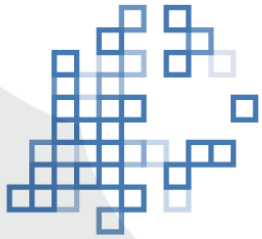


AT&T Compensation in a Competitive Marketplace



May 2012



AT&T's Objective

- AT&T is one of the largest employers in America, and our goal in these negotiations is to **continue to provide and protect high-quality middle-class careers** – with wages and benefits that are among the best in the country
- We're proud of our **longstanding cooperative relationship** with our unions, including the CWA and the IBEW
- We're committed to working together with the union to bargain a **fair contract that will allow us to continue to provide and protect good middle-class careers, while maintaining the flexibility we need** to compete in an extremely competitive industry



A Changing Business

- Continuing to **lose access lines to cable and non-traditional competitors**
- Wireless substitution is ramping up – nearly **32% of U.S. homes had only a wireless phone** in June 2010, up from 13.6 percent in 2007, according to the Center for Disease Control & Prevention's National Center for Health Statistics
 - “The phrase **'home telephone number' is going the way of rotary dial phones and party lines.**” – Center for Disease Control & Prevention's National Center for Health Statistics
- Cable **using lower cost structure to compete** on price



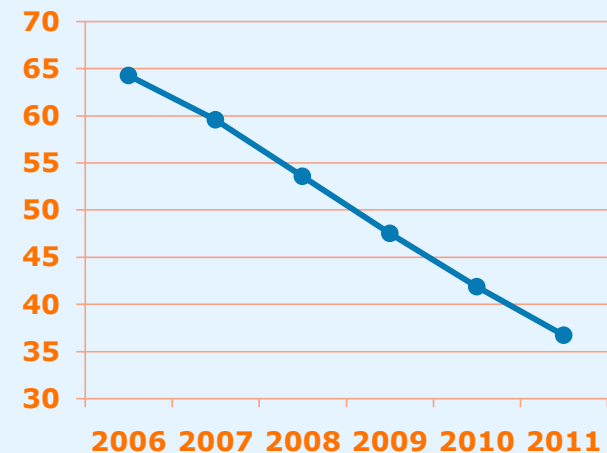
The Competitive Landscape

Quarterly AT&T earnings show growth in wireless, video, IP data, managed services and online local search – but **continued declines in traditional wired voice service**, driven by wireless-only households and cable competition

Competition from predominately non-union cable companies continues to increase – the top cable companies accounted for 75 percent of net broadband additions in 2011

The **traditional wireline business is shrinking** – in the last five years, AT&T has lost more than 40 percent of its total switched access lines, including nearly 50 percent of its consumer switched access lines

Total AT&T Switched Access Lines
(in millions)



SOURCE: AT&T Investor Relations

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AT&T Wireline Financial Snapshot

Wireline revenues continue to decline – 2.5 percent year over year 2010 to 2011

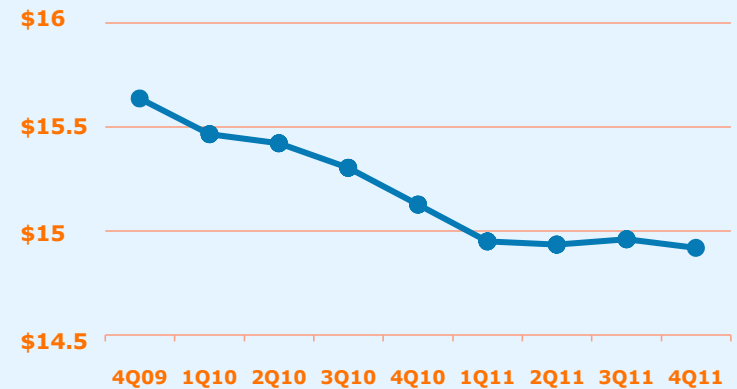
- Wireless revenues surpassed wireline for the first time in 2011

As the wireline business declines, it **represents a smaller portion** of AT&T's operating income

- Excluding one-time items, wireline contributed only about **30 percent** of operating income in 2011

