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NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

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PRESENTATION

Susan Johnson - AT&T Inc. - Senior Vice President Investor Relations

Good morning. I'm Susan Johnson, Senior Vice President of investor relations at AT&T, and on behalf of AT&T's leadership team and everyone at our company, welcome. It's great to have you with us today. This is an exciting time and a very promising time for our business.

As you'll hear today we're very confident in our ability to grow this business and deliver value to our share owners. And we're happy to have this opportunity to give you an in-depth update on our strategies and plans.

Before we get started let me remind you that today's event is being video webcast. Links to the webcast along with supporting materials are on AT&T's investor relations web page. That's att.com/investor.relations.

And, of course, I also need to cover our Safe Harbor statement. This presentations and comments today may contain forward-looking statements. They're subject to risks. Results may differ materially. Details are in our SEC filings and on AT&T's website.

We have a terrific agenda today so let me quickly cover that with you. We'll begin with an overview of our growth initiatives from Randall Stephenson, AT&T's Chairman and CEO. Next, John Stankey, Group President and Strategy Officer, will give a strategic overview and update on our key initiatives. Then John Donovan, Senior Vice President of AT&T Technology and Network Operations, will cover our plans to build the premier wireless and wireline networks.

Ralph de la Vega, President and CEO of AT&T Mobility, will then discuss the growth opportunities for the Mobility business. And Andy Geisse, CEO for AT&T's Business Solutions will talk about our business growth opportunities. That will be followed by a financial summary by John Stephens, AT&T's Chief Financial Officer. We'll then wrap up the meeting with a Q&A session.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Let's begin our presentations with AT&T's Chairman and Chief Executive Officer, Randall Stephenson.

Randall Stephenson - AT&T Inc. - Chairman and CEO

Good morning. It's good to see everybody here this morning. I appreciate you coming out and dealing with the weather. I also would like to take an opportunity to just welcome those who are joining us via the webcast. And just -- it's good to be back here in New York. I was here last week and it's good to be here this week to see the city and this whole region getting back on its feet.

It's by not a surprise to you we have a lot of customers and a lot of employees here in this region, and our people have been literally working around the clock over the last few days trying to restore service and help all these communities that we serve in any way that we can. And we've also been working in concert with a lot of the public officials.

And I do want to take just a moment to express our appreciation for their dedication, their leadership. That would include all the governors and their staffs, as well as Mayor Bloomberg and his administration. And the work by the first responders, I think, goes without saying. It has been first rate. There's been a lot of heroic acts that we're very appreciative of as well.

And if you would indulge me for a moment too. I'd like to acknowledge all of the players in our industry. You know, we compete and go hard at each other every single day, and in a moment of crisis like this I'm really pleased how we all work together toward one end. That was to get our communities communicating and to do it quickly.

And oftentimes in the moment -- in the heat of the moment of these things, the press could begin to compare us to each other and I know the natural tendency or reaction might have been to work against each other, but you did not see the industry do that, instead we put the public first.

We shared information, we shared resources, we got the community back on line, and our employees have worked unbelievably hard to all these. And the fact that we could put on a presentation and a meeting like this in such short order is a good indication of the work that our people have put into this.

So looking around the room -- and I've had the chance to visit with a lot of you earlier -- I'm impressed by how many of you made it in after a late night of watching election returns, I'm quite sure. It's good to see you here.

I do want to just congratulate all those candidates who won the races, and President Obama for winning re-election. But, I think this is going to highlight what will be the issue that will transcend in the election that is now going to have to be dealt with. That is our nation's fiscal situation. And those of us in the business community recognize that our failure as a country to quickly deal with this problem is undoubtedly going to limit our ability to continue investing and creating jobs.

And we think now is the time. We're in a time of urgency where Congress needs to act, the President needs to step up and lead, and we need to do this in a responsible way and address both our spending issue as well as this outdated tax code.

At AT&T we believe that it's all about private investment and if business is aren't investing they're not hiring. Now I'd like to remind people that for several years now AT&T has invested more capital into the US economy than any other public company. And today I'm pleased to announce that we're making a multi-year commitment to further increase our investment.

We're going to bring high-speed IP connectivity to millions more people and businesses across the country. This is something that's going to create value for our owners, but I believe it's also a very positive step for our nation. We look forward working with the administration and the new Congress for making all these investments a reality.

And I'd say, as we make these commitments, that I feel as good about this industry and as good about our business as I have during my entire tenure as CEO. And there are a lot of reasons behind that, but it starts with this global wave of innovation that's driving the growth in this industry.

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Smartphone sales now exceed PC sales. And it's not going to be long until we see tablets doing the exact same thing. Mobile data traffic continues to grow; it's doubled every year for the last few years. And the mobile apps environment by itself it's become an industry and it's attracting billions of dollars in capital every single year.

So we're in the middle of a very dynamic industry. This is a growth industry. It's a great place to be. The United States has undoubtedly led the world in this industry and I'm really pleased to say that AT&T has been at the very forefront of the United States. In fact you can see that in these revenue trends that are put up behind me now.

Our mobile data revenues grew 5X over the past 5 years. This is now a \$26 billion revenue string and it's growing close to 20%. The mobile share data plans are continuing to grow. Our LTE network continues to exceed expectations, and, in fact, John Donovan will talk to you more about this, but we believe that we've designed an LTE architecture that is unique and is delivering unique performance in terms of speed and reliability.

You look inside the home our U-verse revenues have doubled over the past two years. Subscriber growth is strong. The U-verse video platform is best-in-class and our data speeds continue to climb.

On the business side our advanced products are up close to 15% as our customers continue to make the move and the migration towards IP, and security, and network-enabled cloud we're convinced are going to add to that growth. What this means is if you put wireless data and our managed services together they will now account for over 80% of our revenues and these revenues are growing better than 6%.

And you can't look at the magnitude and these growth rates of these services and miss a very basic point. That is secure high-speed broadband whether it'd be mobile or fixed line continues to be the very core element to all of these growth.

So what are we announcing today? We're announcing a plan to take these high-growth businesses and we're going to push them further. We're going to push them faster to millions more customers.

In terms of execution, this is something. It's in our wheelhouse. It's very straightforward. These are all proven technologies. There are things that we've done well, there are things that we've done at scale. But the impact of this plan takes us to a new place because this gives us the opportunity to improve our top line growth and to change our cost structure. This is going to be a benefit for many years to come.

And here's what we're committing to do. And we're calling this Project Velocity IP or Project VIP for short. And first, we plan to extend our LTE deployment by more than 50 million POPs to reach 300 million by the end of 2014. This year we've put together a number of deals to add spectrum. Primarily it's a nationwide WCS footprint.

What this is, is very high-quality fallow spectrum that was not being used, but we're now introducing it into the wireless ecosystem. And as John Stankey is going to show you shortly, this puts us in a very solid position to help meet demand and expand our addressable market.

Second, we plan to take U-verse and high-speed IP broadband much deeper. We're going to 75% of the customer locations in our wireline service area. And then, third, we're going to proactively light up fiber to 1 million additional business locations. That's about half the multi-tenant office buildings in our service area.

And then, fourth -- and this is reflected in the filing we made with the FCC today -- we plan to begin an aggressive transition away from legacy TDM technology. We're going to move to an IP-only network. It's going to be meshed seamlessly with wireless.

And when we complete this project, 99% or more of the customers in our wireline service areas will have access to high-speed IP broadband either through fixed line IP or LTE or both. This is going to allow us to deliver a terrific service with the opportunity over time for step change improvements in our cost structure.

The investment required for these investments is very manageable when you consider the cash flow generating capacity of the business. Over the next 3 years we expect CapEx toward the upper end of our current mid-teens capital intensity target. It will be about \$22 billion a year.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

And we get additional flexibility as we take advantage of historic low interest rates. We're continuing to refinance our debt at substantially lower interest rates. We bought back more than \$9 billion of our shares this year and our Board has approved another 300 million shares. These two authorizations combined represent about 10% of our shares outstanding. And this morning we're announcing our 29th straight year of increasing our dividend with a 2.3% increase.

We're also executing a plan that's going to take pension funding off the table for years to come. As John Stephens is going to point out, this frees up additional cash. It allows us to increase investment in our business and it's going to allow us to return value to our owners through dividends and share buybacks.

So the plan we're announcing today does a number of things. It directly addresses the strategic questions that we outlined for you back in January -- your questions concerning our spectrum position, our non-growth businesses, and our capital structure. But more important this plan gives us a bigger platform for new growth. And Andy and Ralph are going to cover those larger opportunities in a few minutes.

But I want to close with this, that is the last 5 years have been for this industry an adrenaline rush. The players have changed, the technology has significantly changed, customer expectations have changed, and an entirely new ecosystem has gone from birth to maturity in a very, very short time.

But I'm convinced that over the next 5 years LTE and cloud technologies are going to drive even more change. There are going to be new requirements for security, there are going to be new demand models for video, there are going to be new ways of conducting commerce, there is going to be a whole new experience in the automobile which Ralph will talk more about in a moment.

The past 5 years changed the communication industry. What we believe is going to happen over the next 5 years is that every industry is going to change. And at the center of all of these, there's going to be an ever-increasing demand for secure high-speed IP connectivity, whether it be fixed or wireless. This is the place where we intend to invest and it's the place where we think we can grow, and that's what today's announcements are all about.

So with that overview what I want to do now is turn it over to John Stankey, our head of Strategy. John?

John Stankey - AT&T Inc. - Group President and Chief Strategy Officer

Good morning, everyone. Thanks, Randall. It's a pleasure to be here with you and tell you a little bit about what we've been working on over the past few months and share some of the shifts in our corporate strategy. And I'll expand on some of the high points that Randall outlined.

First, I'll cover our core beliefs and some steps we're taking including where we believe we have competitive strengths based on industry and trends. All this should provide the foundation for what John, Andy, and Ralph will discuss a bit later.

At the start of this year we developed five broad themes reflected on this chart and started work to examine our position and progress in each area. These themes and our underlying beliefs set a foundation to guide us through three near term issues. One, how to best address our spectrum requirements; two, what assets and businesses matter over the next five years and how to maximize our strengths in the marketplace; and, three, where AT&T should look to sustain and accelerate growth in the future.

First, let me briefly discuss our beliefs and conclusions around these five themes and then tell you what we've done on each of the three near term issues. Critical to the equation of building premier wireless assets is competitiveness and network quality characterized by breadth and depth of coverage and depth of capacity. There is no surprise what's driving this. The full shift of voice communications to wireless accompanies by surging mobile data demand as the fourth generation of wireless networks take hold.

