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MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the AT&T Wireless Fourth Quarter and Year end 2003 Earnings Conference Call. At this time, all phone participants are in a listen-only-mode, later there will be an opportunity for your questions with instructions given at that time. If you should need assistance during today's call please press "*" then "0". As a reminder, today's conference is being recorded. I would now like to turn the conference over to Ms. Holly Ash. Please go ahead.

Holly Ash, Vice President of Investor Relations

Thank you and good morning. I am Holly Ash, Vice President of Investor Relations for AT&T Wireless Services. Thanks for joining us on such short notice. On the call with me today are John Zeglis, Chairman and CEO; Michael Keith, President Mobility Operations; and Joe McCabe, CFO and Executive Vice President. John will kick things off this morning then Michael and Joe will follow up with an addition detail behind the fourth quarter full year 2003 and our guidance for 2004. Following our executive presentations, we will open the call to questions. Today's call is being webcast on the AT&T Wireless investor relations website, which is accessible atattws.com/wirelessir. The call can also be – will also be archived on that site and available for replay shortly after we conclude.

If you haven't had the chance to read the two press releases and our earnings commentary, which provides detail financial information on our quarterly and year-end results. These documents are available on the Wireless website. Reconciliations of non-GAAP financial measures referenced on this call are also available in the earnings commentary.

Before I turn things over to John, I'd like to caution all participants that this morning's call may contain forward-looking statements reflecting management's beliefs and assumptions concerning future events based on currently available information. Forward-looking statements include our future financial and operating performance and financial conditions, including projections and guidance for 2003, 2004, and subsequent periods. Our plans to evaluate strategic alternatives and the outcome of that evaluation, subscriber growth, the strength of our balance sheet, and our liquidity and need for additional financing, and our ability to increase revenue, margins, and operating free cash flow. Listeners are cautioned not to put undue reliance on forward-looking statements, as they are not a guarantee of future performance and remain subject to a number of uncertainties and other factors that could cause actual results to differ materially from forecast. Please refer to our press release for more information on those risk factors.

And with that let me turn things over to John Zeglis, John.

John Zeglis, Chairman and CEO

All right, thank you Holly, and thanks to all of you for joining us on such short notice. We appreciate your flexibility. Given recent developments and the announcement about our Board of Directors action today we decided to postpone our Annual Analysts Meeting and instead hold this conference call to discuss our results. I hope you had an opportunity to take a look at the two announcements we made this morning. The bulk of our commentary will be spread on the first announcement, our results for the fourth quarter and for 2003.

And, you know, over the past 4 years going all the way back to our IPO announcements, we've had some great quarters to report at AT&T Wireless but the fourth quarter of 2003 is not one of it. Even so, we move forward and for the full year, we grew the business, met our guidance, made lots of projects on our strategic initiatives, and are well positioned to begin 2004.

Of course, we are still a company in transition – multiple transitions really. These give us our ups and downs, but they have never ever interrupted our consistent growths on all the metrics that count in this industry. In each of the 4 years, since our IPO we have always grown footprint and revenue and margins and even EBITDA minus the impairments, of course. And then we brought it altogether to generate more than a $1 billion in positive free cash flow in 2003.

As you will hear today, we see a bright future. We believe that 2004 will be no exception to this trajectory of growth and profitability. So, as Holly headed, here is the order of March for today's call. I'll give you an overview of the quarter and the year. Michael will hone in on the operational performance including our strong sales and our systems challenge and the actions will be taken to reduce churns as well as continue our margin growth this year. Then Joe will talk you through all those numbers we have described in our earnings announcement this morning and he'll end by giving you some guidance for 2004.

Now as for our second announcement, there is not a lot more we can say than what we said out over the wire. The AT&T Wireless Board of Directors has decided to explore the Company's strategic alternatives. As you know, we had consistently said that the right combination at the right time could lead to significant synergies and enhance shareholder value. Our Board decided we should consider strategic alternatives now because of significant interest from a number of other companies. In fact, there has been so much interest and so many approaches and the dynamics have lined up so favorably, both globally and domestically that we see this as an opportune time to under go a thorough process to determine whether there might be courses that could grow shareowner value above standalone levels. Actually all this interest is a flattering affirmation of the growth path we are on and the strategic choices that we have made. We don't have a timetable for completing the review. We will thorough and we won't be rushed. We can't speculate about, whether we will, in fact, make any strategic changes, but we will be taking a comprehensive look at our options.

And now, since job one [ph] at AT&T Wireless is running and building the strongest business we can, let's take that look at 2003.

We had a tough fourth quarter and as I indicated the results were dominated by performance challenges coming out of multiple large-scale transitions. Yet even with fourth quarter results dampened somewhat by these transition issues our full year performance was solid. For the year service revenue was up over 8% over excluding license cost impairments was up over 17% significantly more than our revenue growth, and that is the relationship we strive for. We can do it because our margins continue to expand at 28.6% and indeed over 29% if you exclude our restructuring reserves. We had our first every year of positive free cash flow generating over $1 billion in operating free cash and we did all this while taking on the big network and big back office transitions that will add even more value in years to come.

So now let's focus on the quarter itself. I'll review the highlights and lowlights and then we will hear from Michael and Joe. Let's start with the revenue. Services revenue for the quarter was $3.9 billion, that's a 4.4% increase over last year's fourth quarter. Our largest subscriber base drove the revenue growth, but also dropped below $60 for the first time since the first quarter. That wasn't entirely unexpected; given pricing pressures on the voice side we rely on new revenue sources to pick up the flag and excellent growth in our wireless data business and in our international opportunities were important contributors yet again.

Next OIBDA – OIBDA in the fourth quarter was $890 million on a margin of 22.8%. This includes $31 million of additional cost structuring reserves without which we would exceeded last year's fourth quarter OIBDA of $913 million. As you know sales and marketing cost customarily depressed fourth quarter of OIBDA, but on top of normal holiday selling, we incurred the cost of three major launches in the quarter. We introduced our new reach out brand advertising campaign, we launched our high-speed EDGE network, and we rolled an enriched and vastly simplified M-mode. These initiatives pushed our cost even higher than the traditional fourth quarter holiday bump and when combined with an increase in [indiscernible], they boosted our CPGA to $392 in the quarter. In addition to all that, we incurred extra customer care cost and IT cost, and selling and retention cost all brought on by our IT systems problem. In consequence, the quarter is over to fair below a $1 billion for the first time in 2003. Joe, will give you the components of that $100 million difference in just a moment.