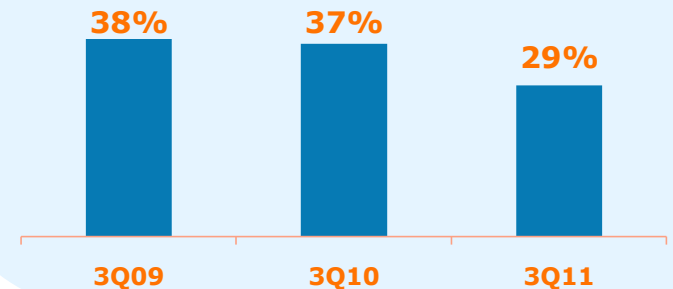
Wireline Revenue

(in billions)



Wireline Operating Income

(as a percent of consolidated operating income)



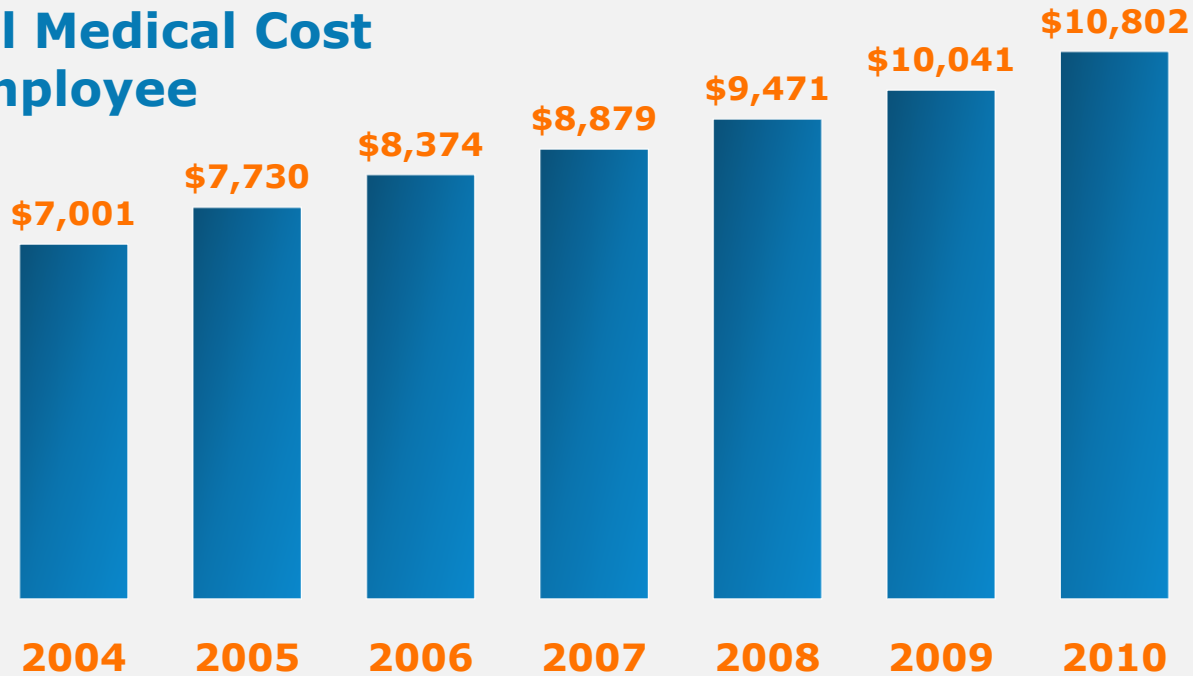
SOURCE: AT&T



U.S. Health Benefit Costs

Medical Costs Are Rising Faster Than Inflation

Annual Medical Cost Per Employee



Since 2004, medical costs per employee have increased **54 percent**, compared to overall inflation at **15 percent**. This includes an **8 percent** increase in 2010.

