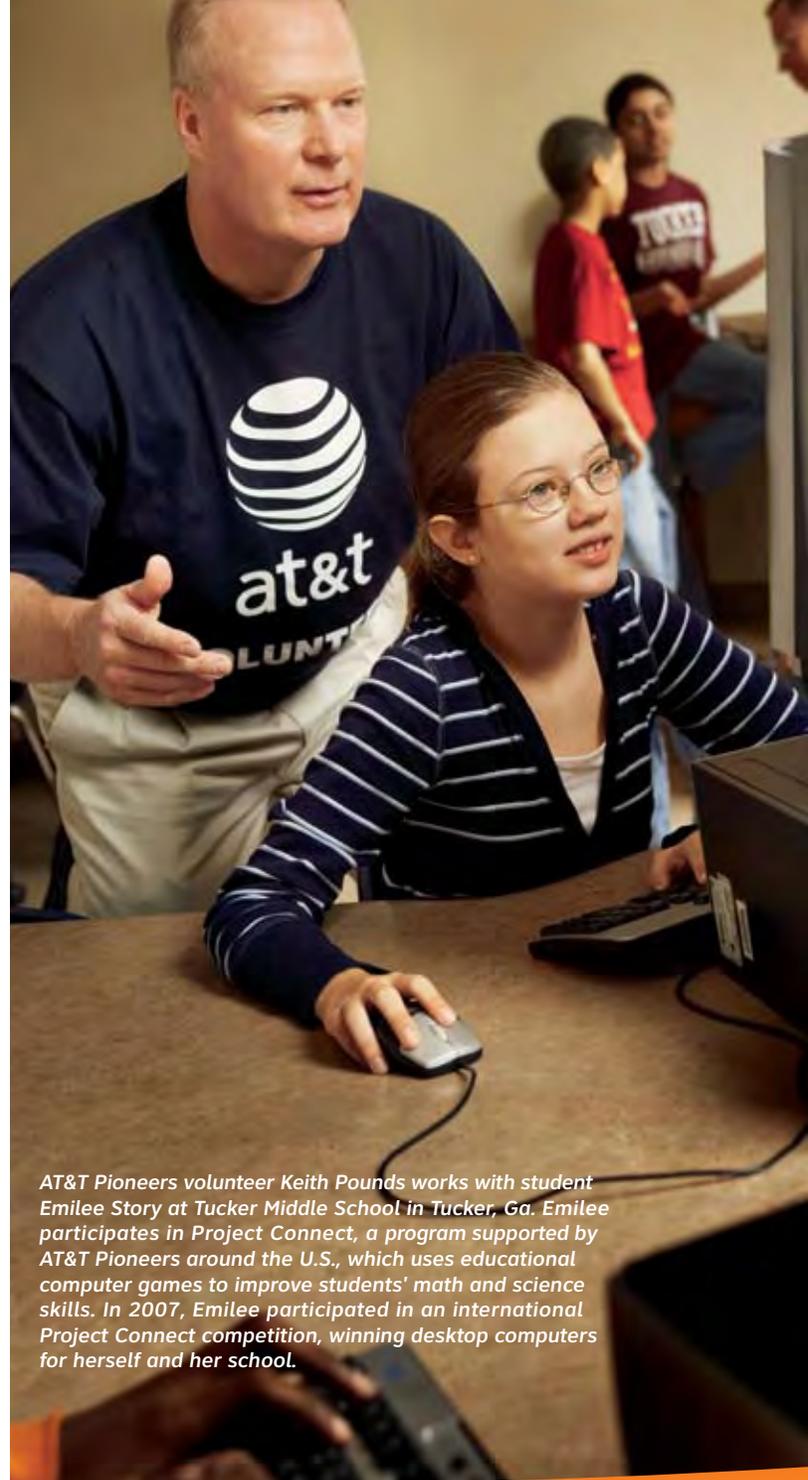
# Employees and Communities

At the heart of our commitment to good corporate citizenship is a simple idea: Connections build communities and drive prosperity.

