

AT&T Corporation

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RATING

No rating assigned. Reference report only.

Rory Buchalter/Peter Schroeder
 416-593-5577 x2268/x2279
 rbuchalter@dbrs.com

UPDATE

AT&T Corporation (“AT&T” or the “Company”) came into its current configuration with the spinoff of its Broadband operations in November 2002. Subsequently, AT&T has seen improvement in its financial profile, with gross debt levels declining to \$16.3 billion (pro forma the October 22 repurchase), from \$34 billion in 2001 through asset sales and free cash flow. With a current cash balance of around \$5.7 billion, AT&T should have sufficient liquidity to fund \$4.8 billion in debt maturing over the next three years. However, business risk remains quite high, resulting in operating cash flow declining to \$6.9 billion for the 12 months ending September 2003. A&T has seen continued pressure on its core long distance voice business resulting from: (1) increased competition from the (Regional Bell Operating Companies) RBOCs; (2) declining pricing as customers migrate to lower price plans; and (3) increased substitution of wireless and e-mail for long distance, especially with the promotion of one-rate calling plans from most of the major wireless carriers. Going forward, long distance pricing will also be pressured by improvements in voiceover Internet Protocol (IP) technology. In its Business segment, it is also experiencing pressure in its legacy data operations from: (1) overcapacity with pricing pressure continuing as carriers emerge from bankruptcy protection; (2) reduced information technology (IT) spending as a result of a weakened economy; and (3) contracts repricing at lower current market rates. AT&T has responded to this by further reducing its

headcount by 6,000 personnel. It has also taken advantage of the favourable regulatory regime that enables it to utilize the unbundled network elements platform (“UNE-P”) in order to provide local voice services for both consumers and business, which has helped stem some of the revenue decline. Finally, in order to maintain its free cash flow, AT&T has cut its capital expenditures to \$3 billion, a level that still allows it to pursue growth initiatives. AT&T is highly dependent on a near-term recovery in business IT spending, that could lead to growth in its data services and mitigate future declines in business long distance. On the retail side, its expansion of local service into 35 states gives it the opportunity to defend itself against the recently launched RBOC bundling initiatives that could lure AT&T long distance customers. Therefore, to maintain its investment-grade rating, AT&T will need to execute in defending its customer base by trying to bundle additional services, combined with increasing its market share of the highly competitive business data services market. This appears achievable given AT&T’s strong brand name, good balance sheet, and network reach. In the longer term, AT&T will need to once again consider its role in a rapidly changing telecommunications environment. It is a likely takeover candidate for an RBOC, although regulatory/legal approval would be quite cumbersome and time consuming. Additionally, it could consider merging with another large data carrier to help remove some of the excess data capacity.

CONSIDERATIONS

Strengths:

- Globally recognized brand name
- Strong network in the U.S. with global connectivity
- Large customer base that generates substantial cash flow
- Unbundled network elements platform enables local access

Challenges:

- RBOC competition in long distance and bundling
- Wireless and e-mail substitution for fixed-line long distance
- Weak economy affecting business demand
- Alternative carriers emerging from Chapter 11 bankruptcy protection

FINANCIAL INFORMATION

For the 12-month period ended	Sept. 30	Dec. 31	Dec. 31	Dec. 31	Dec. 31
(US\$ millions)	2003	2002	2001 (1)	2000 (2)(3)	1999 (2)(3)
Communications revenue (4)	35,720	37,827	42,197	46,850	49,903
Broadband revenue	0	0	0	8,683	5,070
EBITDA (5)	9,319	10,613	13,375	19,846	18,627
Core net income (5)	2,065	2,780	4,760	7,123	7,792
Reported net income	2,041	-13,082	7,715	4,669	3,428
Operating cash flow	6,929	7,668	9,319	13,047	12,929
Total debt (\$ millions) (6)	16,322	22,574	34,159	69,637	40,550
Debt to capital (6)	56.8%	64.7%	38.3%	39.2%	48.7%
Cash flow/total debt (6)	0.42	0.34	0.27	0.19	0.32
EBITDA interest coverage (5)	7.29	7.33	8.96	6.70	12.39
Net debt to EBITDA (5) (6)	1.1	1.4	1.8	3.5	2.1
ROE	15.3%	22.6%	9.2%	6.9%	19.3%