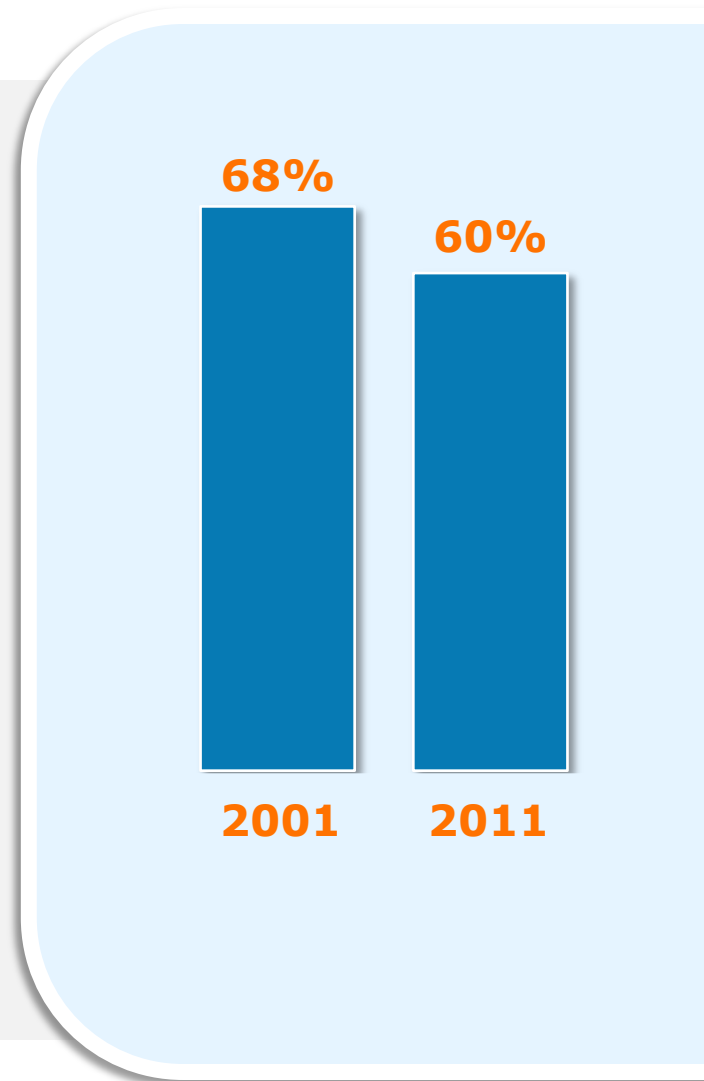
SOURCE: Aon Hewitt

ASSUMPTIONS: Data based on large employers; based on medical, prescription, behavioral health and administrative costs for plan year 2010



Health Care Coverage

- The percentage of all firms that are offering health benefits **stood at 60 percent in 2011**, down from 68 percent in 2001
- “The increase in the number of people without health insurance is due mostly to **working-age Americans who lost employer-provided insurance** in the weak economy.” – USA Today, September 13, 2011
- AT&T **continues to subsidize high quality health care** for its active employees, retirees, and dependents



SOURCE: Kaiser Family Foundation and HRET Employee Health Benefits 2011 Annual Survey



AT&T Total Compensation

- AT&T is one of the largest employers in America, and our goal in these negotiations is to continue to **provide and protect high quality, middle-class careers** – with wages and benefits that are among the best in the country
 - The average AT&T network technician in these contracts makes **\$90,000 in wages and \$43,000 in benefits**
 - The average AT&T call center rep in these contracts makes **\$67,000 in wages and \$40,000 in benefits**
 - In 2011 we received **more than 190,000 applications** for nearly 12,000 wireline Call Center and Technician openings

• We are **not proposing to reduce the wages** of our employees in these contracts.

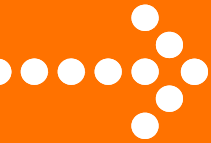
• We remain **committed to providing great benefits.**

SOURCE: AT&T; 2011 wages include pay, overtime, differentials, success sharing award, sales awards; 2011 benefits include active medical, post-retirement medical, pension, savings, insurance, illness, disability, absence and payroll taxes.