On the IP broadband front we've demonstrated that we can compete with an attractive bundle and a carefully crafted high-quality customer experience. Further, we believe the long term structure of the wireline broadband market and geographies of reasonable density is attractive and worthy of investment. We see wire broadband as an important anchor in customers' overall communication portfolio for years to come.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

In the enterprise environment the shift to a virtualized world increases the need for managed networks that are secure, reliable, and flexible. The advent of cloud will increase the need for businesses to have access to higher bandwidth symmetrical services which can best be met by fiber where nobody is better positioned than AT&T.

The breadth and depth of our fiber footprint puts AT&T at a unique advantage to meet these requirements by evolving our serving architecture and broadening our traditional distribution channels to succeed in this environment.

Given the dynamic changes occurring in software technology and virtualization, innovation on our industry will accelerate and fragment. Applications will increasingly pull network as customers engage directly with solution providers to deliver integrated finished services.

Success in this fragmented environment will require a new mix of direct and indirect channels as well as new alliances and careful expansion into key adjacent areas of the value chain.

Finally, we believe the best service is afforded through an IP-only infrastructure and a streamline product set. This simplification not only provides the right capabilities for our customers with a world-class customer experience, but improves operating costs and market agility.

Retiring our legacy TDM infrastructure enables reduction of information technology complexity and delayering of costly network infrastructure. This rationalization allows for quicker response to market demands, and more flexibility in evolving emerging monetization models.

With that context, I want to switch gears and focus on three of the four near-term business initiatives Randall articulated as priorities earlier this year. The first was to define a wireless spectrum and capacity management strategy that would allow us to grow our wireless business. I'll take you through our progress in this area in just a minute.

The second initiative was to examine the core infrastructure and relative market position of our current lines of business. As you know we moved early this year on our sale of Ad Solutions retaining a 47% stake in that business. We also did extensive work assessing our wireline business and I'll share with you our path forward today.

Third, we started the process to examine long-term growth initiatives. While this is still a work in progress and by its very nature will be forever, we'll share with you our direction today on several unique wireless and wireline opportunities for growth at AT&T.

Later this morning John Stephens will address Randall's fourth priority, and discuss the optimal capital structure to achieve all of these objectives.

Let's start with a deeper dive on spectrum and capacity management, walking you through our view of the next 5 years. You've seen this chart before -- data usage is accelerating rapidly with the adoption of smartphone technology. We expect spectrum to remain a scarce asset for some time to come.

While the FCC has promised timely auctions of material spectrum, the industry cannot wade for years for supply constraints to be adequately addressed. Without the significant consumer benefits and capacity promised by the T-Mobile transaction, we chartered a new path.

I'll briefly outline the overall strategy, and then John Donovan will provide the high points on the required evolution of our infrastructure. Let me discuss our spectrum management approach in three time-based categories.

In the near term between 2012 and 2014 we'll round out of spectrum holdings and bands where we currently operate. Over the midterm, we're pursuing deployment of nationwide spectrum in the WCS band. Over the long-term, like others in the industry, we look to the FCC to move expeditiously to identify, auction and clear new spectrum.

I might also note that our research organization has several initiatives lined up where we're working independently and with others to innovate on new technology solutions to fundamentally improve spectral efficiency. John Donovan will touch on a few of these in his presentation.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Let me take you through what we've done this year. In the near term we've taken an opportunistic approach to acquiring spectrum in secondary markets, signing approximately 40 tuck-in deals since the beginning of this year with some still pending regulatory review. These transactions give us the confidence to achieve our LTE rollout objectives, help meet our capacity needs for the next 2 years, and deliver very competitive network performance.

We're extremely pleased with our progress and remain optimistic that we'll close the remaining or additional plan transactions required to round-out our spectrum holdings and existing bands where we currently operate.

In the near midterm, we look to deploy a new spectrum band. Our proposal for revised rules in the WCS band was recently approved by the FCC enabling full deployment of mobile LTE services.

Swift and constructive action by AT&T industry participants and the FCC unlock the hidden value in this long underutilized block of spectrum. We remain hopeful we'll receive transfer authority for the licenses by year-end, effectively aggregating the nationwide footprint of nearly 30 megahertz of spectrum.

We are aggressively working with the standards body to develop LTE specifications and anticipate commercial traffic in this band beginning in 2015. However, and this is important, AT&T continues its work with the FCC for timely measured release of additional spectrum. Even under ideal circumstances, moving new spectrum through the necessary steps to auction, clear, engineer and deploy in a 5 to 7 year timeframe is aggressive.

These timeframes coupled with what is likely to be a lower than desired amount of auctionable spectrum threatens the long term growth and global leadership of the US wireless market.

While predicting the future in such a robust and dynamic industry is difficult, what we do know is that AT&T is well positioned relative to our peers to execute on the full range of capacity options to address surging data demand.

The facts on my last point are summarized on this chart. Assuming regulatory approvals on the spectrum we've acquired this year, we have a strong spectrum position relative to our peers with a solid blend of low and high band assets, as well as regional and national licenses. In short, we exit 2012 in a very different place than where we started. We feel very confident about our spectrum position and our plans.

As a consequence of our progress achieving in a cost-effective nationwide spectrum footprint and deployment efficiencies coupled with our desire to sunset legacy TDM technology, we'll deliver our best wireless technology, 4G LTE, to 300 million POPs by year end 2014.

Let's transition now and talk about the second initiative, structuring our wireline assets for growth. As you know we've been considering various options for our wireline business, including a complete structural separation and divesting parts of the business. The obvious intent was to find the right structure that would allow us to maximize the value of our cash flows to our shareholders overtime.

Through this focused and thoughtful analysis, we quickly determined that at this time spinning off or selling large portions of the wireline business didn't maximize value to our owners. With valuation multiples for the wireless and wireline company in line with the industry today, substantial dis-synergies in each scenario and significant regulatory hurdles to partial divestiture, we didn't identify a path to unlock value via structural alternative, instead the process identified opportunities to invest and operate the existing assets under a new model.

So let me share some of the data that informed our path. An independent study reported that consumers believe broadband is the most important product in the wireline bundle. As these charts depict, significant synergies are realized when wireless and wireline products are bundled. First, consumers with our IP broadband product are more satisfied with AT&T overall and more satisfied with other AT&T products like wireless.

We see the same trend with our business customers. Customers prefer to buy wireless and wireline services from a single carrier and doing so results in higher customer satisfaction.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Second, AT&T business captures a greater share of wallet on a bigger revenue stream when we integrate the wireline and wireless value proposition and consumer wireless market share is 1,600 basis points higher when a customer has both wireless and U-verse is compared to national levels. Additionally, there is significant efficiencies gained through successfully integrating operations.

We generated several billion dollars in annual savings through IT system integration, shared services and network infrastructure consolidation, and cross training in our sales force. While we see tangible benefits from these findings today, we believe they may be the more relevant as we evolve into the markets of tomorrow.

You'll note from this chart that we have a strong track record of success when we invest in IP broadband. Our best data products are performing well with 2.5 million IP broadband consumer and business customers added over this last year and solid share performance in markets where we've invested.

Of AT&T's competitive gain for IP broadband, 55% of customers report that they came to us from a cable provider. As an added bonus we see lower voice loss and improved churn rates when our customers buy IP broadband with other AT&T services.

When we look at our U-verse platform we see a similar result -- impressive growth over the past 5 years in revenue, subscribers, and penetration. In addition to delivering strong growth U-verse is a product suite the customers love winning several customer satisfaction awards since we launched it in 2006.

We feel good about the success we've had in the IP broadband and U-verse platform, and we believe that we can further grow the business with additional investments to maximize technology improvements and our improved operating scale. As Randall said, we plan to expand IP broadband to reach 57 million total customer locations or 75% of all customer locations in our 22-state serving area. We have a high level of confidence that we can execute this plan and achieve our growth targets by simply extending our current track record.

We aren't proposing any new industrial logic or operating trends. We feel strongly this is the right thing to do. IP broadband is a better customer experience, and the market is structurally attractive in this higher density areas. Customer demand, higher ARPUs and lower churn will all support an attractive financial return.

As you will note in the slide we plan to expand U-verse to reach an additional 8.5 million customer locations by year-end 2015. This strategy allows 33 million customer locations to have access to U-verse service. That provides a fully integrated wireline or wireless experience across multiple screens and it's our most competitive product.

Our investment includes technology upgrades which we expect will allow us to offer speeds up to 100 megabits per second. John will provide more details on our speed upgrade path in his remarks.

The plan also allows us to reach 24 million customer locations with U-verse IPDSLAM by year-end 2013. This is a competitive cost effective high-speed broadband product. We like the optionality that utilizing this IP alternative provides.

We can create alliances. In tier two markets where U-verse IPDSLAM is primarily deployed, satellite has a strong position. An independent study shows that nationwide over 60% of satellite customers have their Internet service with a telephone company. When we bundle U-verse IPDSLAM with satellite we see high attach rates and customer retention value also improves.

Another option would be to smoothly transition customers to full U-verse experience based on market performance. Finally, we can take advantage of changing content aggregation and content delivery models. IPDSLAM affords higher speeds that legacy broadband is able to offer, enabling hybrid content options to this customer base.

In addition, we plan to expand fiber to reach over 1 million businesses, 50% of multi-tenant buildings in our wireline region. We are proactively deploying fiber to meet business customer demand, driven by increased virtualization and hosted applications.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

And as opposed to other technologies, fiber is the best option to deliver these high bandwidth symmetrical services. Our proactive fiber deployment to high opportunity businesses allows us to accelerate provisioning, improving speed to market cycle time, customer experience and overall agility to respond to changing market dynamics. It enables us to deliver a complete and robust solution for business customers with IP broadband, in building wireless antenna systems, mobility, and the cloud.

With these IP broadband investments we plan to pivot to manage the small remaining customer base with our world class wireless LTE assets. That brings state-of-the-art wireless voice and data services to 300 million POPs. Serving this large expanse of our serving territory with the newest and most advanced wireless technology opens the path to a more efficient cost structure and operating model.

We expect to use mobile premise solutions to deliver both voice and data services via LTE to customers not covered by our wireline IP broadband investment. Ralph will give you more details when he speaks. As a result the transition provides a competitive solution and a world class overall user experience for 99% of customer locations in our wireline service area. It also provides a path to substantial long-term cost reduction through retirement of redundant legacy IT systems and network infrastructure.

This platform consolidation simplifies our operations and leads to improve product development and service delivery outcomes.