(1) Restated to exclude AT & T Broadband, which was spun off November 18, 2002. (2) Restated to exclude AT & T Wireless, which was spun off on July 9, 2001. (3) MediaOne's results normalized for 2000, while TCI's results re normalized for 1999. are normalized for 1999. (4) Reflects revenue from the business, consumer, and corporate segments. (5) EBITDA and core net income reflect expense restatements in their proper periods during 2001, 2002 EBITDA excludes restructuring charges. (6) 2003 debt is pro forma the \$1.1 billion repurchased in October 2003.

THE COMPANY

AT&T Corporation is one of the largest voice and data communication providers in the world, serving businesses, consumers, and governments with domestic and international long distance, regional, and local communications, as well as data and IP-related services.

Alternative Carriers – United States

DOMINION BOND RATING SERVICE LIMITED

CONSIDERATIONS

Strengths: (1) The A&T name is one of the most globally recognized telecommunications brand names in the world. This helps drive sales of new and existing services around the world.

(2) The Company has a large network in the U.S. with over 500 points of presence, while providing long distance and data services in every state. It is one of the largest voice and data carriers in the world, handling 3,500 trillion bytes of data and 320 million voice calls on an average day. AT&T also provides long distance service to 250 nations, along with dial-up Internet access in 59 countries.

(3) Through its Business Services segment, AT&T serves four million customers, while in its Consumer segment it has approximately 40 million customers, helping the Company generate significant operating cash flow that is approximately \$7 billion on an annualized basis. Operating cash flow has also benefited from significant cost reductions, with headcount reduced to around 65,000 from nearly 78,000 at the end of 2001.

(4) AT&T has been able to penetrate the consumer local voice service market with 3.4 million lines in 15 states, with plans to offer local service in 35 states by year-end 2003 as part of its bundled voice service offering. The Company benefits from the UNE-P, which allows it to lease network elements from the RBOCs to gain last-mile access at a substantial price reduction to resale rates or implementing its own last-mile access.

(5) Given the turmoil facing several U.S. alternative carriers (WorldCom (MCI), Global Crossing, WilTel Communications, and Level 3), AT&T benefits from its good balance sheet and long-term operating history in gaining new customers.

Challenges: (1) AT&T faces intense competition from the RBOCs as they now can offer national long distance services across the U.S. Although AT&T can now offer

local and long distance services in many states, the RBOCs can now respond with bundled offerings that include local, long distance, DSL, video, and wireless services.

(2) Long distance pricing and competition have also been affected by increased wireless and e-mail (Internet) substitution. In addition, the Company has experienced a shift in long distance volume from retail to wholesale that has lower margins.

(3) With the downturn in the U.S. economy, AT&T has seen a slower growth rate for data and voice services in the business market. This has been further exacerbated by headcount reductions in many firms, with many enterprise customers grooming their existing networks. In addition, with many firms focused on cost reductions, IT spending has been constrained.

(4) With Global Crossing and WorldCom (MCI) about to emerge from Chapter 11 protection, pricing pressure is expected to continue due to the oversupply of capacity and the fight for quality customers. Although pricing pressure was expected to alleviate during 2003, the third quarter of 2003 saw continued signs that this trend was not improving.

(5) Within its outsourcing and professional services division, AT&T is being pressured related to two factors: (a) financial service customers who have reduced their spend related to weaker capital markets; and (b) the disintermediation caused by service aggregators such as IBM and EDS that are trying to gain large enterprise and government IT network management contracts at the expense of the telcos.

(6) AT&T operates in a complex U.S. regulatory environment where federal, state, and local regulators create a tremendous bureaucracy. In addition, the telecommunication industry is subject to rapid technology change that can force capital expenditures to increase substantially to remain competitive.

AT&T GLOBAL IP NETWORK



- AT&T's network offers at least 99.99% reliability in terms of ATM, Frame Relay, and IP services.
- Outside the U.S., the AT&T Global IP Network reaches more than 50 countries with points of presence in 850 cities.