AT&T Benefits

Comprehensive Package for Union Employees



AT&T continues to provide great benefits that are **comprehensive** and **more extensive** than employers in other industries

Medical

Dental

Vision

Supplemental Medical Coverage
(CarePlus)

Flexible Spending Accounts
(Pre-Tax Premium Option, Health & Dependent FSA)

Health Reimbursement Accounts

Pension

Savings

Life Insurance

Leaves of Absence

Long-Term Care

Disability
(Short & Long-Term Disability, supplemental LTD)

Adoption Reimbursement

Employee Assistance Program

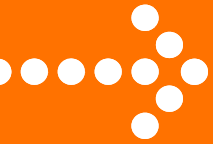
Commuter Benefits

Voluntary Benefits

Components may vary depending on individual.

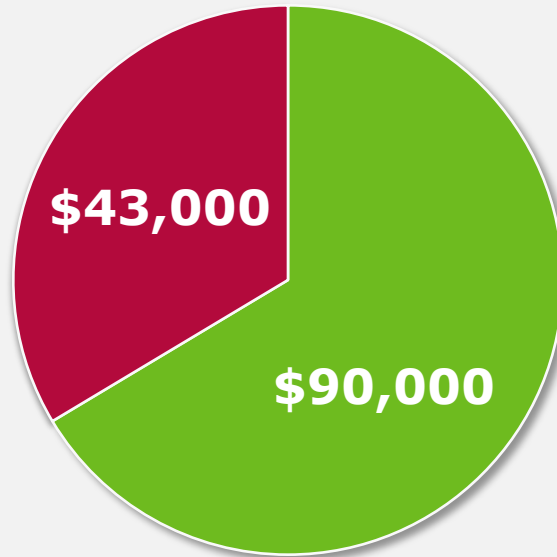


Cost of Compensation at AT&T

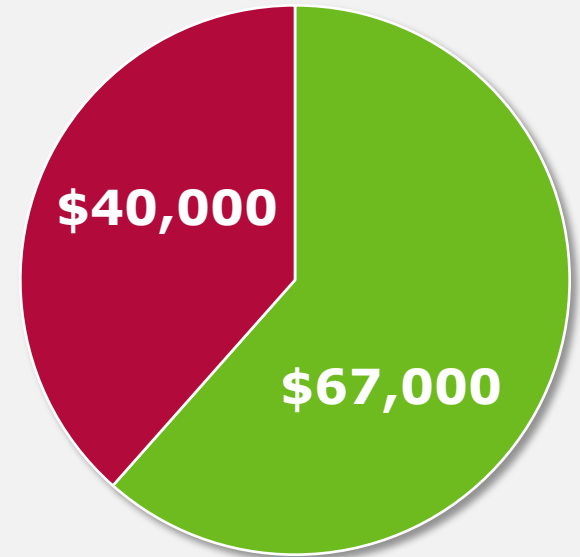


AT&T provides and protects high quality, middle-class careers – with wages and benefits that are among the best in the country

* 2011 wages include pay, overtime, differentials, success sharing award, sales awards; 2011 benefits include current level of active medical, post-retirement medical, pension, savings, insurance, illness, and disability benefits, and absence and payroll taxes.