The fourth quarter is always a heavy capital spending period for us and this was no exception. CapEx was $1.2 billion, over one-third of the year's total. OIBDA and the working capital accounts generated cash but not enough to offset all that CapEx and pay interest on our debt. Free cash flow was therefore a negative $299 million for the quarter, again not seriously out of line with our expectations and certainly not enough to deprive us of a positive $1 billion of operating free cash for the year, 1.030 billion to be exact.

Now, let's move on to customers. Our IT systems issues affected our customer growth and probably cost us several 100,000 net adds. I am going to pass that for you in a moment but not before I'd say that despite at all including a spike in turn to 3.3%, we still grew the customer base by 128,000 net adds, we still went forward not backward. That's because our sales in the quarter were very strong. Fourth quarter gross adds of 2.3 million were the highest we've had in two years and December sales were our highest monthly total ever. Our direct channels turned in terrific performances, best ever by our retail stores and this made up for some of the sales lost in indirect channels where distributors have been slow to return to AT&T wireless products after our systems disappointed them in November. We had an added sales bonus just when we needed it from our online store which we call AWA Direct and which showed absolutely splendid results contributing what we'll call a high single digit percentage of Decembers record sales.

So that's the good news. The bad news is that our systems problems caused us even higher sales in November and December as well as more deactivations throughout the quarter, that's both sides of the net add equation, so we better take a closer look at this systems problems. First off, the system we are talking about is the IT system that lets us manage our 2.5G network customers. Entering orders when GSM customers first buy from us, migrating TDMA customers over to GSM, and saving up data for our care reps to answer GSM customer's questions, solve their problems, and collect their bills. The questions we get most often about our system problem are why did you have to install a new system and why did you do it when you did it? Here are the straightforward answers. As to why, our old system was running out of capacity and we needed room to scale into millions, and millions and millions of new GSM customers. Besides the new system is going to let our sales people and care reps work more efficiently. As to when we did it, we needed to go in a window after our third quarter results were reported so as assure their integrity and before the holiday selling season began in earnest. That's why we brought in the system at the beginning of November, thought we could it all in three of four days, instead it took three or four weeks, most of the month and we just made it. We got sales in our direct channels back to near normal levels just as holiday selling began it then took most of December to expand the systems capacity so that the care reps could have as much access as they needed in order to handle customer calls at the same time the sales people were processing new orders. That meant that throughout November and December our care centers had to deal with lots of call backs from customers who couldn't get through or couldn't get their problems fixed properly and frankly our customer service went pretty far south [ph] in these month.

Now here we are in mid-January. The system is not only stable but has more than enough capacity to support all of our sales people and all of our care reps who need access to it. And indeed we can now say that this new back office system is working as well as the system it replaced, and it is enabling faster and more productive work by our people, and it is able to scale into one back office for all GSM and all TDMA customers with all the cost savings that implies.

So let's rack up the net add consequences of this conversion. We lost sales in our own AT&T Wireless channels when our people had limited access to the system in November. We lost sales in our indirect channels in November and some more in December too because distributors remained suspicious of our ability to process their orders. And we lost existing customers through additional deactivations when they couldn't migrate or had a poor customer care experience.

Add it all up and you have accounted for the both of the difference between the customer growth we reported and the larger net add numbers we are used to producing in the fourth quarter.

How about going forward? Well so far our systems capacity and efficiency aren't the issues. We do have more work to do winning back the hearts and minds of the indirect and it will take some more time to work out of the hole we dug for our sales [ph] in our care centers. We have other pressures on churn too, no least the incremental churn associated with the first wave of number portability that began in December. Michael will have more on this and other elements of churn when he steps up to the mike, but all then we expect to run an elevated churn levels at least through the first half of the year.

Now speaking of number portability LNP, I am afraid we have some systems issues there too. No less fall out on the business. We had a problem in the first few weeks of LNP with the software of our clearinghouse vendor. Those problems are pretty much history now and the good news is that our porting completion rate seem to be on par with the rest of the industry. Today, well it's still important to understand that every wireless carrier has had and is still having some challenges with these LNP procedures. A significant percentage of customers are still experiencing delays in porting. That's because the account data we exchanged between the sending and receiving carriers fails to match around 25 or 30% of the time. The FCC doesn't want us porting unverified numbers. So all mismatches fall out of the automatic process and it often takes weeks for the sending and receiving ~~carrier to work~~ through the manual procedures. It's almost always a two-sided challenge and we are working industry-wide to improve the validation process and the customer experience.

Of course the problem for us in the fourth quarter wasn't just the LNP process. We lost more customers porting out and porting in and that increased our churn. We think we are seeing some ped up [ph] shopping demand from a segment of our customers for whom not changing wireless numbers has been very important for a long time. And now that they can shop we think it will take a few more months to work through the first wave and normalize our balance of freight.

Okay, let's turn to the networks where as usual our news comes in three parts, footprint, quality, and enhancement. During the fourth quarter we completed the last of 3300 new sites we built in 2003 to give us better than 225 million POPS worth of coverage, 220 million plus on our GSM network. The roaming partners continue their disruption too, increasing our domestic coverage to more than 250 million POPS. So, from a national network of a 180 million POPS at the beginning of 2003, we ended the year with a robust national service footprint of better than 250 million POPS, 70-75 [ph] million POPS worth of new expansion. And with our international GSM roaming, we continue to have the largest service footprint of any carrier in America.

Why do we have all this coverage? We have shifted virtually all of our energies to improving quality. One of our quality programs, the deployment of GSM radios at 850 megahertz has given us an immediate lift in major markets such as New York City and Los Angeles. We're about half way through this project and we're still encouraged by the result that we're rushing in GSM 850 megahertz radios to complete the job nationwide in the other half of our 850 megahertz sites, we'll do this as soon as we can this year.

As per network enhancements, we've rolled out North America's fastest nationwide wireless data network in November, rolled it out over virtually all of our POPS. And our EDGE network isn't just a little faster; it's nearly twice as fast as the advertised speeds of any other national data service. Customer response to EDGE has been excellent; we sold out our initial inventory of EDGE modem cards in a matter of weeks. In fact our entire menu of data offerings is resonating well with our business customers. We had more B-to-B data sales in December than we had in the firs five months of the year combined.