EARNINGS AND OUTLOOK

Selected Income Statement Items (US\$ millions)	9 months ended		Year ended		
	Sept. 30	Sept. 30	Sept. 30	Dec. 31	Dec. 31
	2003	2002	2003	2002	2001
Business Services	19,125	19,970	25,713	26,558	27,705
Consumer Services	7,265	8,791	10,001	11,527	14,843
Other	40	(224)	6	(258)	(351)
Total Revenue	26,430	28,537	35,720	37,827	42,197
EBITDA (1)	6,890	8,184	9,319	10,613	13,375
EBIT (1)	3,283	4,553	4,455	5,725	8,816
Interest expense	917	1,087	1,278	1,448	1,493
Core net income (1)	1,538	2,253	2,065	2,780	4,760
Reported income	1,525	(13,598)	2,041	(13,082)	7,715
EBITDA margin	26.1%	28.7%	26.1%	28.1%	31.7%
ROE (core net income)	15.1%	24.4%	15.3%	22.6%	9.2%

(1) EBITDA, EBIT, and core net income exclude restructuring and impairment charges. In addition, EBITDA EBIT and core net income have been adjusted for 2002 and 2001 relating to accounting misstatements revealed in Q3 2003 that the Company expensed in the current period.

Summary:

AT&T generated nearly \$6.9 billion of EBITDA for the first nine months of 2003, which is a decline of 15.8% compared to the prior year comparable period attributable to:

- Pricing pressure on long distance and data services related to RBOC and new entrant competition, plus the continued migration of consumers to lower priced products and calling plans.
- Declining business retail long distance volumes related to wireless and e-mail substitution.
- Data demand negatively impacted by a weakened U.S. economy and a general decline in enterprise IT spending.

These were somewhat offset by improvements in:

- IP related revenues for business customers.
- Growing local voice revenues for business and residential customers facilitated by UNE-P.
- AT&T now has 4.3 million business local business access lines and 3.5 million consumer local lines.

Interest expense declined to just under \$920 million related to:

- Debt reduction through free cash flow and utilizing the substantial cash balance left after the AT&T Broadband spin off in November 2002.

However, interest expense reductions were not enough to offset the decline in EBITDA, as core net income declined to just above \$1.5 billion for the nine months ending September 30, 2003.

- EBITDA margins are now 26.1%, declining from 28.1% compared to the prior year comparable results.
- However, cost reductions have helped stabilize EBITDA margins during the last couple of quarters.

Outlook:

Revenues are expected to remain under pressure attributable to:

- Further per minute price declines in long distance revenues.
- Competition from the RBOCs through their bundled offerings for total consumer telecommunications services.
- Continued wireless substitution for long distance through continued promotion of one-rate plans at most wireless carriers.
- Data and outsourcing revenue facing additional pressure as carriers emerge from bankruptcy and service aggregators continue to target large enterprise customers.

All of the above will continue to pressure EBITDA, with AT&T responding by cutting costs:

- 6,000 headcount reduction in 2003 expected to have annualized savings of \$650 million.
- AT&T to implement further technology improvements for billing and customer provisioning.

Overall, EBITDA is expected to continue to decline in the near term, but at a slower pace than experienced over the last two years.

- EBITDA stability is highly dependent on the improvement in the overall business environment.

Core net income and return on equity (ROE) will likely continue to decline in the near term, even with:

- Further reductions in interest expense as debt levels decline.
- Reduction in depreciation expense as capital expenditures have been curtailed.

