



EARNINGS COMMENTARY

QUARTERLY UPDATE – THIRD QUARTER 2002

October 22, 2002

Third Quarter Earnings From Continuing Operations Were \$0.06 Per Diluted Share ⁽¹⁾

AT&T FINANCIAL HIGHLIGHTS

(\$ in millions)

	<u>3Q02</u>	<u>3Q01</u>	<u>Yr/Yr %</u>	<u>2Q02</u>	<u>Qtr/Qtr%</u>
Revenue	\$11,956	\$13,035	(8.3%)	\$12,104	(1.2%)
Normalized Revenue ⁽²⁾	\$11,956	\$12,904	(7.4%)	\$12,104	(1.2%)
EBIT ⁽³⁾	\$1,236	(\$3,654)	133.8%	(\$17,137)	107.2%
EBITDA ⁽³⁾	\$3,280	(\$1,347)	NMF	(\$15,123)	121.7%
EBIT excl. other income (expense) ⁽⁴⁾	\$1,190	\$1,531	(22.3%)	\$1,333	(10.8%)
EBIT excl. other income (expense) margin ⁽⁴⁾	10.0%	11.7%	(170) b.p.	11.0%	(100) b.p.
EBITDA excl. other income (expense) ⁽⁴⁾	\$3,241	\$3,815	(15.0%)	\$3,358	(3.5%)
EBITDA excl. other income (expense) margin ⁽⁴⁾	27.1%	29.3%	(220) b.p.	27.7%	(60) b.p.
Reported earnings (loss) per diluted share from continuing operations	\$0.05	(\$0.69)	107.2%	(\$3.49)	101.4%
Earnings (loss) per diluted share from continuing operations excluding other income (expense) ⁽¹⁾	\$0.06	(\$0.02)	NMF	\$0.07	(14.3%)
Capital Expenditures	\$2,058	\$1,967	4.6%	\$1,926	6.8%
Effective Tax Rate ⁽¹⁾	44.3%	N/A	-	54.1%	-

⁽¹⁾ Excludes other income (expense) and net (losses) related to equity investments (see reconciliation on page 2). 2Q02 also excludes the 2002 goodwill and franchise impairment charges.

⁽²⁾ 2001 revenue is adjusted for the deconsolidation of Excite@Home and all significant cable acquisitions and dispositions that closed during 2001 as if these events occurred on January 1, 2001.

⁽³⁾ Includes business restructuring and asset impairment charges of (\$26) million in 3Q02, \$399 million in 3Q01 (\$245 million net of Excite@Home minority interest) and \$16,479 million of goodwill and franchise impairment charges in 2Q02. See complete set of definitions on page 2.

⁽⁴⁾ Excludes other income (expense), pretax net (losses) related to equity investments and 2002 goodwill and franchise impairment charges. Includes business restructuring and asset impairment charges of (\$26) million in 3Q02 and \$399 million in 3Q01 (\$245 million net of Excite@Home minority interest).



This document contains certain "forward-looking statements" which are based on management's beliefs as well as on a number of assumptions concerning future events made by and information currently available to management. AT&T's restructuring remains subject to receipt of approvals and satisfaction of all conditions; events or new opportunities may cause AT&T to proceed in a manner or at a time different than current plans or not to proceed with certain aspects of the plan. Readers are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. These factors include the rate of decline of traditional voice long distance services, technology change and substitution, the actions of competitors in all segments in setting prices, conditions of excess capacity, and rates of implementation of regulatory changes that may favor competitors. For a more detailed description of the factors that could cause such a difference, please see AT&T's filings with the Securities and Exchange Commission including, without limitation, AT&T's Annual Report on Form 10-K/A for the period ended December 31, 2001. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. This document also contains certain information such as EPS excluding other income (expense), reported EBIT and EBITDA, EBIT and EBITDA excluding other income (expense), normalized results and attributed results that are not presented in accordance with generally accepted accounting principles. This information is presented solely to provide additional information to further understand the results of AT&T.

Definitions.

- EBIT refers to earnings before interest, taxes, extraordinary item, cumulative effect of accounting changes, dividend requirements on preferred stock, premium on exchange of AT&T Wireless tracking stock and discontinued operations.
- EBIT excluding other income (expense) refers to EBIT, excluding other income (expense), net and pretax net (losses) related to equity investments.
- EBITDA refers to EBIT, excluding depreciation and amortization, and pretax minority interest other than Excite@Home's minority interest.
- EBITDA excluding other income (expense) refers to EBITDA, excluding other income (expense), net and pretax net (losses) related to equity investments.
- Capital Expenditures refer to additions to property, plant and equipment including internal use software.

AT&T EPS RECONCILIATION

The following table reconciles the reported earnings (loss) from continuing operations per diluted share to earnings (loss) from continuing operations excluding other income (expense) per diluted share:

	For the three months ended September 30,	
	2002	2001
Reported earnings (loss) from continuing operations per diluted share	\$0.05	(\$0.69)
<i>Less reconciling items:</i>		
Other income (expense), net ⁽¹⁾	(0.01)	0.28
Net (losses) related to equity investments	-	(0.95)
	(0.01)	(0.67)
Earnings (loss) per diluted share from continuing operations excluding other income (expense)	\$0.06	(\$0.02)

⁽¹⁾ Other income (expense) is income on a pretax basis, but an expense on an after-tax basis in the third quarter of 2002 due to the taxes associated with the impairment charges recorded on certain leveraged leases of aircrafts (\$0.2 billion pre-tax). The nature of leveraged leases and the anticipated loss on those leases caused a limited tax benefit.