It starts with our community: the 309,000 talented AT&T employees around the world. We spent \$200 million on training and \$26 million on tuition assistance in 2007 to prepare our employees for the future and to ensure that they can deliver a superior experience to our customers every day.

By combining our employees' passion to serve with our innovative technology and financial resources, we make the communities in which we live and work stronger, smarter and healthier. Our deep commitment to the community is our heritage *and* our future.

**GIVING.** In 2007, AT&T contributed more than \$164 million to nonprofit organizations through corporate-, employee- and AT&T Foundation-sponsored giving. Our philanthropy is focused on education and workforce readiness. The AT&T Foundation—widely recognized as one of the most generous corporate foundations—provides more than 55 percent of its grants to underserved populations.



*AT&T Pioneers volunteer Keith Pounds works with student Emilee Story at Tucker Middle School in Tucker, Ga. Emilee participates in Project Connect, a program supported by AT&T Pioneers around the U.S., which uses educational computer games to improve students' math and science skills. In 2007, Emilee participated in an international Project Connect competition, winning desktop computers for herself and her school.*

At AT&T, we know that building connections spurs growth and creates new opportunities to help the world communicate. From our Board of Directors to our front-line employees, ours is a company where corporate citizenship and sustainability are everybody's business.

**VOLUNTEERING.** Through the AT&T Pioneers, nearly 350,000 employees and retirees contributed more than 10 million hours of volunteer time to community outreach activities nationwide in 2007. In schools and neighborhoods, the Pioneers strengthen connections and build communities.

**DIVERSITY.** AT&T's diverse workforce and inclusive culture are central to our ability to serve our equally diverse global customer base. Forty-six percent of our U.S.-based employees are women; 38 percent are people of color. We have a nearly 40-year legacy as a pioneer in supplier diversity and are one of only 12 U.S. companies that spend more than \$1 billion annually with women-, minority- or disabled-veteran-owned businesses. AT&T's commitment to diversity is widely recognized, including our selection as one of the top three among *DiversityInc* magazine's 2007 Top 50 Companies for Diversity.

**THE ENVIRONMENT.** We are committed to being good stewards of the environment—that includes efficiently connecting people and businesses worldwide with innovative communications. Our products help reduce the need for carbon emission-intensive travel by facilitating video conferencing, telecommuting and online local search, among others. We work hard to conserve energy in company buildings and are committed to purchasing, when possible, low or partial zero emission vehicles for our fleet. And we encourage our customers to reuse and recycle wireless devices and accessories and our AT&T Real Yellow Pages directories—which are printed on paper that contains at least 40 percent recycled material.



*AT&T has joined with Rock the Vote, a nonpartisan, nonprofit organization, to encourage young people to register to vote and participate in the upcoming U.S. presidential election.*

**YOUTH.** More than 20 percent of eligible voters in the 2008 presidential election will be under 29—a demographic that includes some of the heaviest users of mobile phones and text messaging. That's why we're working with Rock the Vote, a nonpartisan, nonprofit organization, to connect with these young citizens in their "own tongue," encouraging them to register to vote and receive news and reminders about the election by sending a text message. They can also download exclusive celebrity ringtones that promote the importance of voting.





*Sometimes, even a global company can follow the lead of a couple of teenagers with a big idea.*

## Every American Military Member Protecting Our Freedom Overseas Should Be Able to Call Home

That is the basic principle on which Massachusetts teenagers Brittany and Robbie Bergquist founded Cell Phones for Soldiers (CPFS). The charity they created collects and recycles wireless phones, then uses the proceeds to buy prepaid phone cards to send to U.S. troops serving overseas. In just three years, the Bergquists have raised more than \$1 million and have sent more than 400,000 phone cards to the troops.

Since 2007, AT&T has aided in the effort. All of our retail stores across the nation serve as CPFS recycling drop-off locations. We've also contributed 60,000 prepaid phone cards—valued at more than \$500,000. And we're awarding four-year college scholarships, worth up to \$100,000 each, to Brittany and Robbie.

Why would a global company like AT&T get involved with a charity run by a couple of teenagers? It's simple. When Brittany e-mailed us to ask for our help, we recognized that we shared a common belief in the importance of keeping military families connected.