In conjunction with our wired broadband IP investments, this approach provides the path for the sunset of thousands of expensive and costly OSS and BSS applications that have run the course of their useful lives. Better yet, we enhanced the customer experience and position ourselves to better respond to changing markets while reducing overall cost.

As you'll hear from John Stephens, Project VIP serves as a foundation for our long-term growth and sustainability of our wireline investments. To recap, we plan to deliver IP broadband to 57 million customer locations. We'll reach 33 million total U-verse customer locations by year-end 2015, 24 million U-verse IPDSLAM customer locations by the end of next year, though we're nearly complete today.

We'll expand 4G LTE to reach 300 million POPs by year-end 2014. These initiatives will result in high-speed IP broadband availability for nearly all our wireline customer locations through U-verse, U-verse IPDSLAM, fiber, or LTE. All this, while delivering a simplified customer experience and a lower cost structure in line with tomorrow's data-centric model.

The investment provides a strong financial payback with improved market share, better ARPU and lower churn. It's the coveted business trifecta -- better revenue performance, lower cost, more satisfied customers.

As with any business as complex as ours this plan requires broad coordination and action, but I think you'll agree these areas and the types of things that we are proposing here, it's what we do at AT&T every day. And it's time that we execute just one more pivot, no different in scale or complexity than those that have come before, from analog to digital, voice to data, wired to wireless, telecom to entertainment, and regional to global.

We understand the world around us changes, and we understand that we must change to remain relevant. We believe the strategic path forward is the next logical step in our ongoing evolution of One AT&T.

These actions represent the ultimate maximizing the respective strengths of our wireline and wireless assets. The combined assets and consolidated operations will allow AT&T to help build a broadband infrastructure that is foundational to continued innovation envied throughout the world right here in the United States.

I appreciate your time and attention this morning, and I'm happy to turn it over to John Donovan to walk you through how our network investments will support our direction.

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

John Donovan - AT&T Inc. - Senior Executive VP, AT&T Technology and Network Operations

Thank you, John. Good morning, everyone. John just talked you through the what, and I'd like to talk you through the how. We'll quickly highlight our current network operations, how we've built the best intelligent global network through the integration of our assets, then we'll jump in to the plan to build the world's premier mobile network through Project VIP.

I'll highlight our LTE expansion, our wireless densification plan, and our use of innovative small cell technology. Finally, I'll take you through how we're building the premier wireline network through Project VIP by investing in U-verse, IPDSLAM, and fiber to the business.

So, let's get started. We have the most powerful and advanced IP backbone network, carrying over 33 petabytes of data traffic on an average business day. We've integrated our networks so that all IP traffic rides on a common backbone. We manage over 3.2 million IP routes, 4 times the capacity of a standard carrier router. And we have over 940,000 fiber route miles connecting enterprises around the world. So, that's a lot to build on.

As we evolve and further open our network, we're continuing our pivot to the industry-leading target architecture. With HSPA plus and LTE, Frost and Sullivan recently handed us a Network Strategy award for the second year in a row for our simultaneous deployment of these technologies.

At the same time, we're also delivering world class innovation from our labs and foundry. All of our research, innovation, network build expertise and operational enhancements are aimed at improving the customer experience by building networks that evolve and scale.

Let's take a look at wireless first. Let's talk about what Project VIP means for 4G. We already operate the world's largest 4G network footprint in the US. We're on pace to more than double our LTE POPs in 2012.

With the expected completion of our WCS spectrum deal combined with capital deployment efficiencies and other savings, we'll be able to expand our LTE network to more than 300 million POPs by year-end 2014.

We have several advantages in 4G. We made architectural decisions with circuit switch fallback that allow the HSPA plus and LTE networks to work together seamlessly based on network availability. Those decisions created the benefit of having just one radio drawing handset battery power.

Architecturally, we also separated the electronics at the base of the tower and placed active components in the antenna to improve network performance. This results in faster upload and downloads speeds.

We're also actively deploying significantly faster connections to the individual cell towers giving us strong boost to our 4G network. We expect 90% of our total mobile traffic to be on Ethernet backhaul by year end. By 2015, we estimate that number to be more than 95%.

We've also deployed a more diverse core network for lower latency and better reliability. Our premier and thoughtful design really does create a platform for innovation and a greater customer experience.

We're also densifying our wireless grid. High traffic metro areas require denser cell site grids to help with capacity and improve network quality. Densification will result in more network usage, better revenue opportunities, and better customer quality, so will the hardening of our network infrastructure which is another essential part of our network reliability strategy.

We've invested over \$800 million on hardening our infrastructure with batteries, fixed and portable generators, as well as site modifications that enhance our recovery speed. We're committed to investing and extending this emergency restoration program.

I should also mention that densification enhances our ability to offer the best voice and data services and it supports launching voice-over-LTE. Our plans that we're announcing today during the plan period include more than 10,000 new macro sites, more than 1,000 distributed antenna systems and more than 40,000 small cells.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

So, in addition to broadening our service area, let me show you how we deliver new technologies to create a better, more impactful user experience. Over the next 3 years you're going to see a shift in our investment to use more small cell technology. We are leading the industry with this breakthrough approach extending the architectural advantages I highlighted earlier.

By 2015 we expect more than 50% of our wireless densification program will use small cells. Small cell technology enables us to do three things. First, improve the spectrum efficiency. Second, build more cost-efficient radio-access networks. And, lastly, improve in-building coverage for businesses and consumers.

Our small cell technology strategy is aggressive. We're planning to deploy small cells using not only LTE but also across our other technologies. Our small cell deployment will debut with UMTS and HSPA plus. The first field deployment is this quarter with general deployment planned in Q1 of 2013.

We'll bring small cell technology to LTE and Wi-Fi in 2014. As small cell technology evolves and the network is fully utilized, efficiencies will include a lower cost on a per unit basis. So we're excited about small cells' potential in helping us deliver flexible, cost-efficient coverage where it's needed most.

Now, I'd like to go a bit deeper on Project VIP and the strategic wireline initiatives we're also announcing today. Project VIP is about making IP-based broadband services available to more customers. As you can see in the chart 32% of our customer locations today are covered by our U-verse service with 32% also covered by IPDSLAM. 27% are covered by legacy broadband while 9% currently have no wireline broadband coverage.

We're planning to dramatically shift that. Our plan is to increase our U-verse footprint by a third to 43%, meaning 75% of our customer locations will have access to either U-verse or IPDSLAM. We'll be essentially complete with this IP broadband build by the end of 2015.

You might ask, why expand U-verse? We pioneered this IP technology five years ago. It's an award-winning TV and broadband platform. Expanding it builds on our current competitive offering, and we'll be able to increase broadband speeds which I'll cover more shortly. We're also making customer retention improvements in all areas. As John Stankey showed, where U-verse is available, broadband market share is growing.

Beyond that we plan to provide 99% of our customer locations access to LTE. We're creating a path to IP-only voice broadband and video, bringing our customers the platforms they need to experience the best of mobility and the best of broadband while leveraging the asset integration you're hearing about today.

In addition to expanding the U-verse footprint to 8.5 million more customer locations, we're also increasing speeds available to our U-verse and IPDSLAM customer locations. Many technologies are available to increase rate and reach of our broadband services. As you can see in the chart, these technologies can help us get up to 100 megabits per second.

But what about some of the capabilities of these technologies over time? With pair bonding, 17 megahertz, vectoring, and small form electronics, 90% of U-verse customer locations will have the capability to receive what we project to be up to 75 megabits per second and 75% will have the capability to receive up to 100 megabits per second.

With pair bonding and rate adaptive technology, almost 80% of the IPDSLAM customer locations will have the capability to receive up to 45 megabits per second, with 50% having the capability to receive up to 75 megabits per second. Our cost effective technologies provide line of sight to speed enhancements when customers are ready to use them.

Now, I'd like to talk you through a brief example of an integrated IP approach in smaller towns using Eureka Springs, Arkansas as a hypothetical example. We're looking at three dimensions here. Item one, expanding broadband with IP technology into the town centers. Two, extending that IP broadband to remote population centers using fiber from cell sites. Third, using LTE to provide wireless voice and data in the outlying areas.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

With today's investment announcement we're going to be able to offer a competitive IP broadband product to 99% of customer locations in towns like Eureka Springs. We'll also retain a substantial amount of business revenue while creating a platform for consumer growth. It really reflects the synergies of our wireless and wireline networks.

We also see value from our integrated assets in places like Orange County, California, where we estimate around 40% of our small cell preferred locations can be served with U-verse fiber for its backhaul. As more of our wireless deployments become small cell, the synergy becomes important.

The benefits for our wireline network also extend to the business customers. Our fiber to the business plan extends our fiber deployment closer to the customer by reaching more than 1 million business locations. It will also create lower cost high speed services for value buyers.

Fiber to the business enables platform solutions for us. We're providing symmetrical bandwidth with all fiber which gives us a competitive advantage over cable companies. Our distributed antenna system provides localized technology upgrades. Our business customers then receive better wireless coverage inside their buildings.

Network-based security reduces the need for customers to manage their perimeter, something especially valuable as the shift to mobility continues to reduce the effectiveness of an enterprise security perimeter. Finally, we can offer competitive cloud services. Andy will take you through a lot more on this.

So as I wrap it up, let's review the key points of our plan. There are tremendous benefits to our integrated wireline/wireless approach. We'll expand 4G LTE to 300 million POPs. We'll complete our innovative superior densification plan for wireless. The first field deployments for cost effective small cell technology will be this quarter.

We'll expand our robust U-verse and IPDSLAM platform to reach 57 million customers with wireline IP broadband. And our fiber asset provides a huge lift to our wireless and wireline networks. Our service-enabling fiber to the business deployment reached 1 million business locations.

In closing, our plan utilizes our all IP backbone, our integrated assets, and premier security to deliver superior quality. It will create a best-in-class customer experience.

I appreciate your time this morning. And now I'll turn it over to Ralph.

Ralph de la Vega - AT&T Inc. - President and CEO, AT&T Mobility

Good morning, everyone. And thank you, John, for that introduction. You know, it's really great to be here today to give you an overview of our strategy to grow the mobility business.

You heard John Stankey describe our strong spectrum position which allows us to keep growing our wireless business. You've also heard John Donovan describe Project Velocity IP and our plans to cover 300 million POPs with 4G LTE by year-end 2014.

Our expanded 4G LTE coverage, when combined with HSPA plus technology, provides us a best-in-class network capability. And today I'll discuss our plans to use these assets as the cornerstone of our mobility growth plan.

Our plan to drive continued mobility growth is comprised of three key elements. First, our premier mobile network. With the expected close of our nationwide WCS spectrum deals, we're now able to further our LTE deployment and our plans to cover 300 million plus POPs by the 2015 timeframe. This will lead us to improve spectrum efficiency, improve churn, and improve margins.