Network Technician
\$133,000

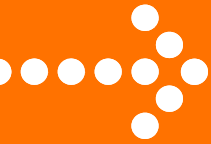


Call Center Representative
\$107,000

■ Wages*
■ Benefits*

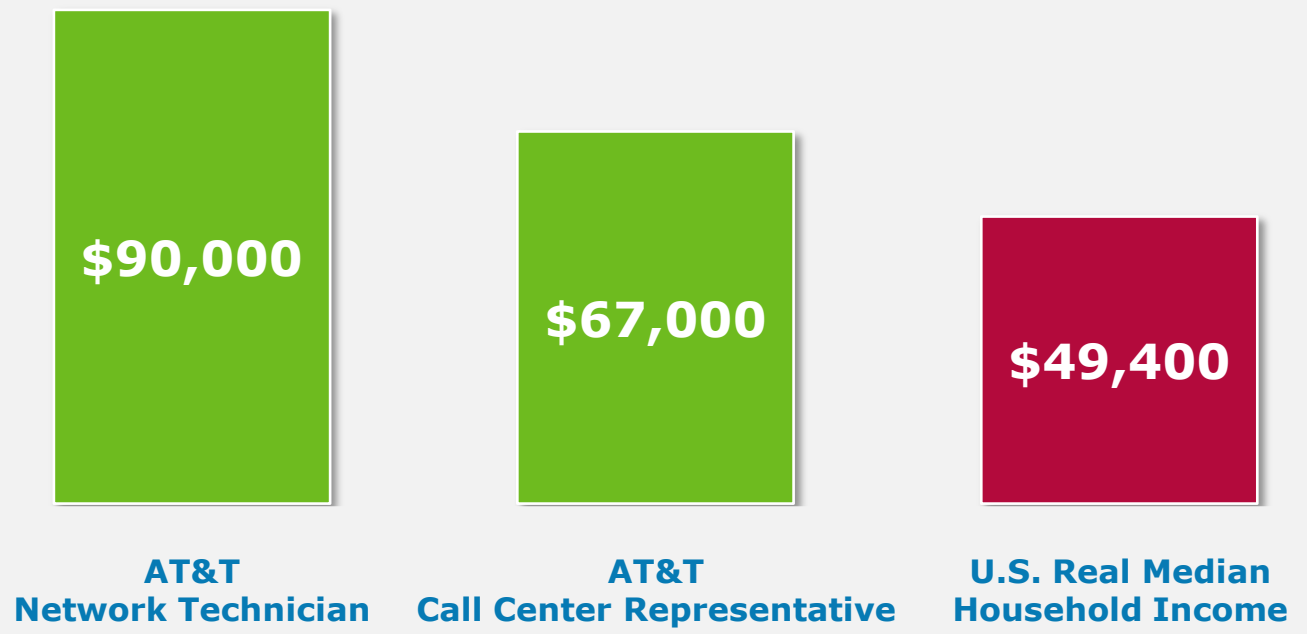


Wages at AT&T

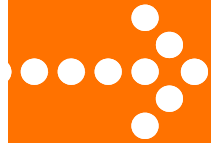


AT&T provides and protects high-quality, middle class careers – our wireline employees received a **general wage increase of 2.75 percent** last year, while U.S. real median household income decreased 2.3 percent

SOURCE: U.S. Census Bureau, 2010



AT&T Health and Welfare



We provide **high-quality, cost-effective health care coverage** that is valued by our employees, and benefits that are among the best in the nation

In 2010, total AT&T health and welfare benefits cost per year was more than

\$5.3 billion

Including nearly \$4.5 billion related to medical and drug benefits

\$5.3 billion in revenue...

- Places a company on the Fortune 500, ranking ahead of Polo Ralph Lauren, Harley-Davidson, Dick's Sporting Goods and Big Lots
- Is greater than the revenues of more than 55 percent of the Fortune 1000
- Is greater than Facebook's annual advertising revenue



AT&T and Health Care

- Our main health care objective is to continue to offer **high quality, cost-effective health care coverage** that is valued by our employees and their families
- **Health care costs in the U.S. continue to rise**, which means costs paid by companies and employees will continue to rise
- We strive to maintain a **balance between company and employee responsibility** to preserve benefits that are among the best in the nation
 - Maintain a **healthy workforce** and engage employees in behavior changes to **promote good health**
 - Involve employees in controlling health care costs by equipping them to **make informed health care decisions**



Our Wireline Employees Pay Less

Annual Average Medical Care Costs (2010)

■ Employee Paid ■ Employer Paid

\$1,280

\$11,770

AT&T Wireline Union Employees

\$2,940

\$7,260

AT&T Internet Call Center Union Employees & AT&T Management

\$3,640

\$7,160

National Average

Employee costs in AT&T's Core medical plan designs are in the lowest 1% of surveyed companies in the Aon Hewitt Health Value Initiative™

Notes:

1. Based on actual 2010 AT&T core employee costs including fully-funded HRAs, which directly offset employees' costs. Aon Hewitt's 2010 data is derived from the Aon Hewitt Health Value Initiative™ database.
2. For AT&T Annual Average Health Cost & National Average: Source = Aon Hewitt
3. Values on slide reflect Medical costs and include Medical, Rx, and Behavioral Health costs based on claims incurred during 2010 (paid thru May 2011) and include administrative expense and HRAs