And while I am on wireless data, let me turnover to the consumer side and remind you that in December we served an easier to use, more comprehensive way to experience mMode, that's just one more reason that better than 35% of our GSM customers also buy our GPRS mMode.

In our direct channels an incredible 60% buy, we are seeing a monthly increment to ARPU from those users of $7 to $8 a piece. All in, our data revenue more than doubled in 2003 and counting our SMS subscribers we can say that fully 70% of our GSM voice customers are also data users. So, that's about it from me; kind of a tough quarter, but it was dominated by transitions and the rough paths of virtually all operational. This means they can and will and are being fixed. Strategically, we right on course with every one of our initiatives either making clear progress or poised to do so. And I repeat in all the years since our IPO, we have never let operational speed bumps interrupt our growth in virtually every metric that drives values in our industry. Now, here is Michael to pick up some more on the sales and systems and churn stories and to give you a preview of another strategic initiative for 2004 of Project Pinnacle to push the industry leading margins sometime in '05.

Michael Keith, President, Mobility Operations

Thank you John and good morning. And this morning, I planned on discussing 3 subjects. First, our strong sales performance in the fourth quarter in December and I would plan on setting the stage to let continue in '04. Second, on the candid assessment of the sales forces consumer return challenges we faced in the fourth quarter; and third, how we are taking current quick actions in '04 to move towards our goal of achieving industry-leading margins in '05.

Even with the significant challenges we have in the fourth quarter, we still delivered terrific sales results. Our growth sales were higher in the fourth quarter than last year and just in December we sold 12% more in the same month last year. We structured the right office to drive trap [ph] to our stores including growing a new channel on the web, which we call 8up [ph] AWE-Direct. We told you that we intend to have more of sales from our direct channel.

CPGA is about 14% lower when it's through a direct channel versus an indirect channel, and we know our direct channels provide customers who give us higher revenue and lower turn. Well, we are doing just that. Our same-store sales recorded a 19% increase in the fourth quarter, versus a year ago. In '04, we expect to open more than 200 new retail stores and close about a 100 un-performing locations, so we'll net about a 10% increase in our doors.

In addition to our stores, in the past year we've been quietly building our e-commerce site into a real force. For example, our sales for AWE-Direct grew from a very small amount last year to nearly 10% of our gross sales in December. Now, that's a nice move and we expect it to get even better as we go forward.

GoPhone, Pay As You Go Wireless product continues to serve almost well, meeting the needs of the third quarter [ph] for new customers. We launched that about 9 months ago and have sold more than 0.5 million GoPhones and that are yet, GoPhone offers twice the [indiscernible] of prepaid.

Finally, practically all our enterprise customers whose contracts were expiring have been signed. So the bottom line is that our competitors are not making inroads in our valuable and growing base of enterprise customers. But, as John said, fourth quarter wasn't without challenges.

Let me give you some additional perspective on two other issues; our GSM/IP system upgrade and our fourth quarter churn. First, let me address the GSM system. In early November, we upgraded our customer care software systems that has used our new GSM customers and well as service existing customers. If you are familiar with the complexities of customer relationship management that's known as CRM software, you can appreciates the magnitude of the challenges we faced. As John said, we need to do this upgrade in the fourth quarter because the current version of the vendor software was nearing it's system's capacity and upgrade was required to meet our continued growth in GSM and it's important for future margin growth. We are installing highly customized software that needed to meet the needs of thousands of our sales people and care people simultaneously. While we spent a considerable amount of time and money with the best known system integrator for this software package and we conducted extensive testing but still the new software initially failed and we saw our system problems and averages for the better part of November.

Let me try to briefly explain why. There are two critical aspects of the type of software installed. The first is properly embedding your business rules into the software. So you can have access to your pricing plans, sales promotion, customer-billing history for example. And the second is integrating the software application so that the system is stable and efficient. In other words, building it so that the software can handle thousands of concurrent users. While we did a good job on the first task, the second aspect, however, was where we had a problem. Far more technical and far more difficult to test in advance and also fixed once problems appeared. The instability of the new systems caused delays in signing up our new GSM customers and limited our ability to serve existing customers as well and it affected our ability to migrate our existing TDMA customers to GSM. While we move quickly to get a swat team on the scene, installing additional hardware, working around the clock with our software vendor to diagnose and fix the problem. So, by the start of the true holiday season, we achieved the desired system stability for sales. We now have concurrent user capacity that exceeds our current needs by about a third and giving us plenty of room to grow.

Now, let me move onto churn. Our fourth quarter churn is typically higher than other quarters. This time we also had other factors that contributed to a fourth quarter churn of 3.3%. The first factor behind our churn is this spill over effect of the systems I just talked about. As we are stabilized in the system we had to prioritize the usage in favor of our sales needs that meant system access for our care employees was limited. Consequently we fell behind our target of service levels and our contract renewal goals for existing customers.

Another fact there was a higher [indiscernible] because of LNP as John mentioned. Our outside clearing house vendor encountered some problems [indiscernible] but since mid December inflation rate is similar to the industry.

Profits aside the fact is that the fourth quarter reported out more customers than reported in and that increased churn. We'll know more about the impact of LNP in the next six months, we still think there is some pent up demands from some customers who would have not have switched their numbers until they could have taken their numbers with them .The third significant factor affecting churn was the record level of contracts that we saw coming due in the fourth quarter. In fact the number of contracts expiring in the fourth quarter was significantly higher than the third quarter and even higher than it was in the same quarter last year. Due to strong sales in the fourth quarter of '02 and the surge of two-year contracts signed in the fourth quarter '01 [ph]. You may recall I mentioned in October that this could affect fourth quarter churn. We continue to place considerable effort on reducing churn including securing contracts on renewals. In fact we have about 400 of our best care reps dedicated to renewing our high value customer's contracts and we have created incentives plans for all our care reps so they focus on this effort. As a result of this effort we have renewed 50% more contracts in the fourth quarter, than in the third quarter. Make no mistake; I have no higher priority than keeping our customers and keeping them satisfied. We are pulling many levers to help the churn but LNP will continue to make churn challenging, particularly in the first half of the year. We expect some relief in the second half as LNP impact moderates and our mitigating actions taking place.