Next, our premier data and device platform comprised of the best smartphone and tablet lineup in the industry will continue to drive data revenue growth to our tiered and shared data plans.

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

And, finally, a new lineup of new products and services that maximize our network and data platform will create significant revenue growth opportunities for AT&T. Opportunities include digital life, mobile premise solutions, mobile payments, and the connected car, and you will hear more about these opportunities shortly. I'm confident that we have the right assets and the right strategy in place to continue to grow our mobility business.

Using these great assets we plan to deliver record metrics for AT&T, including strong revenue growth, record subscriber growth, solid margin growth, and record low postpaid churn. So let me outline how we plan to achieve these goals, and then we'll talk about our plans to grow new businesses that will fuel our growth well into the future.

We'll start with churn and network coverage. Network satisfaction is the biggest driver of churn improvement. We've had record low postpaid churn this year and, as you've heard, we plan to significantly improve 4G LTE coverage and capacity. We expect that this will continue to reduce postpaid churn, a key to sustain revenue and subscriber growth.

You know, nearly 2 years ago there was a lot of speculation about what would happen to AT&T once we lost exclusivity of the iPhone. That happened in February of 2011, but instead of seeing an uptick in customers leaving to go to our competitors, we actually saw a decrease in our postpaid churn that quarter. In fact, we continue to see year-over-year reductions in postpaid churn even as we've seen the iPhone launch with more competitors.

And that's a strong testament to the investments that we've made in our network. As we continue to invest in building out 4G LTE we expect our churn to continue to go down on a steady basis and by the end of 2015 we anticipate record levels -- record low levels of postpaid churn. And I feel very confident that the network plans that John Donovan outlined earlier will deliver a best-in-class network performance.

The investment to build out our network is a key component of the plan and we will use this investment to grow our core business while building multiple new mobile-centric opportunities over the next 3 years.

Let's take a look at our growth in our core data services next. Our core business will continue to grow driven by our smartphone leadership. I'm proud to tell you that our core business is strong and trying to grow. Over the past 5 years, we've seen our smartphone base grow by more than 500%. And over the same 5-year period we've seen our data usage increase by 25,000%. With the introduction of LTE, we expect data to continue to increase.

And you can see that our smartphone penetration was 64% our base at the end of the third quarter, but we're selling at a rate of 81%. We expect smartphone penetration to grow to over 90% by 2015 so we have headroom to grow our basic data access business.

In addition, we lead the industry with our capability to monetize data, so let's look at that next. We led the industry in introducing tier pricing options in 2010 to better align data usage with revenue. Our plans have proven to be popular with customers, and we project nearly two-thirds of our postpaid subscribers will be on a tier data plan by the end of this year.

Our remaining unlimited customers tend to be low churn and we've successfully implemented network management initiatives. Through these initiatives we've been able to better manage network congestion, while at the same time growing our data revenues which are more than tripled in the past five years.

And just a few months ago we took the next step and launched our shared data plans. AT&T mobile share makes it easy for customers to share a bucket of data across up to 10 devices, and these types of plans are designed to accommodate the huge growth in tablets and computing devices that we anticipate in the future. So, let's take a look at those trends in the next chart.

We see strong growth projection for tablets and mobile computing devices as shown on the chart. According to strategy analytics, the PC market is expected to grow just 15% between now and 2016, but at the same time, smartphones are projected to grow 38% to 170 million by 2016, and tablets are going to explode up 93% over the next 4 years. That's why we designed mobile share to offer a convenient, simple, and value-driven offer to our customers to meet their growing data needs.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

And only 5 weeks after we launched mobile share, in the third quarter, we had 2 million mobile share customers and nearly 15% of them are coming from legacy unlimited plans. We've never been in a stronger position to capture the growth from these devices and the data that they use. And we're growing the business while improving our margins. The next chart shows that data.

We expect wireless EBITDA margins for the year to reach 40% and have a long term objective while expanding to 45% or better post investment period. This margin expansion is driven by strong revenue growth benefiting from subscriber additions and higher smartphone penetration.

We're continuing to monetize the growth in data through the introduction of mobile share plans. However, growing revenues is not the only thing we're doing to improve margins. We're improving our cost structure as well. As John Donovan outlined, 4G LTE not only gives us additional functionality, it gives us a much more efficient cost structure to grow upon.

In addition to 4G LTE we have improved the scalability of our backhaul cost with almost 90% of data now travelling over enhanced backhaul. As our network expands, churn improves which reduces cost throughout the Company. We also plan to continue to optimize our sales channels and make our store processes more efficient while providing a better experience for our customers.

Our investment plans announced today will expand network performance and capabilities and based on these capabilities we project record low levels of churn, strong revenue growth, and an improved cost structure which delivers solid margins.

In summary, we're in a strong position to continue to grow our core mobility business. But as you're going to see, we have some terrific new business opportunities that are available to us, so let's take a look at these opportunities next.

This chart shows you where we are in terms of the lifecycle of various revenue streams. We took steps to stabilize voice and messaging revenues last year. Data, however, is still growing significantly with plenty of runway ahead. Smartphone adoption and increased data usage will continue to drive this revenue wave well into the future.

Now we're positioning the Company to participate in a new wave of revenues, the fourth wave. The fourth wave represents new revenue opportunities that utilize the mobile network capability and data platforms that we have built.

They include multiple billion dollar opportunities such as Digital Life, Mobile Premise Solutions, Mobile Payments, and Connected Cars. These are four new all-nationwide wireless services that build upon our mobile network capabilities and our smartphone base of more than 44 million customers.

Let's take a more detailed look at these opportunities beginning with Digital Life on the next chart. Digital Life is the first-ever all IP-based home security and home automation service. It is a service that we have designed to be mobile-centric, and one which is fully integrated with our wireless network capabilities. Home security and automation represents a huge opportunity for us. It is an \$18 billion industry with margins ranging from 35% to 40%.

Digital Life's all-IP service offers a compelling cost structure compared to the industry norm. The initial cost outlay is roughly half of the traditional model delivering customer profitability in less than two years on the average. This new platform, combined with our own parallel distribution, call center expertise, and industry-leading smartphone base, offers a lot of potential for disruption in this fragmented industry. We're currently trialing Digital Life in Atlanta and Dallas, and plan to launch commercially in early 2013.

This is a screenshot of the user interface which we've designed as a seamless, easy-to-use experience across all of their mobile devices. And we have a demo available in the lobby, so be sure to stop by and check it out if you haven't done so.

Next, I want to talk about Mobile Premise Solutions. Mobile Premise Solutions represent a new opportunity for our mobile business. We introduce the first phase of these solutions earlier this year as a trial. It is a new wireless product that offers customers low-cost alternatives for their home phone service.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Customers can use their existing home phone equipment to complete calls using the AT&T wireless network instead of a landline connection. They can keep their existing home phone number and they can share their wireless minutes from their existing family data plans.

We recently expanded this offer nationwide, and it's available in our 2,200 company-owned stores as well as our dealer locations. And we've been very pleased with the initial results. This is a great product with good margins and ARPU that help protect us from the decline in voice usage and will be a key driver of voice net ads.

In the future, we plan to add data to the service so it can be an all-IP, voice, and data solution in locations without access to hi-speed Internet or as a broadband alternative. This will allow us to further maximize our 4G LTE network investment.

The third big opportunity is the mobile payments. Let's look at that next. As most of you probably know, AT&T has created a joint venture with T-Mobile and Verizon called ISIS. The payments in commerce industry is forecasted to be a \$380 billion industry, and the future growth in this industry is expected to come from mobile payments in commerce.

The ISIS relationship positions us to participate in this opportunity and provides us with benefits of scale with a combined 200 million wireless subscribers, and we recently kicked off trials in Salt Lake City and Austin.

According to strategy analytics, there'll be over 40 million SIM-based NFC handsets in the US by the end of next year. NFC is gaining momentum and growing very rapidly. The mobile payments opportunity is huge, and we're well-positioned to participate in it with our open approach.

Let's take a look at an overview of our business model on the next chart. The ISIS service is free to consumers, and provides a platform for banks and advertisers to reach customers on their mobile devices. ISIS gives banks a dynamic real-time communications channel with their customers. ISIS users can make payments. They can check account status and receive alerts and offers directly from their bank through the ISIS mobile wallet.

ISIS gives advertisers a platform to reach consumers and influence their purchase decisions. ISIS users can make payments, redeem offers and earn loyalty points in a single [Smartap]. And AT&T participates in the payments and commerce opportunity in three ways.

As an investor, AT&T participates in the equity value of ISIS. As an operating partner, AT&T earns revenue from ISIS for enabling ISIS on our devices and acquiring ISIS users. And as a participant in future services, AT&T can provide other secure services that can be enabled using the capabilities being deployed to support ISIS.

The final area of opportunity that I want to discuss with you is Connected Cars, so let's take a look at that area next. The US market for vehicles with embedded connectivity is poised for enormous growth over the next few years. In fact, 53% of all new vehicles are expected to be connected by 2016. That means over 10 million connected cars will be on the road by 2016, and I think this is a conservative estimate.

The Connected Car opportunity is driven by a number of trends from hardware components costing less to consumers who expect to be connected everywhere. And we plan to utilize our premier data platform to connected cars of the future.

Today, connected cars are primarily related to the front seat of the car and provide safety and security services. These services are managed under a wholesale model today with a car manufacturer. We see a connected car opportunity evolving towards more of a backseat or retail model which allows passengers in the backseat to access the applications of their choice on the data plan of their choice.

We currently have deals with several major automakers and we'll be announcing some major new deals soon. I can't disclose them today, but these deals will put AT&T in the leadership position in Connected Cars.

We also think there is a huge opportunity for developers to help us dream up new ways to utilize this connectivity, and so we are ready planning a program to help foster Connected Car applications within the developer ecosystem. The opportunities here are just truly unlimited.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

And to give you an idea of where we think the Connected Cars could take us, I'd like to show you a brief video which represents our vision for the Connected Car of the future. As you look at the video, keep in mind many value-added services that we can be providing. Let's roll the video.

(Video Plays)

Well, hopefully you agree that the Connected Car represents a huge opportunity and one which we're well-positioned to seize. By the way, everything that you saw in the film is being actively worked by our teams, and we think consumers are going to absolutely love these new capabilities.