*Going beyond the call to keep their community connected: Inaugural Whitacre Award winners Melissa Lucht and Ed Stauth.*

*Winds up to 205 mph killed 10 people, snapped trees and utility poles and flattened or damaged nearly every building in town.*

## May 4, 2007: The Tornado Hit Greensburg, Kansas, Just Before 10 P.M.

Melissa Lucht and Ed Stauth, Greensburg's only AT&T employees, rode out the storm in their basements—then headed to the AT&T Central Office (CO).

The CO was severely damaged. Much of the roof was gone, and rain pelted telephone switching and transport equipment. Ankle deep in water, Lucht and Stauth slung tarps and worked together through the night to keep the CO operating until help arrived. Thanks to their efforts, the people of Greensburg stayed connected—to the voices of concerned friends and loved ones, to emergency services, to the Internet. By daybreak, AT&T was providing vital communications support to emergency responders.

For their heroic work to keep customers connected in the best AT&T tradition, Lucht and Stauth became the first winners of the new Whitacre Award. Named for retired Chairman and CEO Ed Whitacre—a tireless advocate for serving customers—the annual Whitacre Award will honor AT&T employees who go above and beyond to provide world-class customer service.

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## Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	2007	2006 <sup>2</sup>	2005 <sup>3</sup>	2004	2003
<b>Financial Data<sup>1</sup></b>					
Operating revenues	\$118,928	\$ 63,055	\$ 43,764	\$ 40,733	\$ 40,498
Operating expenses	\$ 98,524	\$ 52,767	\$ 37,596	\$ 34,832	\$ 34,214
Operating income	\$ 20,404	\$ 10,288	\$ 6,168	\$ 5,901	\$ 6,284
Interest expense	\$ 3,507	\$ 1,843	\$ 1,456	\$ 1,023	\$ 1,191
Equity in net income of affiliates	\$ 692	\$ 2,043	\$ 609	\$ 873	\$ 1,253
Other income (expense) – net	\$ 615	\$ 393	\$ 397	\$ 1,414	\$ 2,370
Income taxes	\$ 6,253	\$ 3,525	\$ 932	\$ 2,186	\$ 2,857
<b>Income from continuing operations</b>	<b>\$ 11,951</b>	<b>\$ 7,356</b>	<b>\$ 4,786</b>	<b>\$ 4,979</b>	<b>\$ 5,859</b>
<b>Income from discontinued operations, net of tax<sup>4</sup></b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 908</b>	<b>\$ 112</b>
<b>Income before extraordinary item and cumulative effect of accounting changes</b>	<b>\$ 11,951</b>	<b>\$ 7,356</b>	<b>\$ 4,786</b>	<b>\$ 5,887</b>	<b>\$ 5,971</b>
<b>Net income<sup>5</sup></b>	<b>\$ 11,951</b>	<b>\$ 7,356</b>	<b>\$ 4,786</b>	<b>\$ 5,887</b>	<b>\$ 8,505</b>
<b>Earnings per common share:</b>					
<b>Income from continuing operations</b>	<b>\$ 1.95</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>	<b>\$ 1.50</b>	<b>\$ 1.77</b>
<b>Income before extraordinary item and cumulative effect of accounting changes</b>	<b>\$ 1.95</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>	<b>\$ 1.78</b>	<b>\$ 1.80</b>
<b>Net income<sup>5</sup></b>	<b>\$ 1.95</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>	<b>\$ 1.78</b>	<b>\$ 2.56</b>
<b>Earnings per common share – assuming dilution:</b>					
<b>Income from continuing operations</b>	<b>\$ 1.94</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>	<b>\$ 1.50</b>	<b>\$ 1.76</b>
<b>Income before extraordinary item and cumulative effect of accounting changes</b>	<b>\$ 1.94</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>	<b>\$ 1.77</b>	<b>\$ 1.80</b>
<b>Net income<sup>5</sup></b>	<b>\$ 1.94</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>	<b>\$ 1.77</b>	<b>\$ 2.56</b>
Total assets	\$275,644	\$270,634	\$145,632	\$110,265	\$102,016
Long-term debt	\$ 57,255	\$ 50,063	\$ 26,115	\$ 21,231	\$ 16,097
Construction and capital expenditures	\$ 17,717	\$ 8,320	\$ 5,576	\$ 5,099	\$ 5,219
Dividends declared per common share <sup>6</sup>	\$ 1.47	\$ 1.35	\$ 1.30	\$ 1.26	\$ 1.41
Book value per common share	\$ 19.09	\$ 18.52	\$ 14.11	\$ 12.27	\$ 11.57
Ratio of earnings to fixed charges	4.91	5.01	4.11	6.32	6.55
Debt ratio	35.7%	34.1%	35.9%	40.0%	32.0%
Weighted-average common shares outstanding (000,000)	6,127	3,882	3,368	3,310	3,318
Weighted-average common shares outstanding with dilution (000,000)	6,170	3,902	3,379	3,322	3,329
End of period common shares outstanding (000,000)	6,044	6,239	3,877	3,301	3,305
<b>Operating Data</b>					
Wireless customers (000) <sup>7</sup>	70,052	60,962	54,144	49,132	24,027
In-region network access lines in service (000) <sup>8</sup>	61,582	66,469	49,413	52,356	54,683
Broadband connections (000) <sup>9</sup>	14,156	12,170	6,921	5,104	3,515
Number of employees	309,050	304,180	189,950	162,700	168,950