Now let me comment on our actions that we are taking to gets us to industry leading margins by improving our cost structure. We are focused on four key cost strings; streamlining our – and centralizing both our operations and corporate staffs, reducing roaming expense, managing CPGA, and re-engineering our back office. We made very good progress in '03 but more important we have a plan. We know what it will take; we are going to make that goal of hitting industry leading margins sometime in 2005. It is plain and simple as that.

Let me get a little bit more specific. Last spring we began "Project Pinnacle", our company wide multi-year cost reduction initiative. To gain efficiencies we needed to consolidate corporate staff, in either [indiscernible] Washington or Northern New Jersey. Most of that centralization was completed in '03 and we'll finish up in the coming months. As a result in '03 we managed to slightly reduce our staffing levels. At the same time we reduced corporate staffs by 12%. But more importantly we were able to increase the number of customer base position by 5%, without increasing our costs. We targeted one of our highest costs in the business domestic roaming and we did that with a vengeance last year. We ended '03 with a domestic roaming ~~expense~~ equal to 7.4% of our revenues and ended the year with debt expenses reduced to 5.3%. For '04 we want to see savings of a similar size and savings like that make a big impact on margin. Well, how can we do that, well, being on the low cost GSM network is a big help. Our GSM roaming rates about half our CDMA rates math is pretty simple, more GSM customers directly correspondence to lower expense rates and that's why we are building at our GSM network in high in collect area as a way to reduce our costs. Our goal is to reduce roaming volumes by a double-digit percent in '04. Right now our GSM network has more sites than our TDMA network. We're accelerating our deployment of GSM radio as John said and we are building more GSM sites on our path to have a superior network performance in our major markets. We are continuing to manage a steady migration of our customers from TDMA network to the lower cost GSM network.

CPGA also offers cost saving opportunities. We continue to drive our new sales to our low cost direct channels. By the end of '03, it was a ratio of around 60% directs 40% indirect. By the end of this year we think we can get it to 70% direct and 30% indirect. We also see economies from purchasing of the global GSM technology standards. Our GSM handsets cost an average about 25% less then TDMA hand sets. As more of our customer base takes GSM we'll see a lower tripping cost in '04 and beyond. One of our biggest opportunities our back off reengineering, it is multi facetted and two-year journey.

Now let's first take a look at how we're going to attack IT and billing. Last year we spend nearly a billion dollars for billing and IT. In '04 we are taking actions to reduce that amount by about a $150 million. In '05, the savings are expected to be at $250 million, given the plans that we have underway. How are we going to do that, the first way is billing. We're taking advantage of a very competitive billing environment. Every thing is being scrutinized to identify efficiency improvements.

In IT we are attacking costs in several areas labor, hardware, software, and consultant with a real progress in consolidating our IT professionals into just a few locations and we are continue to use these people for credit – continue to use our people for clinical applications and managed program improvements. But there are opportunities for IT for selective outsourcing for entry level in highly repetitive [ph] jobs. All the benchmarking are hardware and software consulting needs against best-in-class metrics.

As I said moving to one back office is a huge opportunity. Right now we have a back office for our TDMA customers and a back office for our GSM customers. That's redundant, costly, and inefficient. Our goal is simple, but the task is big. We are working hard to have one set of customer care reps, who will serve any customer, TDMA or GSM. Those customers will be trained to use a common system interface that in turn will generate a single build to a customer. And we are going to make this seamless for the customer as possible. We will see the efficiencies in streamlining the profits as we serve our customers.

Last year we worked to develop the necessary plans. In '04 we will work to make it happen, in '05 we expect to see real cost sense service benefit. Short-term we are taking actions, this year that will generate significant sales. And our customer care organization, we used that by find key performance measurements and improving those. Better performance resulted in savings.

Let me give you a couple of examples. If we reduce the percent of our customers who call us by 1%, the savings is $16 million, every second we shave of handling time and servicing our customers, saves us $1 million. Therapeutic [ph] actions we're taking to enhance performance. We'll make our customer care system more user friendly. Increasingly, we will use new popup screens for instance resulting in more and concise calls. We are making our voice responses more self-service capable. Today our systems handle about third of our simple calls automatically. This year we are deploying upgrades is going to increase that to about a half. Finally we will continue to route our calls for the most effective care centers. We are also supplement our in-house care reps with third party providers and will continue to balance on cost and performance of the efficiencies [indiscernible]. And some the cost saving actions we took in '03, and are taking in '04 sort of flow [ph] to achieve our goal of industry leading margins sometime in '05. With that, let me turn it over to our CFO, Joe McCabe.

Joseph McCabe, Chief Financial Officer, Executive Vice President

Thanks, Michael. For the next 15 minutes I'll go over some of the financial information that John and Michael didn't cover. I'll also tell you up of the major cost and expenditures that we considered to be transitional cost. Then, I'll share with you our guidance for 2004. So, let's start.

Our net income for the year was $429 million or $0.16 per share, compared with a net loss of minus $2.3 billion or minus $0.87 per share in 2002. For the quarter, we had a net loss of $84 million or minus $0.03 per share. This was improvement from last year's fourth quarter net loss of $136 million or $0.05 per share.

Included in the quarter's results were a number of gains and losses reported in other income and net equity earnings. In other income there was $15 million loss associated with the elimination of some debt. In the net equity earnings it included an $80 million pre-tax gain on the sale of our investment Praha and $56 million pre-tax gain on dissolution [ph] of our partnership interest in Pinnacle Cellular. Having said all that, our minus $0.03 earnings per share was valid in the analyst expectations of breakeven, primarily because our OIBDA was lower than their expectation.

So, now we could time to go over those transitional events that had an impact of around a $130 million on our fourth quarter OIBDA of $890 million. About a $100 million of the impact resulted from the IT systems problems we had during the quarter. Understandably our customers care cost increased partly due to overtime during the quarter, this accounted for about a third of that $100 million I just mentioned.