FINANCIAL PROFILE AND SENSITIVITY ANALYSIS

Cash Flow Statement (US\$ millions) For the 12-month period ended	Actual (1)			Sensitivity Analysis		
	Sept. 2003	Dec. 2002	Dec. 2001	Year 1	Year 2	Year 3
EBITDA (2)	9,319	10,613	13,375	6,742	5,788	4,952
Core net income (2)	2,065	2,780	4,760	507	141	(221)
Depreciation	4,864	4,888	4,559	4,896	4,665	4,432
Operating Cash Flow	6,929	7,668	9,319	5,403	4,806	4,210
Less: capital expenditures	3,572	3,904	5,767	3,500	3,500	3,500
Less: dividends	625	555	549	750	750	750
Free Cash Flow (Before Work. Cap.)	2,732	3,209	3,003	1,154	556	(39)
Changes in working capital	n/a	(820)	(1,712)	0	0	0
Free cash flow	n/a	2,389	1,291	1,154	556	(39)
Acquisitions/dispositions/other	n/a	431	11,515	0	0	0
Cash flow before financing	n/a	2,820	12,806	1,154	556	(39)
Change in debt	n/a	(8,169)	(12,304)	(3,563)	(908)	(320)
Change in equity	n/a	2,684	10,113	0	0	0
Change in cash	n/a	(2,666)	10,615	(2,409)	(351)	(359)
Actual				Assumptions		
Revenue growth	-7.4%	-10.4%	-9.9%	-10.0%	-10.0%	-10.0%
EBITDA margin (2)	26.1%	28.1%	31.7%	21.0%	20.0%	19.0%
Interest rate	7.1%	6.4%	5.5%	7.4%	7.4%	7.4%
Cash balance (US\$ millions)	5,655	8,014	10,680	3,245	2,894	2,535
Liquidity and Coverage Ratios						
% gross debt in capital structure (3)	55%	65%	38%	49.0%	48.3%	49.6%
EBITDA interest coverage (2)	7.29	7.33	8.96	6.33	6.39	5.75
EBIT interest coverage (2)	3.49	3.95	5.90	1.73	1.24	0.60
Cash flow to gross debt (2)(3)	0.42	0.34	0.27	0.42	0.41	0.37
Net debt to EBITDA (2)	1.14	1.37	1.76	1.41	1.55	1.82

(1) Actual results depict results of the consumer, business, and corporate segments for all years.

(2) EBITDA and core net income excludes restructuring charges, with retroactive adjustments for misstatements revealed during Q3 2003.

(3) Debt levels and cash for September 2003 are pro forma for the \$1.1 billion debt repurchase completed on October 22, 2003.

Summary:

Free cash flow before working capital declined to approximately \$2.7 billion for the 12-months ending September 30, 2003 attributable to:

- Continued declines in operating cash flow, with the latest 12 month figure of just under \$7 billion being negatively affected by competition, substitution and weaker demand in both consumer and the business segments.
- Dividend payments have increased to approximately \$625 million, with the Company raising the common dividend to \$0.2375 per share effective in the third quarter of 2003 combined with more shares outstanding.
- However, capital expenditures have continued to decline, with a reduction of nearly \$400 million since year-end 2002 to \$3.5 billion.
- Most capex is related to growth initiatives in the Business Services segment, with capex in the Consumer Services division below \$100 million on an annualized basis.
- Although free cash flow has been declining, the Company has been utilizing it to reduce debt.
- Announced a \$4.3 billion debt repurchase in January 2003, a \$2 billion debt repurchase program in July 2003, with another \$1.1 billion repurchased as of October 22, 2003.

- As a result, most ratios have continued to improve and remain at levels that are indicative of an investment-grade credit despite the declines in revenue and operating cash flow.

Outlook:

Positive free cash flow is expected to continue in the near term as:

- Capital expenditures are expected to decline to between \$2 billion and \$3 billion in 2004, attributable to lower cost growth initiatives and declining prices for telecommunications equipment.
- Dividends are expected to be around \$750 million in 2004, reflecting the recent increase in September 2003.
- However, operating cash flow is expected to continue to decline, albeit at lower levels than experienced in 2003.
- This reflects continued pressure in long distance and some higher margin data services, offset by cost reductions and further growth in consumer local access lines through UNE-P.
- Overall, AT&T appears to have the ability to meet its near term debt maturities and reduce its gross debt levels further.
- Therefore, ratios could potentially improve from current levels, despite the environment of increasing business risk.

Sensitivity Analysis:

DBRS stress tests the financial strength of companies analyzed to measure their sensitivity under various extreme scenarios. The assumptions used are based neither upon any specific information provided by the Company, nor any expectations DBRS has concerning the future performance of the Company.