<sup>1</sup>Amounts in the above table have been prepared in accordance with U.S. generally accepted accounting principles.

<sup>2</sup>Our 2006 income statement amounts reflect results from BellSouth Corporation (BellSouth) and AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, for the two days following the December 29, 2006 acquisition. Our 2006 balance sheet and end-of-year metrics include 100% of BellSouth and AT&T Mobility. Prior to the December 29, 2006 BellSouth acquisition, AT&T Mobility was a joint venture in which we owned 60% and was accounted for under the equity method.

<sup>3</sup>Our 2005 income statement amounts reflect results from AT&T Corp. for the 43 days following the November 18, 2005 acquisition. Our 2005 balance sheet and end-of-year metrics include 100% of AT&T Corp.

<sup>4</sup>Our financial statements reflect results from our sold directory advertising business in Illinois and northwest Indiana as discontinued operations. The operational results and the gain associated with the sale of that business are presented in "Income from discontinued operations, net of tax."

<sup>5</sup>Amounts include the following extraordinary item and cumulative effect of accounting changes: 2003, extraordinary loss of \$7 related to the adoption of FIN 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" and the cumulative effect of accounting changes of \$2,541, which includes a \$3,677 benefit related to the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" and a \$1,136 charge related to the January 1, 2003 change in the method in which we recognize revenues and expenses related to publishing directories from the "issue basis" method to the "amortization" method.

<sup>6</sup>Dividends declared per common share in 2003 included three additional dividends totaling \$0.25 per share above our regular quarterly dividend payout.

<sup>7</sup>The number presented represents 100% of AT&T Mobility cellular/PCS customers. The 2004 number includes customers from the acquisition of AT&T Wireless Services, Inc.

<sup>8</sup>In-region represents access lines serviced by our incumbent local exchange companies (in 22 states since the BellSouth acquisition and in 13 states prior to that acquisition). Beginning in 2006 the number includes BellSouth lines in service.

<sup>9</sup>Broadband connections include in-region DSL lines, in-region U-verse high-speed Internet access and satellite broadband.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in millions except per share amounts

For ease of reading, AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications services industry both in the United States and internationally providing wireless and wireline telecommunications services and equipment as well as directory advertising and publishing services. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that equal or exceed 100% are not considered meaningful and are denoted with a dash.

### RESULTS OF OPERATIONS

**Consolidated Results** Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2008 in the "Operating Environment and Trends of the Business" section.