Our bad debt expense increased because our collection teams were less productive with limited access to customer account information. This netted out at around a quarter of that systems impact and the amount of credits given to customers increased. We did this to acknowledge that our customer care was not at levels we expect of our sales. This is just under a quarter of that systems impact. And finally we increased the commissions and promotions to overcome some of the worst opportunities in our sales channel. This accounted for the remainder of the impact. The last piece was approximately $31 million in restructured charges that were tied to the actions Michael just discussed. These actions will lead – will improve our cost structure and will move us closer to the industry-leading margin.

Bottom line, it was challenging quarter, but it's important to note there is nothing endemic in these results that we cannot work our way through during the first half of the year.

Let's move on to capital. For the year our capital expenditures came in just under the $3.1 billion we guided you towards in the second quarter of 2003 and was $1.2 billion in the fourth quarter. During the quarter we put this capital to good use by extending our GSM footprint by another 3 million POPS to better than 200 million by the end of the year, we are opening 40 new stores in the quarter, we completed the EDGE equipment and software installation and launched the fastest national wireless data network in the United States. We overlaid a substantial number of our GSM sites with 850 equipments and now we built over 1,000 new sites both of which resulted in a significant improvement in the quality of the GSM network during the quarter.

Now let's move on to operating free cash flow. For the full year, we've generated over $1 billion, which was up $3.3 billion from 2002 when we had a negative operating free cash flow of $2.3 billion. In addition, we generated over $1.8 billion with the sale of non-strategic assets, tax refunds, and interest rates swap, which is not included in the number. It's a remarkable change for a single year. For the quarter, the operating free cash flow was negative $299 million, not a surprise in the fourth quarter and then compared to a negative $1.6 billion in the fourth quarter of 2002. Our operating free cash flow in the fourth quarter was largely driven by our OIBDA of $890 million less our capital expenditures of $1.2 billion, which I just covered. In addition, we had net interest expense of a $184 million, which is similar to the amount in the third quarter and going to working capital, we labored very hard during the year and made very good progress here.

Of course, we still have room to improve in each of the major components of working capital, which are accounts receivable, inventory, and accounts payable. For the quarter, working capital was a source of cash to the tune of a $195 million. Starting with accounts receivable at the end of December, our net accounts receivable balance was $2.3 billion, which was down slightly from the end of the third quarter. Our days sales outstanding increased to 58 days.

As we said earlier, our collection activities were impacted by our fourth quarter IT systems issues. With the issues --- with the systems issues behind us our collection teams are back at full force and we are working our ways through the delinquent accounts.

Next, our inventory balance at the end of December was $309 million, which was up from $250 million at the end of September representing a use of cash in the quarter. We decided to increase our inventory levels during the fourth quarter to ensure we did not have – that we did not run out of stock. During the first quarter, we'll sell through much of the inventory that we have on hand. In the fourth quarter, our inventory turns improved to 9.4 turns from 8.6 in the fourth quarter of 2002. Looking out, we remain on track to continue to improve our inventory turns based on many of the actions taken during 2003.

Finally, accounts payable and other current liabilities totaled $3.5 billion, which was up from $3.2 billion at the end of the third quarter and therefore, a source of cash in the quarter. This is the result of the work we've done with our vendors on payment terms of our contract. Our days sales outstanding for the fourth quarter was 71 and for the year was 84, a significant improvement from 2002 when our days sales outstanding was 68. Overall, we are very pleased with the progress we made in each of these areas and working capital management during 2003 and are focused on continuing improvement as we go forward.

So, in net all out, our operating free cash flow 2003 was a significant turning point. We produced $1 billion of operating free cash flow for an increase of $3.3 billion and produced an additional $1.8 billion through the sales of non-strategic assets and other items, not too shabby.

This takes us into our balance sheet, which is even stronger than the already strong balance sheet we had at the beginning of 2003. Our cash position at the end of December was $4.5 billion, which was $204 million higher than at the end of September and $2.2 billion higher than at the end of 2002. Our net debt position improved during the quarter finishing at $5.9 billion down from $6.2 billion at the end of September. Our credit ratio is also improved with our net debt to over the ratio at 1.3 times, and our over the coverage of net interest at 5.5 times. As we said last quarter, we continually focus on reducing the absolute level of our debt, by using some of our cash to retire high-coupon debt. In the quarter, we purchased a face amount of a $123 million of our notes with coupons ranging from 10 3/8 to 12 3/4 for a $151 million in cash.

Now, we know, you would still like to know our plans for the cash. Understandably, now is not the time for us to share any new plans for its use [ph]. We need to first complete the evaluation of the strategic alternatives in front of us, which would include the plans for the use of that cash.

I'll close by sharing our guidance for 2004 with a caveat. This guidance is consistent with plan A, which is continue to run the business with a focus on the actions necessary to increase its value. Clearly, the various strategic terms are being evaluated, could have a material affect on the guidance no matter what the outcome is. With that said, we expect service revenues to grow at a mid single-digit percentage over 2003. This may be a little shy of current projected industry revenue growth, a few reasons for that. For one thing, there is revenue out there that isn't profitable and we don't want to chase it.

In addition, revenue and customer growth, pretty much go hand in hand in our industry right now, while our transitions continue, we are entering the year a bit [ph] of light on new customers and it may take us a quarter or two to pick up the pace of adding customers. And finally, the current frenzy of consolidation speculation may impact volume decisions. We expect over the margin to be in the low 30s measured as a percent of service revenue. Exactly where we'll come out in the range depends on a number of factors, some predictable and controllable and some not. We still need to work through this first phase of L&P, which is new to all of us and as we go through the year we will make decisions on how much to spend in 2004 to realize actual cost savings in 2005. Our capital expenditures in 2004 will remain around 20% of service revenue. Besides deploys for a year and our ramp down to mid teens as a percent of CapEx through service revenue, that's because we are going to kick up the GSM quality in some of our major markets, further than our original plan doing things like the accelerated 850 GSM equipment deployment that John described earlier. Quality really is our top priority around here and we believe it easily justifies another year of 20% of service revenue. Finally, we expect to not only hold our own against the $1 billion of operating free cash flow in 2003 but more than likely be able to increase it by 20% give or take. So that about covers it, we remain focused on growing the revenues of the business, improving the margins to reach industry leading levels, generating free cash flow. To accomplish these objectives we are managing through a number of major transition or what are critical to the success of the business and most of us all remain confident on building a great wireless company. Okay, Holly back to you.