OTHER FINANCIAL STATEMENT HIGHLIGHTS

Restatements/Reclassifications

We have provided the AT&T Broadband normalized 2001 results and total AT&T Group 2001 normalized revenue to reflect significant cable acquisitions and dispositions that closed during 2001 as if the adjusting events occurred on January 1, 2001. **The normalized AT&T Broadband results have been included in the segment discussion beginning on page 5.**

The restated results by segment are also included in Appendix III.

Debt Update

Debt Reconciliation (in billions) ⁽¹⁾	September 30, 2002	June 30, 2002
Total Debt	\$42.9	\$43.2
Less:		
Cash ⁽²⁾	7.3	6.0
Total Net Debt	35.6	37.1
Less:		
Monetizations ⁽³⁾	5.4	6.1
Fluctuations in Foreign Debt Value ⁽⁴⁾	0.4	0.4
Net Debt excluding Monetizations and Fluctuations in Foreign Debt Values ⁽⁴⁾	\$29.7	\$30.7

⁽¹⁾ Table may not add due to rounding.

⁽²⁾ Includes \$0.4 billion of restricted cash that collateralizes a portion of private debt and is included in "Other Assets" in the AT&T Group balance sheet.

⁽³⁾ Monetizations represent debt that is exchangeable into and collateralized by shares of Vodafone, Comcast, Microsoft, Cablevision and AT&T Wireless that we currently hold.

⁽⁴⁾ Represents mark-to-market adjustments that increased the debt balance by approximately \$0.4 billion at September 30 and June 30, 2002, on non-U.S. denominated debt of about \$4.3 billion. AT&T has entered into foreign exchange hedges that substantially offset the fluctuations in the debt balance. The offsetting mark-to-market adjustments of the hedges are included in "Other Assets" in the AT&T Group Balance Sheet.

In June 2002, AT&T raised \$2.5 billion in an equity offering, which is reflected in the cash balances at June 30 and September 30, 2002. These funds, along with funds from other short-term sources, were used on October 8, 2002 to satisfy AT&T's \$3.5 billion obligation to AT&T Canada shareholders.

Short-term debt includes: \$1.6 billion in commercial paper, \$1.5 billion in receivable securitizations, \$0.7 billion in monetization debt maturing within the year, and \$2.7 billion of other short-term debt, more than half of which represents current maturities of long-term debt.



AT&T BUSINESS SERVICES

FINANCIAL HIGHLIGHTS

(\$ in millions)

	<u>3Q02</u>	<u>3Q01</u>	<u>Yr/Yr %</u>	<u>2Q02</u>	<u>Qtr/Qtr%</u>
Revenue ⁽¹⁾	\$6,700	\$6,807	(1.6%)	\$6,742	(0.6%)
EBIT	\$826	(\$4,390)	118.8%	\$691	19.5%
EBITDA	\$1,926	(\$3,359)	157.3%	1,799	7.1%
EBIT excl. other income (expense) ⁽²⁾	\$876	\$989	(11.5%)	\$879	(0.4%)
EBIT excl. other income (expense) margin ⁽²⁾	13.1%	14.5%	(140) b.p.	13.0%	10 b.p.
EBITDA excl. other income (expense) ⁽²⁾	\$1,982	\$2,015	(1.6%)	\$1,997	(0.7%)
EBITDA excl. other income (expense) margin ⁽²⁾	29.6%	29.6%	-	29.6%	-
Capital Expenditures	\$912	\$1,103	(17.3%)	\$930	(1.9%)

- (1) Includes \$84 million, \$71 million and \$92 million of equipment sales in 3Q02, 3Q01 and 2Q02, respectively.
 (2) Excludes other income (expense) and pretax net (losses) related to equity investments.

DATA/IP/MANAGED SERVICES GROWTH

	<u>Yr/Yr Growth</u>
Data/IP/Managed Services Revenue ⁽¹⁾	~7%
Packet Services Revenue ⁽²⁾	~16%
Managed Services Revenue ⁽³⁾	~13%
Total IP ⁽⁴⁾	~26%

- (1) 3Q02 includes \$43 million in data/IP/Managed Services equipment related sales.
 (2) Includes Frame Relay, ATM and IP
 (3) Includes IP, Managed Network Services, e-Infrastructure and High-Availability & Security Services
 (4) Includes IP Connectivity services, Virtual Private Network Services (VPN) and e-Infrastructure.

Product Revenue

- Long distance voice revenue declined around 8.0% versus the prior year quarter, which represents an improvement in the rate of decline on a sequential basis. This improved rate of decline reflects a growth in wholesale markets such as wireless and a lower rate of decline in long distance pricing. Long distance volumes for the quarter grew slightly on a year-over-year basis.
- Local voice revenue, including reciprocal compensation, grew 5.0% over the prior year. This year-over-year growth rate was negatively impacted by a reciprocal compensation adjustments recorded during the quarter. Access lines grew approximately 26% over the prior year with 170 thousand lines being added during the quarter. Local access lines totaled more than 3.4 million at the end of the third quarter.
- Data/IP/Managed Services grew approximately 6% excluding equipment related sales and approximately 8% excluding low-speed private line.

Profitability

- The \$113 million decline in EBIT excluding other income (expense) year-over-year continues to reflect the impact of the transition from higher margin long distance services to lower margin growth business services, as well as a retail-wholesale mix shift.
- We continue to execute on operational goals through disciplined cost management, which is reflected in EBIT excluding other income (expense) margin remaining essentially flat on a sequential basis despite a slight decline in revenue.