So to recap, I've discuss four major new revenue growth opportunities for AT&T; Digital Life, Mobile Premise Solutions, Mobile Payments through our joint venture with ISIS, and the Connected Car. Each of these represents potential billion dollar revenue opportunities for AT&T on top of our already strong core business. We're working on several more of these fourth wave opportunities that I can't disclose for competitive reasons, but I'm very confident that we'll provide additional growth opportunities in the future.

In summary, we have multiple billion dollar revenue opportunities with groundbreaking new products and services. Those are delivered over the industry's premier data platform with the strongest lineup of devices which drive additional data usage and revenue, and those services all run on our premier nationwide mobile network that's getting stronger every day with 4G LTE.

Now, I'd like to turn it over to Andy Geisse to talk about business growth opportunities.

Andy?

Andy Geisse - AT&T Inc. - AT&T Business Solutions

Thank you, Ralph. I'm going to talk today about how Project VIP's investments in our core networks are going to help us grow the business side of the house.

We're a bit unique in the marketplace because we've focused on solutions for our customers. It really doesn't matter which technology whether it's wired, whether it's wireless -- that's what we look for is how to solve their problems. And as a result, we have 3.5 million customers today including all the Fortune 1000, and we manage services in 226 countries. And, most importantly, we outpace our competitors and strategic services -- a key area of growth for us. And we continue to deliver strong margins despite a very tough economy.

Our customers' total spend with us is in the mid-single-digits of growth. That's when you include wireline and wireless. And there's two things really driving that growth. As the slide shows, we've been transforming away from legacy products in data.

2 years ago, legacy revenues were about half of the total revenues. By 2015, we expect our growth products will be over 75% of our revenues. No surprise the big driver is mobility. Every company in every sector is looking to mobilize their business. They're looking for speed, they're looking for productivity, they're looking at how to grow their top line revenue, and they're thinking mobility first.

We're uniquely positioned in the marketplace to add mobility to their solutions because every company also needs a secure, fast, reliable wire connectivity and an integrated solution. We've seen four major trends from our customers in business, the first is globalization enabled by the Internet and ever faster networks with low latency, and the second is mobilization. Companies are pushing it into every corner of their operations. When we go out and talk to CIOs, they talk about mobility first.

Third is the consumerization of IT. The most obvious sign 55% of smartphones used for business are expected to be employee-owned by 2016. We're also seeing employees who don't work in IT make IT-type decisions now using cloud-based services. It's transforming IT and it's creating new business decision-makers.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

And the fourth trend is virtualization. For CIOs, it's all about getting more out of their IT investments. They're looking at how to virtualize their software, virtualize their servers, their storage, and even hard assets like data centers into someone else's cloud. Third party research predicts that by 2014, 38% of enterprise workloads will run in some type of cloud environment.

We're perfectly aligned with those trends when you look at the three strategic growth areas we've set-up for business. The first is absolutely the most important. It's what you're hearing about today, and that's maximizing our core strengths and networks. Those are fiber networks, LTE networks that we use as a base for our business customers. It's our bread and butter and no one does it better. We know how to scale it from large global companies to small businesses.

The second is differentiating our core strengths with the right platforms -- our security platform, our cloud platform, and our application interface platform. And the third area is delivering integrated solutions on top of those platforms for companies in a number of industries like healthcare, like transportation. These solutions not only build on our core network strengths, they also allow us to successfully compete in new adjacent markets. Let me give you some examples.

As John Stankey talked about earlier, we plan to proactively target another 1 million business customer locations enabling them with fiber access. We're going after the 50 percent of multi-tenant buildings in our territory with a brand new sales model that's geographically focused.

We believe we have a real competitive advantage here. Why? Because we offer symmetrical bandwidth that our competition can't, and we are able to bundle up with other offerings like Voice-over-IP, and mobility, Wi-Fi, other things that we sell.

We just started calling on customers in August, and we've already closed over 400 sales. The sales force is unbelievably excited about this, and they're going out with a story around integrated IP networks because those are the engine driving the strong growth that we're seeing in our strategic services business. It's already a \$6 billion annualized, as you've heard from Randall, and that's up \$2 billion just in the past two years.

IP data transport is estimated to be a \$140 billion worldwide opportunity by 2015, so you can see there's lots of room for us to grow.

Now, let's talk about the cloud opportunity. You've heard a lot about the cloud, but what really differentiates AT&T in the cloud space is the quality, reliability, and security of our core networks. We combine those features into each of our platforms like our cloud platform.

Our customers tell us they want applications with a cloud provider who allows them to lower their costs because that's the first thing they're looking for, but they want to do it by improving their quality of service and making sure their data and their network stays secure. And we're in unique position to deliver our net fundamental shift and what customers want because we architect our cloud environment as an extension of our network.

Let me talk a little bit more in detail about our cloud strategy; it really has three prongs. The first is today we deliver AT&T-finished services that run on what we call our AT&T services cloud. We have many applications on that platform. You've seen some of them in the press here recently -- AT&T Toggle, AT&T Locker. And we also do all of our application interfaces on top of this cloud environment.

The second is we have a retail cloud that we sell to our customers. It's an extension of our VPN network. It's integrated into our network with a unique patented technology out of our labs group that allows us to virtualize not just really that customer's compute structure, but their network as well in a secure manner. As you might expect, there's also some of our customers who want a secure virtualized network, but they're going to use another cloud provider for a different reason.

And so, our third offering is our network-enabled cloud. You may have already seen it in the press when we announce it with IBM. It's a unique alliance with IBM that gives their customers an end-to-end managed solution that virtualizes their network as well as their compute infrastructure in a highly secure environment. In other words, it's not on the public Internet which means it's not subject to cyber attacks and that's critical in today's world.

As IBM first told us when we introduced this -- the head person over there told me this is huge. And, yes, we agree, this is huge. It really changes the market.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Gartner expects that [globe] cloud space to be a \$183 billion opportunity by 2015. But given the fact that Gartner also says that IT spending just in 2012 is going to be \$3.5 trillion, and cloud is a subset of total IT spending -- and every CIO I talked to says that the same thing, I am facing pressure to lower my cost, and I need to plan for disaster recovery in cases like we saw right here in New York with Superstorm Sandy.

And as a result, they're looking for ways to put things into the cloud so that I believe that market will grow even faster than Gartner predicts. By Gartner's definition, we already have a \$700 million cloud business, and we've just begun. So, we believe this is another billion dollar growth opportunity for us in the years ahead.

Next, I want to talk a little bit about security. It tops the list for what keeps CIOs up at night and cyber attacks are on the rise. A recent (inaudible) study really -- it was on US companies. It pointed out at last two years cyber attacks have doubled. Their financial impact is up 40%, and they're causing each company \$9 million a year on average.

I think that's also low. If you look at the SEC filings that were done last year by large electronics company, it cost them just in 2011 \$200 million for cyber attacks.

You probably saw news reports this fall on the denial of service attacks that hit US financial institutions. Many of you probably worked for them. What you didn't read about is the work behind the scenes by AT&T experts to deal with those attacks.

We have more than 800 AT&T security professionals who often work around the clock with some of the most sophisticated prevention technologies available. That includes things like our network-based firewalls, our premise-based firewalls and our denial of service prevention capabilities.

The worldwide opportunity for security services and consulting is estimated to be \$40 billion by 2015. I think that's also low because there isn't a CIO that doesn't say security is their number one top priority. At a recent study by merits of US CIOs said the same thing.

Securities at the core of our networks is what we know how to do and it's central to how we design our products like cloud like our security products. And we expect, again, this to be another billion dollar market for us.

Now, let's talk about mobility solutions. Obviously, it's a key growth area for us. Just as we led in smartphones and emerging wireless devices for the past 5 years, we're now positioned to lead in mobility solutions. Estimates are that this will be a \$20 billion opportunity by 2015.

Our mobility solutions have more than doubled the last 2 years as you can see on the chart. We already have over 40,000 customers with AT&T business mobility application solutions, and we have a significant presence in wireless enabled machine-to-machine devices. In just this morning's paper, there was a prediction that by 2020 there will be 50 billion wireless-enabled devices that do machine-to-machine.

We have an integrated team and it has both wireless experience and wireline experience selling those solutions. We have extensive business improvement expertise so that we can customize those -- four specific industries -- those solutions. And we mobilize everything from shipping containers being tracked worldwide to diabetes management devices, to electronic ticket taking.

We have a new one in the labs trialing now where it's actually a little puck that goes into the box to track it as it moves along the plane, instead of having a scan each box when it lands to different places. The list is endless. Mobility solutions is already a \$0.5 billion revenue stream for us, and we expect it will soon be another billion dollar opportunity for us.

Let me give you a recent example that we just implemented for Amtrak. This was all about transforming their business. They wanted to increase revenues and cash flow. They wanted to improve their productivity and mobilize their applications. They were still taking paper tickets as they have been doing for over 100 years. And they wanted to know -- it was interesting to know who was on their trains in a case of emergency like this hurricane we just had. They wanted a list -- immediate list.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

But they didn't just want mobile devices, they didn't just want a virtual private network to connect this together. What they asked for was a customized integrated end-to-end solution, and we put it all together -- mobile credit card payment system with iPhones and a sled that goes on it, a bar code scanning system.

We gave them Wi-Fi coverage, satellite coverage where there is no coverage for their trains, hosting in our data centers, and all connected back to their data center using our VPN network. Amtrak will tell you it's really transformed their business and allowed them to be much more productive.

So, in summary, our first focus is maximizing our core network gross services like VPN, Ethernet and LTE. The network investments we talked about today are helping us do that. And, frankly, it's an area we know how to execute. It's already exciting. You should see the sales team selling this fiber. They're on Cloud 9 and they're showing it with the sales that they're bringing in.

And the network investments we're talking about on top of those, we start to build our platforms in cloud in security that are national extensions of our core network. On top of those platforms, we offer solutions that help our customers grow, be more productive and be more competitive.

We believe this three-pronged strategy result in multiple billion dollar business opportunities for us. We're investing in areas we have proven capabilities, where we know how to execute, and where we've already seeing strong revenue growth.

Now, let me ask John Stephens to come on up here and talk about the financial summary. Thank you.

John Stephens - AT&T Inc. - Senior EVP and CFO

Thank you, Andy, and good morning, everyone. Before we get to Q&A, I want to quickly walk through the financial aspects of what we've outlined. The bottom line is really pretty simple. We're planning to significantly expand our coverage and capabilities in IP broadband both wireless and fixed line to drive stronger growth and better returns going forward. And to start, there are a couple of points I'd like to underscore.

First, we're committing to this plan from a position of strength. We have a solid financial foundation that we're already delivering strong results. Second, we have a very sound balance sheet that we have been aggressive in taking steps to make it even stronger which puts us in an even better position to make these investments and grow our business. And third, this is some of the most thorough planning work I've been a part of in my career.