Holly Ash, Vice President of Investor Relations

Thank you, Joe. In a moment I'll ask the operator to review the procedures for asking a question. In the meantime, I would like to ask you to limit your questions to one or two so that we can accommodate as many of you as possible. Again joining me for the Q&A are John, Michael, and Joe. Operator, would you please provide the instructions for logging a question.

QUESTION AND ANSWER SECTION

Operator: Ladies and Gentlemen, if you wish to ask a question please press "*" then "1" on your touchtone phone. You will hear a tone indicating you've been placed in queue. You may remove yourself from that queue at anytime by pressing the "#" key. If you are using a speakerphone, we ask that you please pick up your handset before pressing the numbers. Once again, if you have a question please press "*" than "1" at this time. And our first question comes from the line of David Barden with Banc of America. Please go ahead.

<Q – David Barden>: Hey, guys. Thanks a lot. Just may be focusing on the subscriber side, just for a quick on this past quarter. I am looking at kind of the gross adds and the type of subscribers that are coming in through the mix of the margins versus the subs that are weaving through the churn side of the equation. Could you kind of compare contrast, you said that you haven't seen any in roads in the enterprise side? Could you may be just give us a sense of, you know, whose weaving the AT&T Wireless network and whose coming on to the network with the margin and how does that vote for '04 in terms of what the you know the incremental subscribers that is out there that remains to be gotten looks like? Thanks a lot.

<A – Michael Keith>: David, this is Michael. Good question but we usually don't give that detail and I'll not give that detail now but I will reinforce that we are doing an excellent job with our enterprise market place. The enterprise customers understood the complexities of L&T. I have sat on the side on this. Working with this we feel confident that our value offer with the two new data or rich offers is representing us very well at a market place that many people consider was our largest risk.

<Q – David Barden>: Could you give just give a sense or may be glimpse of the family plan initiative that you launched in the quarter. I guess singular said 20% of gross adds are roughly family plan? Could you give us some kind of benchmark to give us a sense of what's happening there?

<A – Michael Keith>: Yeah. You know, we are almost a little late to the market on the family plan. Many of our competitors especially this time last year were pushing it for a long time, I am not going to give you the particulars of whose popular, but I think you know my sense I wish I was there earlier.

<Q – David Barden>: Thank you.

<A>: Operator, can you provide the next participant.

Operator: The next person will be Simon Flannery with Morgan Stanley, please go ahead.

<Q – Simon Flannery>: Thank you, good morning. You mentioned the continued GSM transition, the favorable economics there could you just give us some data on what percentage of your subs are now on GSM and what percentage of your growth subs for Q4 were GSM, thank you.

<A – Michael Keith>: We are little over; this is Michael, north of 4 million customers. Our own GSM [ph] so we had good healthy growth in the fourth quarter. As you remember we balanced the utilization of our TDMA network and the GSM network and I am really pleased with what the team did, it came right on track and then the fourth quarter we are very close to about 50%, just a little shy of that. More importantly its exactly where we wanted it to be because they still want to use the free capital or the embedded capital that we have on our TDMA network. So – the challenge that we laid out this time last year we were very successful.

<Q – Simon Flannery>: When do you start pushing that up to 70-80% or even couple of hundred percent as you migrate existing customers across, is that an early '04, is that later in '04?

<A – Michael Keith>: Well, you know, I won't give the plans because you want to utilize them both and it is a delicate balance of the cost of the handset, meeting the market needs, I'll just say we are going to increase it by the end of the year, so we'd still be using – putting some of our customers. A good percent of the customers still like our voice service, SMS and our TDMA network that we haven't [ph] will provide that service for quite a while.

<Q – Simon Flannery>: Thank you.

<A>: Operator can you provide the next participant.

Operator: We'll go to the line of Michael Rollins with Smith Barney, please go ahead.

<Q – Michael Rollins>: I had a question on CPGA, last quarter you talked a lot about all [indiscernible] to get CPGA down and as I look at the fourth quarter you sold more family in GoPhone plans that would seem over the cost – you had more direct distribution which should also help yet the CPGA came up substantially, sequentially. I am wondering if you could talk about what's really underlying that and how we should think about the cost of adding a customer entering into the New Year.

<A>: Yeah Michael, there were two major components of it when you compare it as you just did third quarter, one was advertising we spent a significant amount during the quarter on advertising, some of it tied to those three launches that John spoke about which was Reach Out, launch of EDGE service, as well as, the second generation of the portal mMode. So lot of it spent there in advertising plus I'll say the normal fourth quarter retail advertising to get customers to come in. And then the second piece was we were working with our commissions to incent people to work their way through the systems problems that we had.

<Q – Michael Rollins>: And if could just ask one other question in terms of churn, I think now you are cutting people off at the end of their billing cycle as opposed to when they just call up and say I'd like to disconnect service, and given the potential for December to have had a significant local number portability affect, does that pushed more churn into the first quarter of '04?

<A>: You kind of ask two questions and now I think the specific is around the local number portability, in a way we are handling the local number portability is when we port that customer to the other carrier, we count them as deactivated even though we are billing them till the end of the bill cycle. So, there shouldn't be an over hang for that per say.

<Q – Michael Rollins>: Thank you very much.

<A – Holly Ash>: Operator can you provide the next person?

Operator: And our next question comes from the line of Blake Bath with Lehman Brothers. Please go ahead.

<Q – Blake Bath>: Thank you. Good morning. I know you said minutes of use per subscriber were up to 9% year-over-year but down sequentially, you know, contrast pretty sharply with some of the other carriers are showing. So, if you can, you know, sort of help us in terms of how we might think about that metric for 2004 if you'd, you know continue to feel pressure on your – some of your higher usage customers? Second, I will just, you know, just a quick follow-up on the last question. A number of retailers particularly online retailers who we spoke with suggest that you had significantly increased your commission say in the middle of the quarter, you know, by as much as 50% relative to where they had been. Is that something you are continuing to do as we go into this quarter and may be some comment on whether that 50% increases is accurate? Thanks.