AT&T CONSUMER SERVICES

FINANCIAL HIGHLIGHTS					
(\$ in millions)					
	3Q02	3Q01	Yr/Yr %	2Q02	Qtr/Qtr%
Revenue	\$2,794	\$3,770	(25.9%)	\$2,911	(4.0%)
EBIT	\$618	\$1,282	(51.7%)	\$802	(22.9%)
EBITDA	707	\$1,331	(46.8%)	845	(16.2%)
EBIT excl. other income (expense) ⁽¹⁾	\$595	\$1,277	(53.3%)	\$787	(24.3%)
EBIT excl. other income (expense) margin ⁽¹⁾	21.3%	33.9%	NMF	27.0%	(570) b.p.
EBITDA excl. other income (expense) ⁽¹⁾	\$685	\$1,326	(48.4%)	\$829	(17.5%)
EBITDA excl. other income (expense) margin ⁽¹⁾	24.5%	35.2%	NMF	28.5%	(400) b.p.
Capital Expenditures	\$34	\$43	(20.1%)	\$33	6.7%

⁽¹⁾ Excludes other income (expense) and pretax net (losses) related to equity investments

Revenue & Profitability

- The revenue decline for AT&T Consumer Services reflects ongoing impacts of wireless and Internet substitution, competition, customer migration to lower-priced calling plans, and a mix shift to products such as prepaid card. The revenue decline year-over-year was also negatively impacted by the temporary increase in call volumes we experienced in connection with the 9/11 tragedy. Long distance calling volumes declined at a mid-teens rate driven by competition and a double-digit rate of substitution, partially offset by growth in prepaid card.
- The EBIT decline from the prior year quarter reflects continued volume decline from competition and substitution, and a mix shift to lower margin products such as prepaid card and lower margin calling plans. Customers who substitute long distance calling with a wireless or Internet product tend to remain AT&T customers. These customers generate less revenue for AT&T Consumer Services, but certain costs remain, such as billing and care. This causes substitution to be particularly meaningful to EBIT and margin performance. However, we continue to witness an on-going stabilization in the rate of wireless substitution. In addition, results were also impacted by our increasing efforts to enter new local markets as well as an estimated loss on a long-term contract.

UNE-P Update

- During the quarter, AT&T Consumer Services began providing local service in California and New Jersey using the unbundled network elements platform (UNE-P). AT&T also offers consumers the opportunity to add attractively priced long distance plans such as AT&T Unlimited and receive a single monthly bill. Including New York, Texas, Georgia, Michigan, Ohio and Illinois, AT&T Consumer Services offered local service in eight states as of September 30 and served over 1.9 million local customers, up nearly 400,000 from the second quarter.



AT&T BROADBAND

To facilitate comparability, the 2001 financial results and customer statistics have been normalized for significant cable system acquisitions and dispositions that closed during 2001, as if the events occurred on January 1, 2001. **See page 8 for further details on normalized restatements for the full year 2001.**

NORMALIZED FINANCIAL HIGHLIGHTS					
(\$ in millions)					
	3Q02	3Q01	Yr/Yr %	2Q02	Qtr/Qtr
Revenue					
Video	\$1,883	\$1,833	2.7%	\$1,889	(0.3%)
Advertising	168	162	3.4%	171	(1.8%)
Telephony	204	137	48.7%	200	2.3%
HSD	234	172	36.4%	208	12.6%
Other Broadband	58	51	13.3%	58	(1.0%)
Total Broadband Revenue	\$2,547	\$2,355	8.2%	\$2,526	0.8%
Expense					
Video Programming	598	544	9.9%	614	(2.6%)
Other Operating ⁽¹⁾	1,273	1,225	4.0%	1,271	0.4%
Total Expense ⁽¹⁾	1,871	1,769	5.8%	1,885	(0.6%)
EBITDA excl. other income (expense) ⁽¹⁾⁽²⁾	676	586	15.2%	641	5.2%
Margin	26.5%	24.9%	1.6 p.p.	25.4%	1.1 p.p.
EBITDA excl. other income (expense) ⁽²⁾⁽³⁾	569	586	(3.0%)	541	4.9%
Margin	22.3%	24.9%	(2.6) p.p.	21.5%	0.8 p.p.

(1) Excludes Comcast merger-related costs in 3Q02 and 2Q02 of \$107 million and \$100 million, respectively.
(2) Excludes other income (expense), pretax net (losses) earnings related to equity investments and 2002 goodwill and franchise impairment charges.
(3) Includes Comcast merger-related costs in 3Q02 and 2Q02 of \$107 million and \$100 million, respectively.

Revenue

- The majority of the 8.2% year-over-year normalized increase in total revenue is attributable to increased contributions from advanced services, which includes Broadband Telephony, high-speed data (HSD) and Digital Video, in addition to a Basic Video rate increase, which took effect on January 1, 2002. These factors were partially offset by the loss in Basic Video subscribers.
- The sequential decrease in the year-over-year revenue growth rate from 9.8% in the second quarter of 2002 was primarily due to the impact of the timing of advanced service additions occurring later in the quarter, lower pay-per-view and advertising sales in 3Q02 and continued basic subscriber losses. This decrease was partially offset by less promotional discounting in the basic product in the current year quarter versus a year ago.
- Total revenue per Basic Video cable customer was \$64.50 for the quarter, an increase of 11.9% from the prior year quarter.
- Reported revenue was \$2,547 million and \$2,393 million for the third quarter 2002 and the third quarter 2001, respectively.

EBITDA

- Third quarter EBITDA margin, excluding other income (expense) and \$107 million in Comcast merger-related costs, increased 1.6 percentage points from the prior year quarter. The increase was due to revenue growth, improved profitability of advanced services and cost management measures. EBITDA, on the same basis, grew 15.2% over the prior year quarter.
- Sequentially, the EBITDA margin, on the same basis as above, increased 1.1 percentage points from second quarter 2002 due to continued margin improvement on advanced services and cost management efforts.
- The total cost of corporate services provided by AT&T was \$2 million and \$29 million in the third quarter of 2002 and 2001, respectively.