We completed our acquisition of BellSouth Corporation (BellSouth) on December 29, 2006. We thereby acquired BellSouth's 40% economic interest in AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC (Cingular), resulting in 100% ownership of AT&T Mobility. Our consolidated results in 2006 include BellSouth's and AT&T Mobility's operational results for the final two days of the year. Prior to the acquisition, we reported the income from our 60% share of AT&T Mobility as equity in net income. We completed our acquisition of AT&T Corp. (ATTC) on November 18, 2005 and have included ATTC results during 2006 and for the 43-day period ended December 31, 2005. In accordance with U.S. generally accepted accounting principles (GAAP), operating results from BellSouth, AT&T Mobility and ATTC prior to their respective acquisition dates are excluded.

	2007	2006	2005	Percent Change	
				2007 vs. 2006	2006 vs. 2005
Operating revenues	\$118,928	\$63,055	\$43,764	88.6%	44.1%
Operating expenses	98,524	52,767	37,596	86.7	40.4
Operating income	20,404	10,288	6,168	98.3	66.8
Income before income taxes	18,204	10,881	5,718	67.3	90.3
Net income	11,951	7,356	4,786	62.5	53.7
Diluted earnings per share	1.94	1.89	1.42	2.6	33.1

#### Overview

**Operating income** As noted above, 2007 revenues and expenses reflect the addition of BellSouth's and AT&T Mobility's results while our 2006 results only include two days of their results. Additionally, 2006 revenues and expenses reflect the addition of ATTC's results while our 2005 results include only 43 days. Accordingly, the following discussion of changes in our revenues and expenses is significantly affected by these acquisitions.

Our operating income increased \$10,116, or 98.3%, in 2007 and \$4,120, or 66.8%, in 2006. Our operating income margin increased from 14.1% in 2005 to 16.3% in 2006 and to 17.2% in 2007. Operating income in 2007 increased primarily due to the acquisition of BellSouth and increased in 2006 primarily due to the acquisition of ATTC. The increased operating margins reflect expense reductions through merger synergies, the addition of the higher-margined wireline operations at BellSouth in 2007 and operational improvements partially offset by additional amortization expense on those intangibles identified at the time of our acquisitions and by non-merger severance. As we amortize several merger-related intangible assets using the sum-of-the-months-digits method, amortization expense decreases as the amount of time we hold the asset increases.

Our operating income was slightly offset by the continued decline of our retail access lines due to increased competition, as customers continued to disconnect both primary and additional lines and switched to competitors' wireless, Voice over Internet Protocol (VoIP) and cable offerings for voice and data. While we lose the wireline voice revenues, we have the opportunity to increase wireless service revenue should customers choose AT&T Mobility as their alternative provider.

**Operating revenues** increased \$55,873, or 88.6%, in 2007 and \$19,291, or 44.1%, in 2006. These increases were primarily due to our acquisitions and to an increased demand for data products. The increases were slightly offset by continued pressure on voice revenues, reflecting access line decreases, and by decreased demand for local wholesale services.

**Operating expenses** increased \$45,757, or 86.7%, in 2007 and \$15,171, or 40.4%, in 2006, primarily due to our acquisitions. Operating expenses included merger integration costs of \$1,272 in 2007 and \$774 in 2006, and amortization expense on intangible assets identified at the time of acquisition of \$5,921 in 2007 and \$943 in 2006. We are amortizing these intangibles using the sum-of-the-months-digits method, which means that we will record higher expenses in earlier periods. Partially offsetting these increases were merger synergies of approximately \$3,000 in 2007 and \$1,000 in 2006, reflecting progress with the integration of BellSouth, AT&T Mobility and ATTC, workforce reductions and other cost-reduction initiatives.

**Interest expense** increased \$1,664, or 90.3%, in 2007 and \$387, or 26.6%, in 2006. The increase in 2007 was primarily due to higher average debt balances resulting from the inclusion of BellSouth and AT&T Mobility outstanding debt on our consolidated balance sheet. The increase in 2006 was primarily due to recording a full year of interest expense on ATTC outstanding debt.

**Equity in net income of affiliates** Investments in partnerships, joint ventures and less-than-majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Prior to the December 29, 2006 BellSouth acquisition (see Note 2), we accounted for our 60% economic