As Randall said, these are all things we've done before at scale, so I'm very confident we can meet or beat the financial metrics we will lay out for you today.

This level of confidence starts with a solid momentum you've seen in our operations. Revenue growth has accelerated this year. Margins have improved. Earnings are up and cash generation is the best it's ever been both operating cash flow and free cash flow, and that's with healthy CapEx investments which we will expect to come in at the low end of the \$19 billion to \$20 billion range.

Another really good thing we've done this year is we've returned a lot of value, a lot of cash to shareholders. This is a priority for us. We take pride in paying a strong consistent dividend. Our yield is one of the best in the Dow. And as Randall mentioned, we've raised our dividend for the 29th consecutive year by 2.3% in our announcement this morning.

We're also buying back shares. We're close to completing our initial 300 million share authorization and expect to complete it this year. We have repurchased more than 270 million shares year-to-date for about \$9.5 billion. We have an additional authorization for another 300 million shares.

Reducing outstanding shares improves our dividend coverage. In fact, we expect it will save nearly \$500 million next year alone. When you put these together, dividends and share repurchases, we have returned close to \$20 billion year-to-date, an incredible amount, and that's on top of the 15% share price appreciation year-to-date.

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

We've also done some really good things to manage our long-term funding issues starting with our pension plans. As I think, you know, we've asked the Department of Labor for authorization to voluntarily contribute a \$9.5 billion preferred interest in our mobility business into our pension plan trust. We're doing this first and foremost for our employees and retirees.

With this proposal, they know the long-term health -- their retention plan will be supported by one of the best businesses in the country. This will increase our pension funding well above required levels without cash infusions. And once approved, this helps solve for our funding requirements for many years to come.

We've also worked hard to drive efficiency and reduce the growth of healthcare cost. Our in-plan designs encourage employees to spend healthcare dollars like it's their own money which is helping to bend the curve. And our new medical plans have cost-sharing that provides our employees affordable access to premier care. The pay-off in both of these areas were positive. They improved a long-term integrity of our plans and help us manage expense growth while still providing top-notch benefits.

We've also reduced our interest costs. As you see on the slide, we got a couple of very straightforward things. First, we've reduced debt by \$9 billion over the past 3 years. At the same time, we've taken advantage of historic low interest rates and refinanced another \$20 billion. This has lowered our average interest rates by 60 basis points, and that's a trend you should expect to continue. We have strong lines of credit and strong access to debt markets, so we will continue to be opportunistic in our financing activities.

So this is our foundation, very strong operations that are generating cash at record levels, allowing the company to return tremendous value to our shareholders and at the same time, further strengthening our balance sheet and reducing debt expense. We have a great plan to solve for pension for years to come, and we're bending the curve on healthcare costs, so we are proud of our position of financial strength. But even more important, it's a great starting point, a terrific foundation to invest and aggressively expand our growth platforms for the future through Project Velocity IP.

Now, I'd like to take you through the financial implications of Project VIP. I will cover the mobile part of the plan first then the fixed wireline. Our wireless [build] involves a multiyear \$8 billion investment that's to expand LTE to densify the network, including the distributed antenna systems and the small cell technology solutions. This will produce a premier network that provides quality service and further stimulates data usage.

Our wireline investment will be \$6 billion. About half of that goes to expand U-verse to 8.5 million more customer allocations. The cost per customer allocation is roughly equal to what we experienced at the end of our original build.

The other half will be used to meet customer demands from new services, to expand our IPDSLAM coverage, to provide major speed upgrades, and to drive fiber deeper through the network. These wireline and wireless investments are mutually supportive in our integrated network scheme.

For example, a richer grid of wireline fiber provides support for the denser wireless build including DAS and small cell solutions, and growing data volumes on backhaul. Similarly, a robust wireless offering continues to be an important part of our cloud and mobile solutions business offerings. These are important advantages to a meshed architecture and our integrated network.

In terms of overall capital, we expect wireless spending to continue to outpace wireline. With wireline remaining stable during the investment period with the increased investment offsetting lower baseline spending, this will move CapEx to the upper end of our current capital intensity range which is mid-teens as a percent of our revenues so we're looking at annual CapEx in the \$22 billion over the next 3 years, then returning [at all] the levels. This is very manageable given our robust cash flows and the fact that these are solid investments, and we expect strong financial payback.

We expect free cash flow after dividends to remain positive throughout the cycle giving us additional financial flexibility. We feel really good about these kinds of capital investments, high quality projects that expand our high-growth businesses in areas where we have a proven track record of success, and we continue to have a laser focus on returning value to shareholders.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

While we make the investments, we expect to continue buying back shares. Not many companies have the financial strength to do that, but we can while prudently maintaining a solid balance sheet. These share buybacks will help support earnings growth and improved dividend coverage for years to come.

I know I don't have to convince you. This story is pretty straightforward. When you look at our dividend yield, about 5% and historically low net interest cost, it just makes financial sense to continue our buyback program.

Even with the short-term increases in debt levels, our debt metrics will continue to be among the best in the industry. Our goal is to maintain a credit rating in the single-A range or higher during the investments cycle. Our net debt-to-EBITDA ratio has been industry-leading on the low end of our traditional policy this year. We anticipate this project and buybacks will moderately increase that ratio up to the 1.8 range over the next 2 years, then trending lower in the following years.

Finally, let's look at the returns we expect to drive from these investments. As always, we'll provide more specific annual guidance in our January earnings call. But the bottom line, we expect continued, consolidated revenue, margin and EPS growth throughout the investment period and beyond. We expect consolidated revenue growth, building to GDP plus 100 basis points or more during the investment period with accelerating growth after that.

We expect wireless will lead the way with mid-single-digit or stronger revenue growth. Wireline revenue is expected to turn positive led by continued U-verse gains and stabilizing business trends. With bigger platforms for our best growth products, we expect further migration in our revenue mix with wireless, wireline data, and managed IT services to make up 90% of our total revenues by 2016. As I said earlier, we're confident in our ability to execute, and I'd add these projections assume a stable economic environment.

Second, we expect consolidated margins to expand during and after the investment period driven by improvements in wireless service margins. We expect slight margin pressure in wireline due to the investments and the customer acquisition cost that will follow, but we expect wireline margins will expand in 2016 and beyond as we reach more customers with these critical growth products. And we expect mid-single-digit or better earnings per share growth during the next three years with an opportunity for stronger operational growth after that.

Those are the financial highlights. This is a solid well-thought out plan. It positions us for stronger long-term growth with a strong balance sheet and continued healthier returns to shareholders.

With that, thank you very much for your attention. What I'd like to do now is turn it back over to Randall. Thank you.

QUESTIONS AND ANSWERS

Randall Stephenson - AT&T Inc. - Chairman and CEO

Why don't I go ahead and have the executive team -- the presenters -- to come on up on stage and join me? Also, I want to have Lori Lee who runs our Home Solutions Business -- all of this broadband investment that we're making -- she runs that business unit and so I suspect you may have some questions for her.

I hope you have an appreciation for what we kind of accomplished here. We do believe broadband both fixed and wireless, this is going to be at the core of everything that's going to drive this industry for the next few years. And I think we have a very thoughtful and rational plan on investments on how we leverage this, scale it, and continue to grow the business.

So with that, we're going to throw it open to you for questions.

And, Susan, I'll hand it to you.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Susan Johnson - AT&T Inc. - Senior Vice President Investor Relations

Okay. We've got some time for questions. We've got people roving with mikes, so a couple of instructions. Please wait until the mike gets to you to ask you question. And then I also ask for the benefit of those on the webcast, please state your name and your firm before your question.

Okay. First question over here. Jason?

Jason Armstrong - Goldman Sachs - Analyst

Thanks. It's Jason Armstrong, Goldman Sachs.

Randall Stephenson - AT&T Inc. - Chairman and CEO

Hey, Jason.

Jason Armstrong - Goldman Sachs - Analyst

So maybe two questions. First, Randall, this is a fairly radical shift on the wirelines [with] architecture. To what extent have you had conversations on the regulatory perspective here in decommissioning a lot of the legacy infrastructure either at the state or the federal level?

And then second question just sort of broader question -- I'm trying to wrap a lot of the guidance together, maybe for John -- when you talk about the leverage parameters moving up to 1.8, the type of capacity that creates over the next couple of years -- \$25 billion, \$30 billion on our numbers, what you've done this year obviously has supported huge buyback program, big dividend. You haven't really had to tap the debt markets to do that.

So when we look at the next 2 or 3 years, it seems like huge amount of capacity. So either, you know, you're building in sort of similar huge share repurchase levels or there's something else I'm missing, so just -- I would love a comment on that.

And then, finally, how that ties in the EPS guidance because when you're talking about big share repurchase numbers like this -- you've had 5% plus shrinkage of the share count this year, you're guiding the mid-singles EPS growth despite roughly 3% revenue growth margin expansion, so help us tile this together.

Randall Stephenson - AT&T Inc. - Chairman and CEO

Okay. Thanks, Jason. To answer your question on the regulatory first, by the way, Jim Cicconi is here as well if you want to direct any of this to him. But, yes, we've had a number of conversations, in fact, we've already had discussions at the FCC talking to them about what's going to be required as we begin to take the TDM networks down over time. This will take a while before you have the penetration of all your IP services before you can take those down.

I think the folks at the FCC have an appreciation for this. We did make a filing at the FCC this morning to initiate this. We've also had conversations with many of our state regulators because they are carrier of last resort obligations that actually are technology specific.

I would tell you we have a number of states where we've been working over the last couple of years to get freedom from the carrier of last resort obligations as it relates to specific technologies. And so we have achieved that at a number of states. That's going to require a number of more, but we're going to have time to work through this. But we are going to have to see 21st century regulation for 21st century investments like this.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

And I think what you will see are these investments will go first for those states where you have good line of sight [the] regulatory authority to do some of the things we're talking about here, and we're going to be working extensively with the FCC to get these approvals through the FCC as well. So, there are a lot of really archaic regulations around these TDM networks as you might guess.

And I see you're shaking your head, David. I know you know this as well as anybody. And just very specifically we've got to make sure that our regulations aren't tied to specific technologies but more to services. And so, we believe with what you've seen today, all of the carrier of last resort obligations can be met.

The service quality and then capabilities can be met with the IP and the wireless capabilities that you see in place up here. But it's going to take some effort, but that process is rolling. We're moving. We feel pretty good. We will be able to get the regulatory approvals done, but it will take a little effort and take a little time.