Customer Statistics

(in thousands)

NORMALIZED BASIC VIDEO SUBSCRIBERS

	<u>3Q02</u>	<u>3Q01</u>	<u>Yr/Yr %</u>	<u>2Q02</u>	<u>Qtr/Qtr %</u>
Customers	13,127	13,648	(3.8%)	13,256	(1.0%)
Net Additions	(129)	41	NMF	(125)	(3.9%)
Marketable Homes	25,145	24,490	2.7%	25,081	0.3%
Average Video Revenue per Sub	\$47.70	\$44.88	6.3%	\$47.25	1.0%

Revenue Generating Units (RGUs)

	<u>3Q02</u>	<u>3Q01</u>	<u>Yr/Yr %</u>	<u>2Q02</u>	<u>Qtr/Qtr %</u>
Customers	7,475	5,409	38.2%	6,915	8.1%
Net Additions	559	443	26.2%	444	26.0%

NOTE: RGUs represent the sum of Broadband Telephony, high-speed data and Digital Video customers.

DIGITAL VIDEO

(in thousands)

	<u>3Q02</u>	<u>3Q01</u>	<u>Yr/Yr %</u>	<u>2Q02</u>	<u>Qtr/Qtr %</u>
Customers	4,218	3,140	34.3%	3,933	7.2%
Net Additions	285	258	10.2%	202	41.2%
Penetration	32.1%	23.0%	9.1 p.p.	29.7%	2.4 p.p.

HSD

(in thousands)

Customers	1,934	1,369	41.3%	1,762	9.8%
Net Additions	172	107	61.3%	137	25.4%
Marketable Homes	16,830	14,641	14.9%	15,977	5.3%
Penetration	11.5%	9.4%	2.1 p.p.	11.0%	0.5 p.p.
Average Revenue per Unit	\$42.55	\$43.44	(2.0%)	\$40.96	3.9%

BROADBAND TELEPHONY

(in thousands)

Customers	1,323	900	46.9%	1,220	8.4%
Net Additions	102	78	31.2%	105	(2.4%)
Marketable Homes	8,039	6,278	28.1%	7,617	5.5%
Penetration	16.5%	14.3%	2.2 p.p.	16.0%	0.5 p.p.
Average Revenue per Unit	\$54.20	\$53.39	1.5%	\$57.20	(5.2%)



Capital Expenditures and Plant Status

- Third quarter capital expenditures were \$1,089 million, of which approximately \$386 million was related to the growth and support of advanced services and \$426 million related to total network construction and upgrade.
- Normalized capital expenditures for third quarter 2001 were \$762 million of which approximately \$301 million was related to the growth and support of advanced services and \$161 million was for total network construction and upgrade.
- **Plant status** as of September 30, 2002: 79% of AT&T Broadband's plant had been upgraded to at least 550 MHz and 63% had been upgraded to at least 750 MHz.

Normalized Attributed Financial Information

AT&T has a video partnership portfolio with ownership interests in a number of nonconsolidated video affiliates. Attributed results, which exclude AT&T's ownership interests in Cablevision and TWE, which is held for sale, represent the performance of existing video partnership affiliates based upon AT&T's economic ownership interests therein. In the event AT&T acquires or disposes of a significant affiliate interest during the quarter, attributed results are presented on a normalized basis as if the acquisition or disposition occurred at the beginning of the quarter. AT&T's economic interests in affiliates do not represent control of such affiliates' revenue, cash flow or earnings, and accordingly, AT&T could not, among other things, cause any such affiliate to distribute AT&T's attributed share of the results.

As of the end of the third quarter, nonconsolidated video affiliates had 1.6 million attributable customers and \$2.5 billion of attributable debt. AT&T Broadband has guaranteed approximately \$1.5 billion of debt held by its cable television partnerships. These partnerships are with Time Warner, Insight, Mid-continent and Charter.



Restated Normalized Information

To facilitate comparability, the 2001 financial results and customer statistics have been normalized for significant acquisitions and dispositions that closed in 2001, as if all events occurred January 1, 2001.