<A – John Zeglis>: Hey Blake it's John getting into action here a little bit. Yeah the MO [ph] use have been a little flat for a couple of quarters. Well I think what you are seeing here is some of the affects of us wanting to charge for the minutes people use. You know, when we moved our start of the off-peak from 7 to 9 last year, and it took a little time to adjust calling habits but fundamentally what I hope you are seeing here is that people aren't taking as many free minutes and they are paying for the ones they use. Plus it's always a bunch of puts and takes as we do some lower volume plans and I think it matched up an average against the higher volume plans. Michael or Joe you want to do this canal thing [ph]

<A – Michael Keith>: I will do the commissions. The challenge of the systems in the November timeframe required us to get the hearts and minds of the indirect agents back. You know, they sell multiple brands and you know, we really had to make up for what they saw was the efficient service during that period of time. So, it's really very, very directly that connected to it. And I would also say that some of our commissions to our indirect are still below our competitors. Many of our competitors have full commissions on outline [ph] and we do not, ours is significantly less.

<A – Holly Ash>: Okay Operator can you provide the next person.

Operator: We'll go to the line of Lara Warner with CSFB. Please go ahead.

<Q – Lara Warner>: Good morning. Couple of questions first of all, could you give us some sense at the end of the quarter of whether you had a backlog of ports out that were left to be executed that are not part of the net add number we're seeing in the fourth quarter results? And then the second question is, can you give us what retention was as a percent of the days [ph] for the fourth quarter?

<A>: [indiscernible] backlog and we'll kind of figure out what your main [ph] Lara

<A>: Our retention as a percentage of base. There is a backlog on both port-ins and port-outs. As John was saying about 25-30% of the customers are not successfully ported either way within 24 hours. That backlog is been building, what we do is the industry is agreed that on a regular basis and initially it was right every two weeks to move those customers through if they meet the minimal standards going back and forth. So, its stabilized at a particular number and is not growing in fact, when we have days of, better error rates, lower errors rates the actual backlog goes down naturally. So I would say its kind of a little sort-use [ph] at the moment and think of it always being there at steady state.

<Q – Lara Warner>: Okay.

<A>: Lara we need a little help on --.

<Q – Lara Warner>: Yeah how many handset upgrades in the fourth quarter did you do?

<A>: Sorry to disappoint you Lara, we don't break out that information.

<Q – Lara Warner>: Okay.

<A – Joe McCabe>: I think the closest you could get is the information Michael gave about 50% more contract renewals during the quarter compared to the third quarter, so you could expect that it was up, up compared to third quarter.

<Q – Lara Warner>: Okay, great thanks Joe.

<A – Holly Ash>: Okay, operator the next caller.

Operator: And we will go to the line of Thomas Lee with J.P. Morgan. Please go ahead.

<Q – Thomas Lee>: Hi, good morning. I wondered you take a setback from the fourth quarter and ask you just a more generalized question, some investors are very surprised at the change – the drop-in consumer rankings for AT&T wireless in '03 versus '02, because in several markets you were really so tough here and in a survey done by consumer reports this year you guys had dropped, could you give us your perspective and say you know what do you this is a perception issue more or did network quality measurements change, or whether it's just a function of the TDMA network or do you think other company has just improved their quality faster than you guys did?

<A – John Zeglis>: Tom, it is John. We follow all of these that consumer and other customers survey and you know they do kind of move us all over the lot. There have been some this year that show us pretty good, some in the middle, and then this latest consumer reports, which had done major – major many markets. I think the only major that doesn't market, it said we were down, down at the bottom, and I'll tell you if you just look at consumer reports what you will see is somebody away up top and then somebody second, then there is a clump that there is not statistically significant in their ratings by their own footnotes. So, I think you are seeing fundamentally from consumer reports, if it matters, is a first to second and then a clump of stride for next. So, we are very conscious of this, so you know market-by-market, we get a couple of bumps in the road now and then on some of the network issues and perhaps some of the care calling in the fourth quarter contributed to this, but we been telling you those are systems issues, operational issues that we are making improvements on even as we speak and so we are not endemic, not systemic to the business, and we don't expect to simply signal any terminal decline of our ability to serve customers.

<Q – Thomas Lee>: Great. Well, congratulations on a solid 4Q – '04 guidance.

<A>: Thanks.

<A>: We'll take it more late.

<A – Holly Ash>: Operator, can you provide the next caller.

Operator: We'll go to Colette Fleming with UBS. Please go ahead.

<Q – Colette Fleming>: Yes, I was wondering if you could just give us – try an apples-to-apples basis, what – where is your total in collect. I know you broke out the domestic, so now what's the total percentage of revenues was including international?

<A>: Yeah, I could do that, Colette. I think, in the fourth quarter it ended up being 5.9% of service revenue

<Q – Colette Fleming>: Okay. Thanks.

<A>: You are welcome.

<A – Holly Ash>: Who is next please.

Operator: We'll go to Christopher Larsen with Prudential Equities. Please go ahead.

<A>: Good Morning, Chris.

<Q – Christopher Larsen>: Hi, Good morning. How are you? It's a question for you on two different things. The ARPU decline in the fourth quarter a little bit and one of you can just talk to what caused that? And then secondly, what sort of cash flows do you have left from assets sales and can you give us any comments on what you might do with your RCN stake, since that's gone up so much recently in value?

<A>: One of you do the ARPU.

<A>: Okay, on the ARPU, part of it is just the seasonal effect of the fourth quarter. If you are comparing to the third quarter Chris, we always see roaming come down from the third quarter to fourth quarter. This was no exception and then the rest is kind of loading, where you will start to see less breakage, it happens during the quarter. And then as I mentioned, you know, we gave more credit out during the quarter because of some of our systems issues as well as LNP. So, you know that – so as you put those three components in – that's what – that's why we saw the drop. Now on the asset sales just a couple of points Chris. We still have roughly about $325 million of cash from the Praha sale that's still in our joint venture basically overseas. We are looking at the most tax efficient way to bring it back but the way you could look at and the way we look at is we got that cash and then we are down to just a couple of more non-strategic assets as far as investments go. What we have still is our India property and we have Bratislava which part of the Eurotel property and we do have a significant stake as far as value goes in Rogers and so those are all things that we can take a look at.

<A>: And I'll take it a look at.

<A – Holly Ash>: Operator can you provide the next caller.

Operator: And we will go to Frank Governali with Goldman Sachs, please go ahead.