John, you want to talk about financial capacity?

John Stephens - AT&T Inc. - Senior EVP and CFO

Yes, I appreciate your question, and I appreciate your commentary on the strength of the balance sheet as it exists today. We have been working very hard on it. And from that perspective, our debt metrics are at historical [low] levels.

As we go through the fourth quarter and have a normal seasonality, those debt metrics will pick up a little bit with regard to the activities we have in our stores and some impacts we'll have on EBITDA.

With that being said, we are expecting, as I said, to meet or beat all of our financial projections including our debt ratio projections, so I'd put that to the first point so that, yes, there is definitely a capability that we come in at less than 1.8. We just want to be very forthright and complete in our statements.

Secondly, we do expect the earnings -- the stock buyback to have some impact on earnings per share and we've included that, but we also expect to have continuing operating income and net income growth even with the pressure from the investments. And quite frankly, the customer acquisition cost which is really the operating income pressure that we'll get from adding all these new customers. So, we feel really good about that.

We do have great capacity. We have -- the buybacks that we have today, we may consider more in the future as we get to those points in time, but we have authorizations today for 300 million.

Susan Johnson - AT&T Inc. - Senior Vice President Investor Relations

Okay. Ready for next question right here.

John Hodulik - UBS - Analyst

Okay. Thanks, John Hodulik from UBS. Two quick ones. First, maybe for John on the free cash flow again tying in all the guidance, it looks like CapEx is going to go out by about \$3 billion in '13. You've got sort of record-high free cash flow this year. It sounds like just -- if you're going to confirm, it sounds like you're going to see a deep in free cash on '13 and then grow from there maybe of about \$3 billion in the '13 if you could sort of tie all that together.

And then maybe for Ralph -- the revenue acceleration in wireless, you know, you went through a number of different drivers. I mean, is the main driver due to the fact that we're going to see all these usage growth as we move to 4G networks and 4G devices times that usage-based pricing or

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

is it more driven by the new sources? You know, if you could sort of help quantify that and then maybe talk about what the competitive environment that contemplates that acceleration sort of looks like.

Randall Stephenson - AT&T Inc. - Chairman and CEO

So, John, why don't you start?

John Stephens - AT&T Inc. - Senior EVP and CFO

So with regard to the free cash flow, first and foremost, the management team across the board has done a great job of managing payables, receivables -- all the working capital aspects in our business, and it's shown clearly on our results, and that's really where this great generation of free cash flow is coming into.

As you all know, that is a gain that you get one time and then need to hold on to and need to keep those great practices in places -- I'm sure the team will -- to hold on to those savings -- confident they will. But with that and with the additional \$3 billion range and spend in CapEx feel real good about the statement that we made that free cash flow after dividends is going to be -- A, positive and, B, leave us the financial flexibility to look at other opportunities.

So this plan, while significant, still leaves us financial flexibility to address other opportunities as they may come up.

Randall Stephenson - AT&T Inc. - Chairman and CEO

So, Ralph, is it usage on the data network or services? The answer is, yes.

Ralph de la Vega - AT&T Inc. - President and CEO, AT&T Mobility

I think the answer is, yes. I think -- that's what I'm excited about -- the plans that I have outlined here is we're going to have the capability to continue to grow our core business with what I call, data access. And I don't see anything that's going to change that trend -- with the tablet patterns that are coming up, it's going to be raining tablets, quite frankly.

And so, I think that it's going to be a tremendous growth opportunity for us to monetize that data. But what I'm even more excited about services right on that data access that are not data usage but services. For example, Digital Life. If you buy a basic home security monitoring service, that may say be \$29.99 for the basic package. That's additional ARPU that we're bringing on top of that subscriber revenue we're already receiving, so that is going to absolutely fuel our growth way into the future.

Just to take one example in the security and home monitoring business, the penetration of home security and monitoring in the country is about 20%; 80% is not covered because there hasn't been an affordable solution.

What I mentioned was really significant and that an [old] IP digital construct for this business cuts the initial investment almost by half compared to analog technology so it makes it much more affordable for single-family homes, but also to apartments and townhouses where today they're not very penetrated.

So I see a huge growth opportunity, nice revenue and margins on top of the nice data business that we continue to grow.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Randall Stephenson - AT&T Inc. - Chairman and CEO

That's the thing I would say I'm most excited about on the Digital Life, the Connected Home is what Ralph just said and it's -- to get your head around the revenue growth opportunity, you don't have to assume we just go take share from the embedded guys, we're going to expand the market. We're going to expand the market to a different place for this cost structure.

Ralph de la Vega - AT&T Inc. - President and CEO, AT&T Mobility

And, Randall, the other thing -- and it gets better because -- no, seriously, when you have a customer that has our U-verse service, has our wireless service, has our Digital Life service, and we connect their car, what do you think the churn is going to do for that customer? It's going to be lower. What happens when you lower the churn? It improves profitability and increases net adds, so I think it's really win-win for our business when we add these services on it.

Randall Stephenson - AT&T Inc. - Chairman and CEO

Who's next?

Susan Johnson - AT&T Inc. - Senior Vice President Investor Relations

Next question? Right there. Thank you.

Mike Rollins - Citi - Analyst

Hi, Mike Rollins from Citi. Randall, one of the big themes that seems to be driving your investment decisions is the idea of taking your network platform and selling a lot of managed services for both the residential and business users. So can you tell how you're prioritizing the share repurchase program relative to acquisition opportunities where you could take the excess cash and just get to where you want to be maybe even faster?

And within this context, what did John Stankey mean when he talked about the idea of shifting from regional to global on the last slide and what does that mean for your asset base? Thanks.

Randall Stephenson - AT&T Inc. - Chairman and CEO

You're asking me what John Stankey means? That's a tall order, man, yes. So as you think about exactly what -- as you characterize it, it's right. Priority one is build the bandwidth capability. We just think that's going to be fundamental. That's the very basic part of what's going to make all the other services go. On top of that comes services, and I think we've demonstrated some really good success of building services on top of the transport -- U-verse being a classic example.

We were talking on the way up here that the last one of these that we did, we talked to the Street about U-verse becoming, I think, a \$4 billion, \$4.5 billion revenue stream and it's a \$9.5 billion run rate revenue stream. But VPN is another where you create a service on top of the transport layer, so they're going to be, as you heard, a number of these areas where we will invest in services on top of the transport layers.

And the thing I would tell you I most encouraged about and motivated about is all of the services that you've seen us discuss today are tangential. There's not anything that's like four or five-layer leap from where we are today, and these are things that we all feel very comfortable that they're fairly predictable in terms of what the customer penetration rates will be, what kind of ARPUs can you expect to see from these. So you'll see us invest.

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Will there be opportunities to accelerate some of this by virtue of acquisition? You've already seen some of these. A couple of years ago, Ralph went out and found Xanboo. Xanboo is the platform and the people that are helping us build the Digital Life. I mean, all the IP, all the people where by virtue of an acquisition we did there.

I have no doubt that you will see us continue to do those types of things to help accelerate some of this. And I don't see that being compromised in any way or compromising in any way the financials that John laid out. We have anticipated that in those financials that John has discussed, but there will tuck-in acquisitions required to help accelerate some of these.

Most of the things that you saw today are things that we have line of sight to getting done and pulling together, but there will be some of that.

Now, Stankey, do you want to talk about what you meant by going from regional to global?

John Stankey - AT&T Inc. - Group President and Chief Strategy Officer

Probably it wasn't a very age-sensitive comments. Some of us have been around for a while. This didn't start as a five-state local independent operating company. Right? Today, it's a global business. Nothing more than that, Mike.

Mike Rollins - Citi - Analyst

It does -- I would tell you what we've been able to do particularly with our VPN and security products, though, is we have globalized those product sets.

Andy, you probably ought to discuss that as well. I mean, what are we seeing in terms of the growth rates of VPN outside the US?

Andy Geisse - AT&T Inc. - AT&T Business Solutions

Well, it's our fastest-growing market, double-digits growth in VPNs outside the US. And what we're hearing from customers is they want to go to one provider to provide a global network. And so you've seen some of these things that we've done with America Movil and China Telecom, where we've integrated our networks better to provide a true global experience for them on their networks.

Randall Stephenson - AT&T Inc. - Chairman and CEO

We had a lot of success. The high-end multinational corporations that have global needs that are largely US-centric in terms of their traffic requirements. We're having a lot of success selling global solutions.

Susan Johnson - AT&T Inc. - Senior Vice President Investor Relations

Okay. Next question?

Randall Stephenson - AT&T Inc. - Chairman and CEO

Hello, Simon.

Simon Flannery - Morgan Stanley - Analyst

Good morning, Randall. A question for John. Can you talk a little bit more about --



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Randall Stephenson - AT&T Inc. - Chairman and CEO

Be more specific. We got a lot of Johns around here.

Simon Flannery - Morgan Stanley - Analyst

John Stephens. Can you talk about -- a little bit more about how the pacing goes through the investment period? There's a few where you say averaging, or by the end of the period, I just want to make sure we got all of that.

So if we look at 2013 and specifics, I think you're saying we'll have mid-single-digit EPS growth, but the revenue growth will accelerate to this GDP plus so we may see -- so let's say GDP is 2% next year, add 1% on that, that the 3% will be the bogey, but you may not necessarily hit that next year.

And then if I look at all the spending that you're suggesting on the depreciation implications to get to that EPS growth with all the investment, there's got to be a heck of a lot of cost-cutting going on here underneath, I would assume. So can you just talk a little bit about what we're seeing? Is there a headcount program here? Is there other things that you're doing to be able to deliver that mid-single-digit EPS growth given the investments you did?

John Stephens - AT&T Inc. - Senior EVP and CFO

Good question, Simon, and thanks for coming today. First and foremost, to kind of set the baseline where we're at, the survey information we use on GDP, it points to about 1.7% GDP through the first 3 quarters of this year. And without our advertising -- adjusted for advertising business, we're going at about 2.3, so we view ourselves on a run rate right now of 60 basis points better than GDP all-in for our ongoing businesses. That's what we see growing to 100.

You're absolutely right. It may not all happen in that first year, it will happen through the three-year cycle. But as we come out of the cycle, we'd expect to be at that point or better. So hopefully, that gives you an explanation on the revenue side.

On the cost side, there are not significant workforce adjustments included in these numbers. There is normal workforce management included in all our processes. They will continue to do that.

And, quite frankly, we still have extensive opportunities we believe in our one AT&T initiatives and in our efforts whether we call it (inaudible) whether it's the streamline -- some of the things Ralph talk about in his sales operation, moving things under the web. I would suggest to you that the best example I can really give to you is our CapEx this year.