	1Q01	2Q01	3Q01	4Q01	FY01	1Q02	2Q02	3Q02
Financial Data (\$ in millions)								
Revenue								
Video	\$1,776	\$1,833	\$1,833	\$1,809	\$7,251	\$1,874	1,889	1,883
Advertising	125	159	162	169	615	139	171	168
Telephony	81	113	137	155	486	169	200	204
HSD	111	142	172	173	598	201	208	234
Other Broadband	49	53	51	54	207	56	58	58
Total Broadband Revenue	\$2,142	\$2,300	\$2,355	\$2,360	\$9,157	\$2,439	2,526	2,547
Expense								
Video Programming	555	575	544	555	2,229	614	614	598
Other Operating ⁽¹⁾	1,252	1,222	1,225	1,269	4,968	1,272	1,271	1,273
Restructuring and Other Charges	56	100	0	0	156	56	0	0
Total Expense ⁽¹⁾	1,863	1,897	1,769	1,824	7,353	1,942	1,885	1,871
EBITDA excl other income (expense) ⁽¹⁾⁽²⁾	\$279	\$403	\$586	\$536	\$1,804	\$497	641	676
Margin	13.0%	17.5%	24.9%	22.7%	19.7%	20.4%	25.4%	26.5%
EBITDA excl other income (expense) ⁽²⁾⁽³⁾	\$279	\$403	\$586	\$536	\$1,804	\$465	541	569
Margin	13.0%	17.5%	24.9%	22.7%	19.7%	19.0%	21.5%	22.3%
Customer Statistics (000's)								
Basic Video								
Customers	13,646	13,610	13,648	13,560	13,560	13,380	13,256	13,127
Net Additions	(37)	(64)	41	(87)	(147)	(179)	(125)	(129)
Marketable Homes	24,310	24,328	24,490	24,614	24,614	24,918	25,081	25,145
RGUs								
Net Additions	673	558	443	556	2,230	507	444	559
Customers	4,457	4,994	5,409	5,965	5,965	6,472	6,915	7,475
Broadband Telephony								
Net Additions	152	150	78	104	484	110	105	102
Customers	672	822	900	1,004	1,004	1,115	1,220	1,323
Marketable Homes	5,380	5,869	6,278	6,833	6,833	7,125	7,617	8,039
Penetration	12.5%	14.0%	14.3%	14.7%	14.7%	15.6%	16.0%	16.5%
Revenue per Unit	\$45.66	\$50.54	\$53.39	\$54.66	\$51.77	\$53.70	\$57.20	\$54.20
HSD								
Net Additions	202	135	107	117	561	140	137	172
Customers	1,134	1,276	1,369	1,486	1,486	1,625	1,762	1,934
Marketable Homes	13,329	13,954	14,641	14,937	14,937	15,278	15,977	16,830
Penetration	8.5%	9.1%	9.4%	9.9%	9.9%	10.6%	11.0%	11.5%
Revenue per Unit	\$36.00	\$39.10	\$43.44	\$40.35	\$40.05	\$43.15	\$40.96	\$42.55
Digital Video								
Net Additions	319	273	258	335	1,185	257	202	285
Customers	2,651	2,896	3,140	3,475	3,475	3,732	3,933	4,218
Penetration	19.4%	21.3%	23.0%	25.6%	25.6%	27.9%	29.7%	32.1%
⁽¹⁾ Excludes Comcast merger-related costs in 1Q02, 2Q02, and 3Q02 of \$32 million, \$100 million, and \$107 million, respectively. ⁽²⁾ Excludes other income (expense), pretax net (losses) earnings related to equity investments and 2002 goodwill and franchise impairment charges. ⁽³⁾ Includes Comcast merger-related costs in 1Q02, 2Q02, and 3Q02 of \$32 million, \$100 million, and \$107 million, respectively.								



CORPORATE and OTHER

FINANCIAL HIGHLIGHTS					
(\$ in millions)					
	<u>3Q02</u>	<u>3Q01</u>	<u>Yr/Yr %</u>	<u>2Q02</u>	<u>Qtr/Qtr%</u>
Revenue	(\$85)	\$65	NMF	(\$75)	(13.8%)
Normalized Revenue	(\$85)	(\$28)	NMF	(\$75)	(13.8%)
EBIT	(\$253)	\$243	NMF	(\$170)	(48.3%)
EBITDA	(\$162)	\$375	(143.2%)	(\$77)	(114.8%)
EBIT excl. other income (expense) ⁽¹⁾	(\$85)	(\$262)	67.5%	(\$106)	19.4%
EBITDA excl. other income (expense) ⁽¹⁾	\$5	(\$128)	104.5%	(\$9)	155.0%
Capital Expenditures	\$23	\$53	(58.1%)	\$13	76.9%

⁽¹⁾ Excludes other income (expense) and pretax net (losses) related to equity investments

- Reported revenue for this group included negative \$99 million (a \$2 million increase from the prior year quarter) related to the elimination of inter-segment revenue.
- Corporate and other revenue, normalized for the deconsolidation of Excite@Home, decreased \$0.1 billion in the third quarter of 2002 compared with the prior year quarter. The decrease in revenue was primarily driven by increased internal sales from AT&T Business Services to AT&T Broadband.
- EBIT and EBITDA excluding other income (expense) increased \$0.2 billion and \$0.1 billion, respectively, primarily due to the impact of the deconsolidation of Excite@Home (\$0.3 billion on EBIT, \$0.2 billion on EBITDA), partially offset by \$0.1 billion resulting from a lower pension credit, primarily driven by a lower pension trust asset base resulting from lower investment returns.



Appendix I – Income Statement (As Reported)

AT&T Group Combined Statements of Income (Unaudited)

Dollars in millions except per share amounts

Three Months Ended September 30,

	2002	2001	Change
REVENUE			
AT&T Business Services	\$ 6,700	\$ 6,807	(1.6%)
AT&T Consumer Services	2,794	3,770	(25.9%)
AT&T Broadband	2,547	2,393	6.4%
Corporate and Other	(85)	65	NMF
Total Revenue	11,956	13,035	(8.3%)
OPERATING EXPENSES			
Costs of services and products	3,333	3,476	(4.1%)
Access and other connection	2,696	3,033	(11.1%)
Selling, general and administrative	2,712	2,488	9.0%
Depreciation and amortization	1,981	2,274	(12.8%)
Net restructuring and other charges	(26)	399	(106.5%)
Total operating expenses	10,696	11,670	(8.3%)
Operating income	1,260	1,365	(7.8%)
Other income, net	56	320	(82.1%)
Interest (expense)	(748)	(786)	(4.7%)
Income from continuing operations before income taxes, minority interest and dividends on subsidiary preferred stock and net (losses) related to equity investments	568	899	(36.8%)
(Provision) benefit for income taxes	(312)	70	NMF
Minority interest and dividends on subsidiary preferred stock ⁽¹⁾	(38)	177	(121.4%)
Net (losses) related to equity investments ⁽²⁾	(11)	(3,352)	99.7%
Income (loss) from continuing operations	207	(2,206)	109.4%
Gain on disposition of discontinued operations	-	13,503	(100.0%)
Net income of AT&T Group	207	11,297	(98.2%)
Dividend requirements of preferred stock, net	-	(235)	100.0%
Income attributable to common shareowners	\$ 207	\$ 11,062	(98.1%)
AT&T COMMON STOCK GROUP:			
Income	\$ 207	\$ 11,062	(98.1%)
Weighted average common shares (millions)	3,848	3,534	
Weighted average common shares and potential common shares (millions)	3,850	3,534	
Earnings (loss) from continuing operations per basic and diluted share	\$ 0.05	\$ (0.69)	107.2%
Gain on disposition of discontinued operations per basic and diluted share	\$ -	\$ 3.82	(100.0%)
Earnings per basic and diluted share	\$ 0.05	\$ 3.13	(98.4%)
Dividends declared per share	\$ 0.0375	\$ 0.0375	

⁽¹⁾ Net of income tax benefit of \$24 million and \$6 million for the three months ended September 30, 2002 and 2001, respectively.

