



News Release

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Dorman Outlines Aggressive, Continuing Transformation of AT&T as the "World's Networking Company"

Leveraging Technology, Financial Strength And Competitive Cost Structure To Deliver Next-Generation Capabilities, Networking Solutions And Bundled Services To Businesses and Consumers

At Investor Conference, CEO Says AT&T "Focused On Customer Needs Like Never Before"

Rolling Out "AT&T CallVantage" VoIP Service to 100 Largest Markets By End of Year

NEW YORK - At a major investor conference here today, AT&T (NYSE: T) outlined an aggressive strategy to leverage its financial strength, technological expertise and networking capabilities to transform the company to be The World's Networking Company and help its customers migrate to the next generation of telecommunications services.

"We are focused on meeting customer needs like never before," said AT&T Chairman and CEO David W. Dorman. "Customers want and need sophisticated communications and networking solutions -- and AT&T is better positioned than any competitor to help customers migrate from existing services to complex platforms and infrastructures, while maintaining reliability, redundancy and security of existing mission-critical services.

"To achieve our goals, we will use our strong cash flow to invest in our industry-leading Internet Protocol (IP) technology platform and unified global network to migrate customers toward expanded IP services faster than competitors.

"We are also improving the overall customer experience and making it easier to do business with AT&T," said Dorman, noting that AT&T had invested more than \$700 million in 2003 to streamline and automate processes and improve performance metrics. "Our top priority for 2004 remains focused on creating long-term value for our shareholders and on bending the top-line curve in AT&T Business."

At the meeting, Dorman's senior management team detailed timelines for delivering new technologies and presented a number of new financial targets for the company.

AT&T CFO Tom Horton Says Company to Continue Focus on Cost Reductions and Deleveraging; Expects to Generate Significant Cash Flow

While acknowledging that soft demand from key telecom sectors and pricing pressure continue to impact the company's top line, Senior Vice President and Chief Financial Officer Thomas W. Horton highlighted AT&T's substantial progress in lowering its cost structure and said the company would continue to focus on reducing costs in 2004 and 2005.

"We believe that initiatives in our sights will allow us to reduce our cost of services and SG&A by roughly \$3 billion by the end of 2005 from 2002 levels," Horton said. "When looking at 2004, by competing aggressively and managing costs and capital spending, we expect to be able to generate significant cash flow."

The company estimates it will generate more than \$4.5 billion in cash flow*, defined as EBITDA less capital expenditures, in 2004.

Horton said AT&T's ability to generate cash allows AT&T to maintain one of the strongest balance sheets in the industry. "We reduced our net debt level** to under \$9 billion over the course of 2003 and this year we intend to repurchase up to \$3 billion in additional debt." He emphasized that once the additional debt repurchase is completed AT&T will have substantial financial flexibility with the overwhelming majority of its remaining debt becoming due in years beyond 2010.

AT&T President William Hannigan Sees Demand For Network-Integration Capabilities Expanding AT&T's Market Opportunity by Up To \$50 Billion, Says Company Leveraging Core Assets, Expertise and Technology to Provide Differentiated Value to Businesses Globally

William J. Hannigan, who recently joined the company as President of AT&T and head of AT&T Business, outlined the company's strategic blueprint to aggressively expand its addressable market by \$50 billion over the next four years, as it evolves from a traditional provider of telecommunications services to a leading integrator of higher-value enterprise and application networking solutions.

By leveraging its marquee customer base and investments in building the world's leading IP network and in setting the standard for superior customer experience, AT&T is already differentiating itself as a network integrator among its competitors, Hannigan said. AT&T has taken its market leadership in traditional voice and data services and, through investment in technology and innovation, rapidly evolved its growth portfolios in virtual private networks, hosting, business continuity and security to address the needs of today's networked enterprise-locally, nationally or globally.

"The network is the place where business gets done. It's the lifeblood of companies. This is no longer a debate," he said. And the need for a networked enterprise-one that is boundless, predictive and adaptable-plays right to AT&T's core strengths and expertise, Hannigan added.

In the last two years, AT&T has invested hundreds of millions of dollars to deploy the latest technologies into its IP network to deliver the performance levels and security features required by businesses of all sizes. "We're the only player with a globally consistent platform capable of meeting the needs of U.S.-based multinational customers," he said.