- AT&T wireline employees, in the declining part of our business, **pay a smaller share of the cost** of medical care
- Core CWA wireline employees across all AT&T labor agreements pay **nearly 65 percent less** for medical care than the national average
- Only **60 percent of companies** provide subsidized health care



AT&T Employee Retirement Security

••••• AT&T provides our wireline employees with the opportunity and resources to **plan for the future, building a secure and healthy retirement fund** through pensions and 401(k) savings plans with a generous company match

••••• This is achieved by:

- Implementing opportunities for employees to **maximize retirement wealth**
- Offering plans that **balance employee needs with shareholder expectations**
- Creating **efficiencies** and **reducing the number of plans**
- Creating **greater employee awareness and involvement** in planning and saving for retirement



AT&T Retirement Pension Plans

- AT&T faces **significant legacy retirement obligations**
- As of Dec. 31, 2011, AT&T had **approximately 335,000 retirees** who, along with their dependents, were eligible to receive retiree benefits
 - **Annual pension payments were about \$5 billion** in 2011
 - AT&T **pension obligations exceeded \$56 billion** at the end of 2011
 - AT&T's **overall retirement liabilities exceed \$90 billion** including OPEB (other post-employment benefits) and pension
 - Our pension plan is not fully funded; AT&T **contributed \$1 billion in cash** in 4Q11 to our pension fund

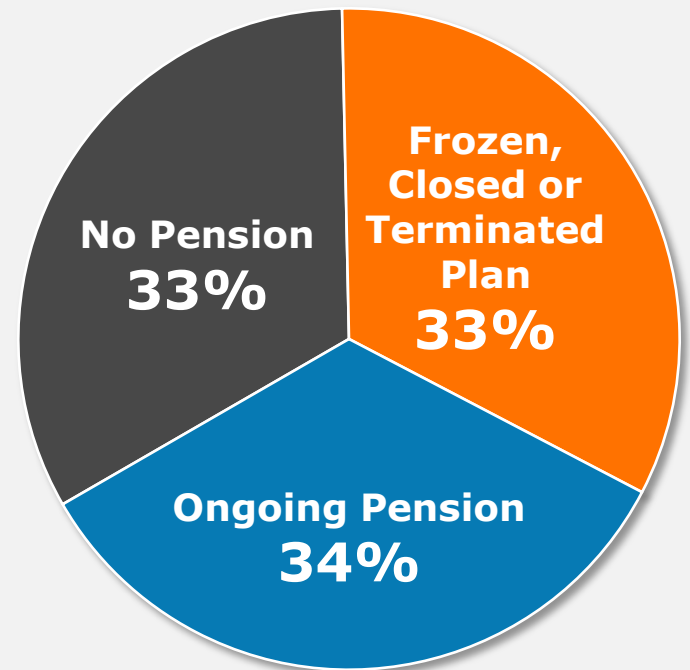


Retirement Benefit Trends

..... Retirement plans like those we offer are increasingly rare, and were established in a very different business environment

- Only **34 percent of Fortune 500 companies** offered an ongoing pension plan in 2011, down from 67 percent in 1996, according to a survey by Hewitt Associates
- Only about **26 percent of large employers** offered retiree health benefits in 2011 – down significantly from 32 percent in 2007, according to the Kaiser Family Foundation

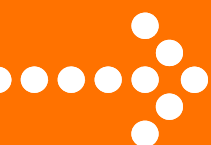
Fortune 500 Companies (2011)



Source: Hewitt Associates surveys of public announcements through September 2011 about primary retirement program.