⁽²⁾ Net of income tax of \$7 million and \$2,157 million for the three months ended September 30, 2002 and 2001, respectively.



Appendix II – Quarterly Income Statements

AT&T Group Combined Statements of Income (Unaudited)								
Dollars in millions except per share amounts								
	3Q02	2Q02	1Q02	4Q01	3Q01	2Q01	1Q01	2001
REVENUE								
AT&T Business Services	\$ 6,700	\$ 6,742	\$ 6,528	\$ 6,791	\$ 6,807	\$ 7,011	\$ 7,096	\$ 27,705
AT&T Consumer Services	2,794	2,911	3,086	3,420	3,770	3,724	3,929	14,843
AT&T Broadband	2,547	2,526	2,439	2,376	2,393	2,565	2,465	9,799
Corporate and Other	(85)	(75)	(69)	(46)	65	(35)	(17)	(33)
Total Revenue	11,956	12,104	11,984	12,541	13,035	13,265	13,473	52,314
OPERATING EXPENSES								
Costs of services and products	3,333	3,339	3,290	3,502	3,476	3,410	3,572	13,960
Access and other connection	2,696	2,763	2,808	2,847	3,033	3,105	3,151	12,136
Selling, general and administrative	2,712	2,644	2,546	2,643	2,488	2,749	2,716	10,596
Depreciation and amortization	1,981	1,959	1,895	2,302	2,274	2,350	2,412	9,338
Net restructuring and other charges	(26)	-	56	1,036	399	287	808	2,530
Goodwill and franchise impairment charges	-	16,479	-	-	-	-	-	-
Total operating expenses	10,696	27,184	10,595	12,330	11,670	11,901	12,659	48,560
Operating income (loss)	1,260	(15,080)	1,389	211	1,365	1,364	814	3,754
Other income (expense), net	56	(829)	(162)	(776)	320	(308)	(783)	(1,547)
Interest (expense)	(748)	(716)	(767)	(816)	(786)	(761)	(879)	(3,242)
Income (loss) from continuing operations before income taxes, minority interest and dividends on subsidiary preferred stock and net (losses) related to equity investments	568	(16,625)	460	(1,381)	899	295	(848)	(1,035)
(Provision) benefit for income taxes	(312)	4,631	(266)	503	70	436	(218)	791
Minority interest and dividends on subsidiary preferred stock	(38)	(31)	(57)	(52)	177	198	640	963
Net (losses) related to equity investments	(11)	(724)	(297)	(461)	(3,352)	(980)	(57)	(4,850)
Income (loss) from continuing operations	207	(12,749)	(160)	(1,391)	(2,206)	(51)	(483)	(4,131)
(Loss) income from discontinued operations - net of income tax	-	(88)	-	-	-	218	(68)	150
Gain on disposition of discontinued operations	-	-	-	-	13,503	-	-	13,503
Income (loss) before extraordinary gain and cumulative effect of accounting changes	207	(12,837)	(160)	(1,391)	11,297	167	(551)	9,522
Extraordinary gain - net of income tax	-	7	41	-	-	-	-	-
Cumulative effect of accounting changes, net of income tax	-	-	(856)	-	-	-	359	359
Net income (loss) of AT&T Group	207	(12,830)	(975)	(1,391)	11,297	167	(192)	9,881
Dividend requirements of preferred stock, net	-	-	-	-	(235)	(236)	(181)	(652)
Premium on exchange of AT&T Wireless tracking stock	-	-	-	-	-	(80)	-	(80)
Income (loss) attributable to common shareowners	\$ 207	\$ (12,830)	\$ (975)	\$ (1,391)	\$ 11,062	\$ (149)	\$ (373)	\$ 9,149
AT&T COMMON STOCK GROUP:								
Income (loss)	\$ 207	\$ (12,830)	\$ (975)	\$ (1,391)	\$ 11,062	\$ (191)	\$ (366)	\$ 9,114
Weighted-average common shares (millions)	3,848	3,649	3,546	3,540	3,534	3,694	3,805	3,643
Weighted-average common shares and potential common shares (millions)	3,850	3,649	3,546	3,540	3,534	3,694	3,805	3,643
Earnings (loss) from continuing operations per basic and diluted share	\$ 0.05	\$ (3.49)	\$ (0.05)	\$ (0.39)	\$ (0.69)	\$ (0.10)	\$ (0.17)	\$ (1.33)
(Loss) earnings from discontinued operations per basic and diluted share	\$ -	\$ (0.03)	\$ -	\$ -	\$ -	\$ 0.05	\$ (0.02)	\$ 0.03
Gain on disposition of discontinued operations per basic and diluted share	\$ -	\$ -	\$ -	\$ -	\$ 3.82	\$ -	\$ -	\$ 3.70
Extraordinary gain per basic and diluted share	\$ -	\$ -	\$ 0.01	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative effect of accounting changes per basic and diluted share	\$ -	\$ -	\$ (0.24)	\$ -	\$ -	\$ -	\$ 0.09	\$ 0.10
Earnings (loss) per basic and diluted share	\$ 0.05	\$ (3.52)	\$ (0.28)	\$ (0.39)	\$ 3.13	\$ (0.05)	\$ (0.10)	\$ 2.50
Dividends declared per share	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.15
AT&T WIRELESS GROUP:								
Earnings (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42	\$ (7)	\$ 35
Weighted-average common shares and potential common shares (millions)	-	-	-	-	-	513	363	438
Earnings (loss) per basic and diluted share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.08	\$ (0.02)	\$ 0.08