This year, AT&T Business will:

- Continue to expand its hosting business, which is growing at several times the industry average, to support critical business applications, such as storage, customer relationship management and messaging, as well as open four Internet Data Centers in Frankfurt, Paris, Tokyo and London, bringing the total number of its IDCs to 25;
- More than double its Wi-Fi footprint, which currently covers more than 2,900 hot spots in 22 countries to increase remote access options to secure corporate networks;
- Continue to build the industry's most comprehensive portfolio of business Voice over IP (VoIP) services, giving businesses of all sizes unprecedented choice and flexibility in their VoIP migration;
- Extend AT&T's ability to integrate other carriers' networks, providing businesses with a

single-point of contact and unlimited reach for their own networks.

- Launch Internet Protect to enable companies to mitigate and take preventive measures against cybersecurity attacks before they affect corporate networks;
- Introduce AT&T WebService Connect to enable businesses to share critical services and applications with partners and customers easily and securely;
- Introduce the first network-based VPN service on an MPLS core IP network, delivering all the security, performance, reliability and class of service features previously found only with traditional data networks at lower price points;
- Extend AT&T's global network management and monitoring capabilities to customers' infrastructure at their premise or their own data centers;

Central to delivering these higher-value enterprise and application networking solutions are some of AT&T's differentiating capabilities. One is AT&T's \$200 million networking-management platform - the integrated Global Enterprise Management System (iGEMS). Developed by AT&T Labs, iGEMS provides end-to-end monitoring and management across networks, servers and applications, enabling AT&T to predict and solve problems before they become evident to a customer.

Another capability, AT&T's "Business Direct" customer web portal is directly tied to iGEMS to give customers a "window" into their own networks and applications. Business Direct, provides real-time performance information, and e-sales and servicing tools. Approximately 380,000 companies already use the portal to conduct e-sales and servicing transactions. Customer transactions through the portal - including eOrdering, eMaintenance and eInquiry - rose 30 percent last year.

Hannigan also noted that AT&T was leveraging innovation from AT&T Labs and combining it with the unique expertise of third parties to further solidify its position in the enterprise and application networking market. "We have a stable of 1,200 resellers and agents, as well as strategic alliances with key partners to extend and deepen our reach and influence with customers," said Hannigan.

"We see this as a meaningful opportunity for us to extend and expand off a formidable base. And, once again, we're doing this today," he said. "It's a matter of taking a proven formula and doubling down. We're offering a differentiated value to customers in ways and places where our competitors can't."

AT&T Consumer President John Polumbo Says Company To Offer Bundled Services In 46 States By March 2004, Sets Goal of Growing Consumer Revenues Sequentially in 2006

In his presentation outlining AT&T's consumer business, which generated over \$2 billion in operating income last year, John Polumbo, President of and CEO of AT&T Consumer, focused on the company's strategies for continuing its transformation from a voice long distance company to a total communications provider by migrating customers toward bundled services. "Bundled long-distance and local services are the most important element in the total communications package for consumers and we have proven that consumers want to buy bundles of communications services from AT&T," he said.

"Bundled revenues grew by nearly 80 percent in 2003, bundled subscribers grew by 63 percent in 2003 and today we have more than 4 million bundled subscribers. In 2003, transactional and bundled revenues represent nearly 40 percent of our total consumer revenues. AT&T Consumer offers its One Rate USA® bundled service in 35 states and expects to enter 11 additional ones by the end of March, bringing the total number of states in which we offer bundled services to 46. We are competing aggressively and have a goal of growing consumer revenue again on a sequential basis in 2006."

Polumbo noted that AT&T Consumer has a franchise any company would envy --approximately 35 million customers, including:

- 30 million "standalone" long-distance customers
- 4 million "bundled" local/long-distance customers
- 1.4 million customers of its DSL and Worldnet Internet services
- In 2003, it also sold or re-filled 75 million prepaid calling cards distributed in over 20,000 retail outlets across the nation, including Wal-Mart, Target and 7-Eleven stores.

Polumbo reiterated the company's focus on investing in a portfolio of emerging alternate access technologies and models aimed at "changing the game" so that AT&T can provide VoIP over its own platform.

Commenting on the recent proposed acquisition of AT&T Wireless by Cingular, Polumbo said that AT&T's trial of bundled AWE wireless service with its consumer bundle would continue in several U.S. cities. He noted AT&T would retain its brand and is therefore well positioned to continue offering wireless services with or without AWE as part of its bundled offering.