We had guided CapEx to \$20 billion. We're now guiding it to the \$19 billion to \$20 billion range, probably low-end. And they're getting everything done. Nothing has not been completed. How are they doing that? Through their efforts on cost management, on (inaudible) on One AT&T.

We're getting things done more efficiently. That goes not only the CapEx budget, but throughout the operating expense budgets, and we have those in these plans. We have those targets and those goals.

Randall Stephenson - AT&T Inc. - Chairman and CEO

I'd tell you just -- Simon, in terms of cost management, you know, we used to -- in this industry, all the time, go through these big cost initiatives, and we've had our share of those.

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

I would tell you over the last 5 years, there haven't been the really big cost initiatives. We've been able to manage force. We've been able to manage cost. It's just kind of an ongoing productivity -- a number of initiatives, One AT&T being one. But I think we've had tremendous success of managing our cost structure over the last 5 years, particularly on the fixed line side.

Our labor agreements are giving us more and more flexibility as well to help manage cost without having to do big layoffs and so forth, so this has just become an institutionalized way of how we manage cost. And I don't think you should expect to see any big, you know, jar to the system as a result of this. It's going to take some aggressive cost management over the next five years, but the stuff that we've been doing.

Susan Johnson - AT&T Inc. - Senior Vice President Investor Relations

Any questions?

Mike McCormack - Nomura Securities - Analyst

Thanks, Mike McCormack, Nomura Securities. Ralph, could you just comment -- you talked about 45% margins sort of longer term in wireless accurate investment phase. So are you seeing that that's a benefit of what's happening in wireline, or should we expect some operating cost pressures in wireless over the next couple of years?

And then secondly for Andy, business revenue. I guess, I had anticipated we see a faster turn in not only stabilization but maybe slight growth in business over the next 3 or 4 years or just if you could walk us through maybe enterprise and wholesale, and the thoughts over the next few years? Thanks.

Ralph de la Vega - AT&T Inc. - President and CEO, AT&T Mobility

Mike, on the first question, I don't see additional pressure in the next few years. Actually, I see a benefit. Once John builds a network that he talked about building, I am very confident that our churn is going to continue to go down. One of the key drivers of improved margins are improved churn levels, and we've seen that improve year over year last year. We expect those trends to continue, so that will be a big driver of our improved margins.

But in addition to that, like John mentioned, we're looking at operational process of moving things that are being done in our stores to the web and reducing our cost structure there.

And, of course, we always look at handset subsidies and try to manage upgrade cycles in the most appropriate way to reduce the pressures on margins for those two activities. But we think churn and the things you're going to see as a result of the network upgrade are going to be very significant in driving to that 45% level of churn.

Mike McCormack - Nomura Securities - Analyst

(inaudible-microphone inaccessible).

Ralph de la Vega - AT&T Inc. - President and CEO, AT&T Mobility

I couldn't hear the question.



NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Mike McCormack - *Nomura Securities - Analyst*

From a wireless perspective [all] the costs that we had (inaudible) to the 99% of the markets. There's no operating cost associated with that?

Ralph de la Vega - *AT&T Inc. - President and CEO, AT&T Mobility*

There's operating cost associated with that, but we're going to absorb and are still be able to improve our margins, so as a result of the overall churn reduction that we see.

Randall Stephenson - *AT&T Inc. - Chairman and CEO*

We'll always have trailing expenses but we're not anticipating that will affect margins over the next 3 years.

Andy, do you want to talk about why your revenue won't grow faster?

Andy Geisse - *AT&T Inc. - AT&T Business Solutions*

Yes. I think the obvious number one reason is the economy is -- when I talk to CIOs is I hear the same thing over and over again. We're waiting to see what happens on investment in this country in terms of can you get returns. We're waiting to see on the fiscal cliff and they are just holding back spending money.

And then you look at -- on our small business area, business starts are at the lowest they're ever been. So our number one issue to get business back to grow is get the economy back to growing. You know, we got high unemployment. We -- 7.99% now.

Now with that said, we're not sitting around waiting for that. What you heard today is these investments are going to allow us to grow in some adjacent areas and grab market share. We're already seeing in this fiber program. We just kicked off a start of that sales program around September 1st in our already 400 plus sales, and we haven't even started all to build that, so we're not waiting for that economy to turnaround to try to turn our growth back.

John Stephens - *AT&T Inc. - Senior EVP and CFO*

I don't want to get back on my soapbox on this because I get started and I can't stop. But the fiscal cliff -- the January situation, we are really, really hopeful that with the election behind us that our folks in the government will begin to recognize that this is a big deal and this is causing business to just literally pause and some businesses to go backwards.

And I don't -- I don't think you're going to see any significant economic growth -- stimulus and economic growth which will drive Andy's business more than anybody, until you get some kind of line of sight to resolution of this fiscal cliff. It's the tax code, it's the entitlement spending, and so it's all of that's got to come together comprehensively. The sequester as well is part of that.

And I actually happen to believe that if we can just get some kind of indication or line of sight for how we get from here to there even if it's not by January that you will see businesses begin to invest again, but it is serving as a real throttle on this country's growth right now and needs to be addressed soon.

Susan Johnson - *AT&T Inc. - Senior Vice President Investor Relations*

Next question?

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

James Ratcliffe - Barclays - Analyst

James Ratcliffe for Barclays. One is for Ralph and for either John or John. Ralph, when do we expect to see the WCS frequencies appearing in the chipsets in your handsets as -- moving to the market?

And secondly, on the CapEx side, what's really the gating factor is it ability to deploy, or willingness to have CapEx surge in any given period? So, it looks like sort of 3 billion to 4 billion extra in over 3 years? Is that something where you simply can't get that capital out in the marketplace faster, or is it something where you're trying to spread out the actual deployment? Thanks.

Ralph de la Vega - AT&T Inc. - President and CEO, AT&T Mobility

On the chipset, I think they're looking at late 2014 or 2015 timeframe as John outlined. That's when we expect to really begin to use the spectrum. We'll have plenty of the low band to use between now and 2014 to roll out LTE to 300 million POPs. But towards the end of that time period, we'd be looking to start rolling out handsets and preceding them so they can be ready in the 2015 timeframe.

John Stephens - AT&T Inc. - Senior EVP and CFO

James, I think I'd respond on the financial aspects of this. We're targeting the \$22 billion range for 3 years in a row. We have the financial wherewithal that if the team can accelerate the program and get it done officially we will. And John and his team certainly know that. We are just trying to lay out parameters of what we expect to happen over those 3 years, but because of our financial strength, we have that flexibility to do it efficiently and quicker or slower as the appropriate efficient steps demand.

John?

John Stankey - AT&T Inc. - Group President and Chief Strategy Officer

I just would echo that. It's not a capital constraint or a financial constraint. It's just cell site permitting and getting the manpower in place, and everything that's required to do all of this. It just takes time and it's -- there's just so much you can do to expedite that.

With John exactly, if we could go faster on a lot of this, particularly LTE deployment we would but it's just a function of the number of hands in the plant, and there's just so much space you can put ton it.

Susan Johnson - AT&T Inc. - Senior Vice President Investor Relations

We got time for one more question. Right.

Craig Moffett - Sanford Bernstein - Analyst

Hi, Craig Moffett from Sanford Bernstein. This is probably for John -- but for anyone. As I think about the plan to -- in some of the more rural areas to move to LTE as a substitute for the wireline network - now first, I haven't seen your regulatory filings this morning, but is the expectation that that would be done via fixed LTE -- a fixed wireless broadband LTE network or the existing mobile LTE platform?

And if the former, is there going to be dedicated spectrum for that or would it be the same spectrum that you would use in our geographies? So I'm wondering if you just put some more meat on the bones for how we would expect to see that happen and over what kind of timeframe you would expect the regulatory process to [take]?

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Randall Stephenson - AT&T Inc. - Chairman and CEO

Sure, Craig.

John Stankey, why don't you take that?

John Stankey - AT&T Inc. - Group President and Chief Strategy Officer

So it's a mobile service. It's using a derivative of the similar mobile service that we offer today inside of the home, and we don't expect that we're going to be doing anything unique in the spectrum bands that we use to service it obviously are loading in these less dense areas. And how we use our spectrum is quite a bit different than what you see in the metro area.

But in terms of designing and engineering, we're not going to try to pigeonhole this into any specific spectrum band. But we see this is strictly for managing 25% of our customer base that's out in those rural areas.

You know, when we started this effort, and as we think back about what has to happen from a regulatory side, we don't really see this as anything different than other transitions we've had to make in the regulatory constructs over time, so I'll use video as an example when we did decide we wanted to get into the video business and needed to go state by state to get a construct that made sense it took several years to work through that.

We expect it's going to be the exact same dynamic in this case that over a period of 5 years or so we're going to move to get the rules setup on a way that makes sense. And we would fully expect operating in 22 states to build [be varied] pace depending on the jurisdiction that we're operating in. And we'll take advantage of those places where relief comes a little sooner and quicker and try to move fast in those particular states and areas and where we have to be a little bit more deliberate. We'll choose to do some things on that pace.

I think what you need to keep in mind is our goal around this is to make this a very positive experience for our customers. This is not about doing something they don't want to have done. And so this wireless product is designed to be a better product than the product they're using today for voice.

And in giving them a better product, we want customers to raise their hand and say, I want to go. And we can do this in a very strategic, in a very specific way where it's accretive to the business and that we're careful about how we pace it and bring it in. And we can take advantage of things like the next trouble report call can become the opportunity to move the customer, even if regulatory constructs aren't fully wired on how to get that very last customer onto the network.

And so, during that period while you're trying to get the construct done doesn't mean you're sitting around waiting. You're doing what you can do to incent customers to want to do things. And there's a lot of good hear as to why customers want to move the new technology, get a better product, get more flexibility, and what these newer products can do for them. And we feel very confident that we can move this along over the period of time and get to a very recent cost structure over the next 5 years that we are excited about.

Randall Stephenson - AT&T Inc. - Chairman and CEO

Okay. Listen, that's all we're going to have time for. I very much appreciate it. I know the weather is not great and it's been a difficult time in the city, but you coming out and making the effort to be here, we really much appreciate.

I hope you're having an appreciation for what we're trying to accomplish. This is a very manageable expense level and capital level is going to be required to do this. We do think it gives us a different growth rate as we move forward and the opportunity to continue growing our reach for a long time. So, again, thank you for your time and look forward to visiting with you.

NOVEMBER 07, 2012 / 2:00PM, T - AT&T Inc 2012 Analyst Conference

Thank you.

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