Appendix III – Historical Segment Data

Segment Disclosures (Unaudited)								
Dollars in millions								
	3Q02	2Q02	1Q02	4Q01	3Q01	2Q01	1Q01	2001
AT&T Business Services								
Reported Revenue	\$ 6,700	\$ 6,742	\$ 6,528	\$ 6,791	\$ 6,807	\$ 7,011	\$ 7,096	\$ 27,705
Reported Revenue Growth	(1.6%)	(3.8%)	(8.0%)	N/A	N/A	N/A	N/A	N/A
Normalized Revenue	\$ 6,700	6,742	6,528	6,791	6,807	7,011	7,096	27,705
Normalized Revenue Growth	(1.6%)	(3.8%)	(8.0%)	N/A	N/A	N/A	N/A	N/A
EBITDA ⁽³⁾	1,926	1,799	1,536	709	(3,359)	2,438	2,029	1,817
EBITDA Excluding Other Income (Expense) ⁽¹⁾⁽³⁾	1,982	1,997	1,971	1,391	2,015	2,213	2,188	7,807
EBIT ⁽³⁾	826	691	452	(320)	(4,390)	1,399	1,006	(2,305)
EBIT Excluding Other Income (Expense) ⁽¹⁾⁽³⁾	876	879	883	356	989	1,177	1,172	3,694
Capital Expenditures	912	930	575	1,647	1,103	1,413	1,259	5,422
Total Assets	38,621							40,316
AT&T Consumer Services								
Reported Revenue	\$ 2,794	\$ 2,911	\$ 3,086	\$ 3,420	\$ 3,770	\$ 3,724	\$ 3,929	\$ 14,843
Reported Revenue Growth	(25.9%)	(21.8%)	(21.4%)	N/A	N/A	N/A	N/A	N/A
Normalized Revenue	2,794	2,911	3,086	3,420	3,770	3,724	3,929	14,843
Normalized Revenue Growth	(25.9%)	(21.8%)	(21.4%)	N/A	N/A	N/A	N/A	N/A
EBITDA ⁽⁴⁾	707	845	873	1,113	1,331	1,266	1,365	5,075
EBITDA Excluding Other Income (Expense) ⁽¹⁾⁽⁴⁾	685	829	862	948	1,326	1,262	1,362	4,898
EBIT ⁽⁴⁾	618	802	832	1,058	1,282	1,217	1,318	4,875
EBIT Excluding Other Income (Expense) ⁽¹⁾⁽⁴⁾	595	787	821	893	1,277	1,213	1,315	4,698
Capital Expenditures	34	33	28	44	43	29	25	141
Total Assets	1,762							2,141
AT&T Broadband								
Reported Revenue	\$ 2,547	\$ 2,526	\$ 2,439	\$ 2,376	\$ 2,393	\$ 2,565	\$ 2,465	\$ 9,799
Reported Revenue Growth	6.4%	(1.5%)	(1.1%)	N/A	N/A	N/A	N/A	N/A
Normalized Revenue	2,547	2,526	2,439	2,360	2,355	2,300	2,142	9,157
Normalized Revenue Growth	8.2%	9.8%	13.9%	N/A	N/A	N/A	N/A	N/A
EBITDA ⁽⁵⁾	809	(17,690)	331	(208)	306	357	(362)	93
EBITDA Excluding Other Income (Expense) ⁽¹⁾⁽⁵⁾	569	541	465	544	602	500	394	2,040
EBIT ⁽⁵⁾	45	(18,460)	(425)	(1,416)	(789)	(819)	(1,542)	(4,566)
EBIT Excluding Other Income (Expense) ⁽¹⁾⁽⁵⁾	(196)	(227)	(292)	(636)	(473)	(629)	(733)	(2,471)
Capital Expenditures	1,089	950	739	955	768	922	856	3,501
Total Assets	81,933							103,060
Corporate and Other								
Reported Revenue	\$ (85)	\$ (75)	\$ (69)	\$ (46)	\$ 65	\$ (35)	\$ (17)	\$ (33)
Reported Revenue Growth	NMF	NMF	NMF	N/A	N/A	N/A	N/A	N/A
Normalized Revenue	(85)	(75)	(69)	(45)	(28)	(132)	(123)	(328)
Normalized Revenue Growth	NMF	43.3%	43.7%	N/A	N/A	N/A	N/A	N/A
EBITDA ⁽⁶⁾	(162)	(77)	(99)	(588)	375	(1,899)	(142)	(2,254)
EBITDA Excluding Other Income (Expense) ⁽¹⁾⁽⁶⁾	5	(9)	(14)	(370)	(128)	(94)	(224)	(816)
EBIT ⁽⁶⁾	(253)	(170)	(195)	(685)	243	(2,057)	(323)	(2,822)
EBIT Excluding Other Income (Expense) ⁽¹⁾⁽⁶⁾	(85)	(106)	(108)	(467)	(262)	(230)	(384)	(1,343)
Capital Expenditures	23	13	10	22	53	71	100	246
Total Assets	15,722							19,765
Total AT&T Group								
Reported Revenue	\$ 11,956	\$ 12,104	\$ 11,984	\$ 12,541	\$ 13,035	\$ 13,265	\$ 13,473	\$ 52,314
Reported Revenue Growth	(8.3%)	(8.7%)	(11.1%)	N/A	N/A	N/A	N/A	N/A
Normalized Revenue	11,956	12,104	11,984	12,526	12,904	12,903	13,044	51,377
Normalized Revenue Growth	(7.4%)	(6.2%)	(8.1%)	N/A	N/A	N/A	N/A	N/A
EBITDA ⁽⁷⁾	3,280	(15,123)	2,641	1,026	(1,347)	2,162	2,890	4,731
EBITDA Excluding Other Income (Expense) ⁽¹⁾⁽⁷⁾	3,241	3,358	3,284	2,513	3,815	3,881	3,720	13,929
EBIT ⁽⁷⁾	1,236	(17,137)	664	(1,363)	(3,654)	(260)	459	(4,818)
EBIT Excluding Other Income (Expense) ⁽¹⁾⁽⁷⁾	1,190	1,333	1,304	146	1,531	1,531	1,370	4,578
EPS Excluding Other Income (Expense) ⁽²⁾	\$ 0.06	\$ 0.07	\$ 0.06	\$ (0.13)	\$ (0.02)	\$ 0.04	\$ (0.02)	\$ (0.13)
Capital Expenditures	2,058	1,926	1,352	2,668	1,967	2,435	2,240	9,310
Total Assets	138,038							165,282