AT&T Consumer will also offer its package of local, long-distance and DSL services in a total of 28 states by the end of March 2004. Demonstrating its commitment to this goal, the unit announced that Missouri, Kansas and Pennsylvania would be the latest states to get the offer, in addition to 11 states previously announced in 2003.

Polumbo outlined a variety of facilities-based access options AT&T Consumer is testing or supporting to give it the ability to bypass the Bell monopolies and sell broadband access as part of its consumer bundle, including:

- Broadband over electric power lines, a technology that allows voice and data to be transmitted over the electrical grid.
- Municipal and regional networks, best exemplified by UTOPIA -- 18 municipalities in Utah that have formed a venture to build a state of the art fiber to the home network to consumers and business. AT&T will be one of the retail service providers on that network.
- Renting alternative providers' copper lines, avoiding the Bell monopolies' switches and converting VoIP to traditional telephony in the central office.

AT&T To Introduce "AT&T CallVantage" VOIP Service To 100 Largest Markets In 2004

AT&T also outlined its plans for rolling out VoIP to 100 of the largest markets nationwide before the end of the year. Cathy Martine, the company's Senior Vice President spearheading the VoIP initiative, said, "VoIP will enable us to do more for our customers -- both businesses and consumers --by delivering sophisticated applications and bundled services, while helping us drive down costs and increase AT&T's share of the communications wallet. Only AT&T has the ability to serve the entire VoIP marketplace from the largest enterprises and call center operations to small offices, teleworkers and consumers."

AT&T's residential VoIP offering will be branded "AT&T CallVantage" phone service for broadband and will start to become available to customers next month. The service will provide unlimited local and long distance calling, very competitive rates on international calling, and a number of unique features.

These applications will all be accessible from any personal computer, web-enabled PDA or phone keypad, and will include: sophisticated "call logs" that store information for months and let users forward voicemail to anyone on the web; a feature that allows the scheduling of "do not disturb"

periods, sending calls right to voicemail; and a "locate me" service that allows users to forward calls to any phone or all of their phones at once.

"Compared to our competitors, AT&T is well on its way to being the premier provider for VoIP in all market segments," Martine said. She added that the company expects to have more than 1 million business and consumer users across its portfolio of VoIP services by the end of 2005.

Leveraging AT&T's Technology Engine

The company said that it is also leveraging the AT&T Labs innovation engine to develop the next-generation of applications and solutions that will to optimize the power of the network.

Hossein Eslambolchi, President of AT&T Labs, said: "We're providing customers a clear path to a fully integrated, converged and applications-driven future. We're also developing a range of alternate access strategies for AT&T, using wireline, wireless and free-space-optics technologies, to position us to bypass the Bell stranglehold on the last mile and reduce our largest corporate expense."

In addition, AT&T is leveraging the potential of VoIP to serve as a disruptive access technology, providing AT&T the ability to directly connect with the customer at the application layer.

Eslambolchi also demonstrated AT&T Labs innovations in IP security, introducing smart technologies that literally patrol the network and protect users. This network-centric approach to security enables AT&T to proactively deploy intrusion prevention capabilities, rather than solely rely on the industry standard of reactive intrusion detection. Eslambolchi also demonstrated the business productivity and transaction performance that future Application Aware networking capabilities will deliver.

* Cash flow is defined as EBITDA, less capital expenditures (excluding the impacts of FIN 46 in 2003). EBITDA is net income, excluding depreciation and amortization expense, 4Q'02 AT&T Latin America asset impairment charge, other income (expense), provision for income taxes, minority interest income and net income (losses) related to equity investments. A detailed reconciliation of EBITDA to net income for 2004 is not provided as the impacts of certain items such as the impact associated with debt repurchases and the tax implications associated with our investment in AT&T Latin America are not known at this time. Such impacts could be significant.

** AT&T 2003 Net debt of \$8.8B is defined as total debt of \$14.4B, less cash of \$4.4B, restricted cash of \$0.5B and net foreign debt fluctuations of \$0.8B.

About AT&T

For more than 125 years, AT&T (NYSE "T") has been known for unparalleled quality and reliability in communications. Backed by the research and development capabilities of AT&T Labs, the company is a global leader in local, long distance, Internet and transaction-based voice and data services.

AT&T 'Safe Harbor'

The foregoing contains "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. 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. 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. 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 information is presented solely to provide additional information to further understand the results of AT&T.

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