<Q – Frank Governali>: Thank you. Couple of questions. First, your characterization of the impact from WNP is showing more severe than what other carriers are suggesting. I am wondering if you think that's a result of just the quality issues, the back office issues you got hit with or perhaps that there is going to be a delay and others will feel some of the pain as we are in '04? And secondly, I guess approaching, I guess is a taboo topic since no one has asked a question yet on the consideration of the strategic alternative can you give us a sense of how long it might take, if it's something that we should be expecting in the next few weeks, or is it more months and also whether or not perhaps you can give us an insight into what factors you will have to weigh as it relates to whether or not to sell out or stay focused on being on their own?

<A>: I'll do the taboo topics here Frank, so let's get on the operational issues. Clearly it's an easier one. First, Frank, it is very early in LNP, we are six weeks into it. I look at my net adds, which is, you know, the combination of our total in and total out and LNP is a subset of the total out, so it is kind of did some smaller in and we added customers during the particular quarter. We consciously have a little bit of a low key marketing effort and I thought the – independent of our system but I thought in general this would not be a very customer friendly experience and so, you know, we – you didn't see us dancing around in television saying switch now that could change as it kind of steadies down to a better kind of customer experience because our rates are down. And John mentioned we do have some pent up demands of customers that have been with us for a while that won't switch until I could take their numbers, so that I think it is honestly a little bit of that and so I expect that the improvement of the pent up demand is met and more importantly for the contract renewal efforts from the last four months will start yielding results as we go forward.

<A>: And Frank on your taboo subject not afraid to talk openly about what we can't say, we don't have the time aligned for this. Its going to be thorough, it is going to be disciplined, its not going to be rushed when you have these multiple approaches from these multiple sources that you do want to be comprehensive. I can't tell you that there will even be interim announcements on this. The only thing – the only thing that you can bank on Frank is that it's the end of the line when the process concludes. We'll tell you it is concluded either with a transaction or not a transaction. You know, as to the second part of your question again pretty much of what we said in this press release and in my opening comments we've got these multiple approaches from multiple sources and we think the timing is right because all these dynamics have come together at once. These multiple companies that are approaching us as strategic imperatives that are becoming acute, happily these same companies have improved ability to deliver value to us and then I'd say the third – dominating dynamic is that, AT&T Wireless has been successful in our growth strategies and made the right technology choices and positioned ourselves well on all of our strategic initiatives. So fundamentally those are the big dynamics that all come together at once and thus as we say it is the opportunity time to let you know that we are undergoing the process.

<Q – Frank Governali>: Thanks John for answering that.

<A – Holly Ash>: Operator can you provide the next caller.

Operator: We'll go to Ned Zachar with Weisel; please go ahead.

<Q>: Hi this is [indiscernible] for Ned Zachar. We were just wondering about net affects that you had and are you adding on [indiscernible] accounts, are you co-locating? The second question is could you just give us an insight into sort of the geographic concentration return? Thank you.

<A>: A very choppy connection, I am sorry could you – just summarize the two parts of that question again?

<Q>: Yes of course, we are curious about the mix of new towers, are you adding on totaling new towers, are you co-locating and then could you give us some insight into your geographic concentration of churn?

<A>: One of our tower [indiscernible] initially as I said we have about a 1000 more GSM sites than we have of our TDMA and that was achieved by putting sites mainly in top of our TDMA sites. And you know, Joe mentioned and I mentioned that our plans are to continue to spent significant money to increase the quality of our GSM footprint. So it will be more of that going forward. Regarding to churn I really don't characterize it down on a geographic specific. Every market has its own combination dynamics of, our capabilities, our competitors – competitors' pressures and marketplace so, you know, we take too long to kind of go specific market by market.

<A>: Just another side to that, our buyers in the majority of the sites that we are turning on are mostly co-location or building type sites versus brand new builds.

<Q>: Okay thank you.

<A>: Holly, we're getting past the hour that we invited people to stay for. Why don't we do a couple of more question and then take down the curtains?

<A – Holly Ash>: Okay operator could you provide the next caller.

Operator: We'll go to Craig Mallitz with Legg Mason. Please go ahead.

<Q – Craig Mallitz>: Thank you good morning, I had a follow-up question about CapEx using the guidance you provided for service revenue you're implying CapEx actually to be up year-over-year at about $3.3 billion and you mentioned some of the additional spend on the GSM front. Is there any other spend we should be reading in to particularly something new on the UMPS front as well in '04.

<A>: No I don't think you have to read at anything Craig on this other than an effort to accelerate our GSM quality improvement with out the fixing on your numbers particularly, this is all about tunings up the quality of the net work, filling in some holes, thickening the networks there, get in a few more sites around the donut fringe of some of our metropolitan areas. Nothing new on TDMA and our UMTS bill, the four cities that we're obliged of launch this summer that's been in the – by the end of the year I should say has been in the capital planning all along.

<Q – **Craig Mallitz**>: Okay, thank you.

<A>: Operator, could you provide us with the last caller.

Operator: And our final question will come from the line of Cannon Carr of CIBC. Please go ahead.

<Q – **Cannon Carr**>: Hey, everyone most of the questions have been answered, but may be just a follow-up. John you were talking a little bit about – I think you mentioned pricing a little bit, but just curious because most pricing changes seem to be on the fringes kind of in the November time period, but not really on major plans, you know, much earlier than that. Did that have much of an impact on all two in terms of the pricing side and can you just comment on the pricing environment you're seeing.

<A>: You're right Cannon, most of the pricing impact in fourth quarter really carries into the first quarter because that's when you get the full – I'll say the full affect of all the customers that you add in the December period. But I would say that the pricing was comparative during the quarter. You saw somebody give away [indiscernible], you saw more minutes for switching, you saw a couple of months free for family plans. So, when you put it all together and I would say it was a typical comparative fourth quarter when it comes to pricing.

<Q – **Cannon Carr**>: Okay, great. Thank you.

<A – **Holly Ash**>: Okay thank you. You can access a replay of today's call on the AT&T Wireless Investor Relations website at attws.com/wirelessir or by dialing the following number starting at 12 Pacific or 3 p.m. Eastern Time. Please dial 320-365-3844 and the access code is 718-361. As always if you have additional questions or need further information, please feel free to call me or the other members of the AT&T Wireless Investor Relations team at 425-580-1652. Thank you.

Operator: Ladies and gentlemen that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference Services. You may now disconnect.