Appendix III – Historical Segment Data

⁽¹⁾ EBIT and EBITDA excluding other income (expense), pretax net (losses) related to equity investments and 2002 goodwill and franchise impairment charges, as applicable.

⁽²⁾ Earnings (loss) per diluted share from continuing operations excluding other income (expense), net (losses) related to equity investments, 2002 goodwill and franchise impairment charges.

⁽³⁾ Includes business restructuring and asset impairment charges of (\$27) million in 3Q02 and \$570 million in 4Q01.

⁽⁴⁾ Includes business restructuring charges of (\$12) million in 3Q02 and \$31 million in 4Q01.

⁽⁵⁾ Includes business restructuring charges of \$56 million in 1Q02, \$100 million in 2Q01 and \$56 million in 1Q01.

⁽⁶⁾ Includes business restructuring and asset impairment charges of \$13 million in 3Q02, \$435 million in 4Q01, \$399 million in 3Q01 (\$245 million net of Excite@Home minority interest), \$187 million in 2Q01 (\$43 million net of Excite@Home minority interest) and \$752 million in 1Q01 (\$281 million net of Excite@Home minority interest).

⁽⁷⁾ Includes business restructuring and asset impairment charges of (\$26) million in 3Q02, \$1,036 million in 4Q01, \$399 million in 3Q01 (\$245 million net of Excite@Home minority interest), \$287 million in 2Q01 (\$143 million net of Excite@Home minority interest) and \$808 million in 1Q01 (\$337 million net of Excite@Home minority interest).



Appendix IV – Balance Sheet (As Reported)

AT&T Group Combined Balance Sheets (Unaudited)

Dollars in millions except per share amounts

	September 30, 2002	December 31, 2001	Change
ASSETS			
Cash and cash equivalents	\$ 6,926	\$ 10,592	(34.6%)
Accounts receivable, less allowances of \$800 and \$827	6,882	7,736	(11.0%)
Other receivables	402	1,645	(75.5%)
Investments	459	668	(31.3%)
Deferred income taxes	2,048	1,230	66.5%
Other current assets	995	657	51.3%
Total Current Assets	17,712	22,528	(21.4%)
Property, plant and equipment, net of accumulated depreciation of \$35,678 and \$32,046	41,364	41,322	0.1%
Franchise costs, net of accumulated amortization of \$2,501 in 2001	29,084	42,819	(32.1%)
Goodwill, net of accumulated amortization of \$1,307 in 2001	20,517	24,675	(16.8%)
Other purchased intangible assets, net of accumulated amortization of \$846 and \$647	2,003	2,222	(9.8%)
Investments and related advances	17,920	23,818	(24.8%)
Prepaid pension costs	3,522	3,337	5.5%
Other assets	5,916	4,561	29.7%
TOTAL ASSETS	\$ 138,038	\$ 165,282	(16.5%)
LIABILITIES			
Accounts payable	\$ 4,342	\$ 4,744	(8.5%)
Payroll and benefit-related liabilities	1,599	2,084	(23.3%)
Debt maturing within one year	6,560	12,958	(49.4%)
AT&T Canada obligation	3,525		NA
Other current liabilities	4,652	5,641	(17.5%)
Total Current Liabilities	20,678	25,427	(18.7%)
Long-term debt	36,371	40,527	(10.3%)
Long-term benefit-related liabilities	3,707	3,594	3.1%
Deferred income taxes	24,452	28,160	(13.2%)
Other long-term liabilities and deferred credits	3,868	7,614	(49.2%)
Total Liabilities	89,076	105,322	(15.4%)
Minority Interest	1,371	3,560	(61.5%)
Company-Obligated Convertible Quarterly Income Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debt Securities of AT&T	4,728	4,720	0.2%
SHAREOWNERS' EQUITY			
AT&T Common Stock, \$1 par value, authorized 6,000,000,000 shares; issued and outstanding 3,851,084,978 shares (net of 858,888,662 treasury shares) at September 30, 2002 and 3,542,405,744 shares (net of 851,746,431 treasury shares) at December 31, 2001	3,851	3,542	8.7%
Additional paid-in capital	53,530	49,265	8.7%
Accumulated (deficit)	(14,383)	(785)	NMF
Accumulated other comprehensive (loss)	(135)	(342)	60.5%
Total Shareowners' Equity	42,863	51,680	(17.1%)
TOTAL LIABILITIES & SHAREOWNERS' EQUITY	\$ 138,038	\$ 165,282	(16.5%)



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