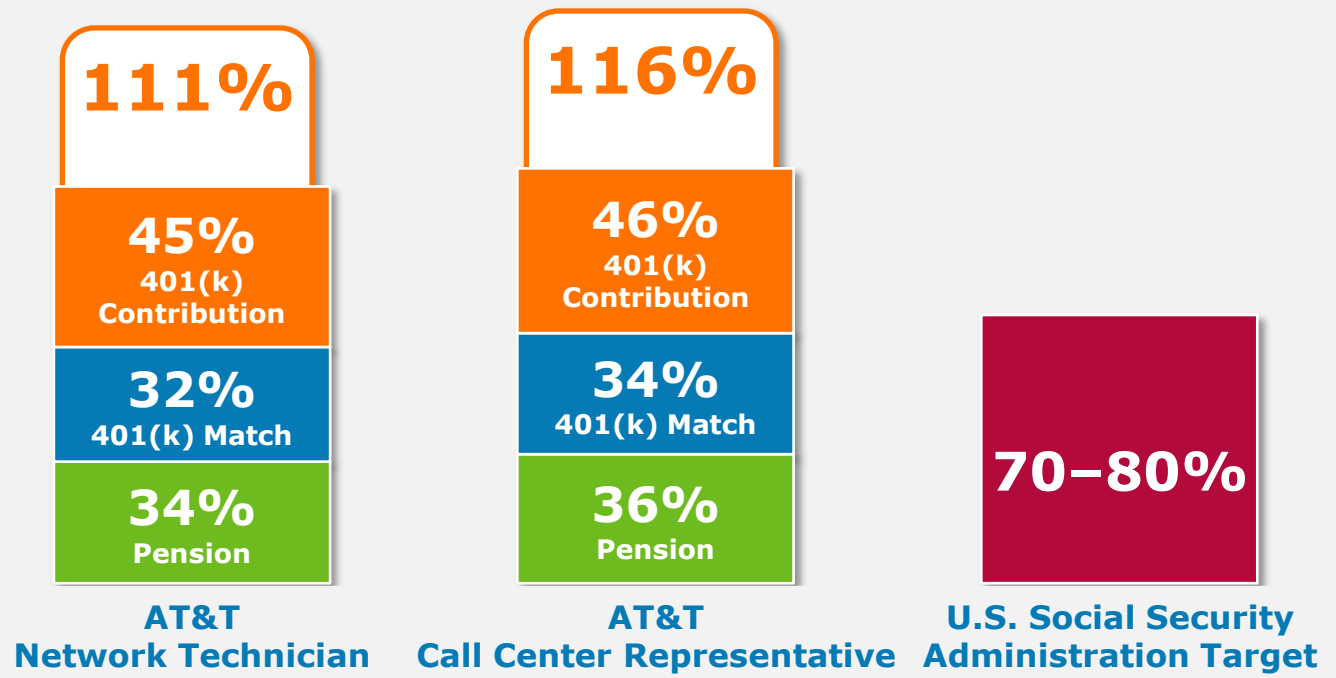
Retirement Income



AT&T provides our wireline employees with the opportunity and resources to plan for the future, building a secure and healthy retirement fund

Notes:

1. Network Technician (age 45 & 17 years of service as of 1/1/2011, projected to age 65 & 37 years of service)
2. Customer Service Representative (age 43 & 15 years of service as of 1/1/2011, projected to age 65 & 37 years of service)
3. Assumes maximum company 401(k) match on a 6% employee contribution
4. Investment return was assumed to be 7.5%



- The U.S. Social Security Administration says you will need **70 to 80 percent** of your pre-retirement income to live comfortably in retirement
- AT&T provides our average wireline network technician and call center representative with the opportunity for **more than 100 percent** of his or her income to be replaced during retirement. This amount **excludes income from the government through Social Security**, which is also partially funded by AT&T.



Attendance

- Our consumer call center employees in these contracts are away from the workplace an **average of nearly 25 workdays per year** for illness or disability, not including holidays and vacations – **virtually all of those 25 days are paid**
- Our average employee in these contracts also receives four weeks of vacation, plus 15 holidays and excused work days – **35 additional days off, of which 34 are paid**
- That means our average consumer call center employee in these contracts may be away from work 60 days a year – 12 weeks, or **three months, away from the office – almost all paid**
- We must take **concrete steps to ensure good employee attendance**



Summary

- AT&T is one of the largest employers in America, and our goal in these negotiations is to continue to **provide and protect high quality, middle-class careers** – with wages and benefits that are among the best in the country
- Our main health care objective is to continue to offer **high-quality, cost-effective health care coverage** that is valued by our employees, and benefits that are among the best in the nation
- We're committed to bargaining a contract that will continue to provide **excellent middle class union careers with highly competitive wages and benefits** – and maintain the flexibility the company needs to operate in one of the most competitive businesses in the marketplace today