Assumptions:

- Revenues decline 10% in Years 1 to 3.
- EBITDA margins contract to 21% in Year 1, 20% in Year 2, and 19% in Year 3.
- Working capital is assumed at zero.
- Capital expenditures are assumed at \$3.5 billion for each of the next three years.
- All maturing debt is redeemed with existing cash and is not refinanced.
- Assuming maturing debt cannot be refinanced, AT&T can cover 82% of its cash needs through internal cash generation, and would utilize approximately \$3.1 billion of cash from its balance sheet.
- However, AT&T would still have nearly \$2.5 billion in cash on its balance sheet after the three years, which is still a good liquidity cushion.
- Coverage and liquidity ratios come under pressure, but still remain good for a telecommunications operator.
- AT&T's ratios would still be indicative of an investment-grade credit, underpinned by strong brand equity and its significant customer base.

Outcomes:

- Even under the above adverse case scenario, AT&T generates enough internal cash to cover its dividend and capex requirement over the three-year period.

LONG-TERM DEBT MATURITIES AND BANK LINES

AT&T Corp. Debt Maturity Schedule

(As of September 30, 2003)* (\$)

Oct. 2003 - Sept. 2004	2,172
Oct. 2004 - Sept. 2005	908
Oct. 2005 - Sept. 2006	320
Oct. 2006 - Sept. 2007	4,124
Oct. 2007 - Sept. 2008	-
Past Oct. 2008	7,193
Notes Subtotal:	14,716
CP & short-term	1,391
Leases & other	215
Total	16,322

* Pro forma \$1.1 billion repurchased on October 22, 2003

Summary:

- AT&T has approximately \$16.3 billion in debt outstanding after its latest \$1.1 billion debt repurchase on October 22, 2003.
- Within the next 12 months, the Company has approximately \$3.56 billion due, which can easily be met with existing cash on its balance sheet.
- The remainder of AT&T's debt is well staggered out, with the only exception being the October 2006 to September 2007 period where over \$4.1 billion comes due.
- AT&T recently renegotiated its bank facility.
 - Amount was reduced to \$2 billion from \$3 billion.
 - 364 day facility, with a one year term out option.
 - Can be used for commercial paper backup, short-term debt redemption, or up to \$300 million for letters of credit.
 - Covenants include Consolidated Debt to EBITDA not to exceed 2.25 times on a trailing four quarter basis.
 - Also, EBITDA interest coverage is not to be below 3.5 times on a trailing four quarter basis.
- AT&T renewed its 364 day Business and Consumer Accounts Receivable Securitization program in July 2003:
 - Provides up to \$1.65 billion of financing, depending on eligible receivables that vary from month to month.
 - Proceeds are recorded as short-term debt.
 - DBRS estimates \$200 million were outstanding as of September 30, 2003.
 - Does not include the provision that previously required the outstanding balances to be paid by the collection of the receivables in the event AT&T's ratings were downgraded below investment-grade status.
 - Covenants include a net debt to EBITDA test that cannot exceed 2.25 times.

Outlook:

- With free cash flow expected in the near term, debt levels are likely to be reduced further.

PENSION OBLIGATIONS

Year	Assumed Return (%)	Assumed Discount Rate on Liabilities (%)	(A) Expected Return (\$ millions)	(B) Actual Return (\$ millions)	(B-A) Surplus (Deficiency) (\$ millions)
2000	9.5%	7.50%	1,812.0	335.0	(1,477.0)
2001	9.5%	7.25%	1,647.0	(1,576.0)	(3,223.0)
2002	9.0%	6.50%	1,526.0	(1,663.0)	(3,189.0)

Year (\$ millions)	(A) Pension Fund Assets	(B) Pension Fund Liabilities	(A-B) Net Pension Surplus (Deficiency)	Cash Contribution (by employer)	Pension Expense (Income)
2000	21,203.0	13,063.0	8,140.0	94.0	(775.0)
2001	18,449.0	13,878.0	4,571.0	59.0	(277.0)
2002	15,603.0	14,985.0	618.0	70.0	(232.0)

Summary:

- AT&T's pension plan has suffered two years of negative actual returns, similar to many other defined benefit pension plans in the U.S. telco segment.
- The Company experienced a significant difference of nearly \$3.2 billion in comparing its actual return in 2002 versus the expected return used for accounting purposes.
- Although the Company has experienced deficiencies over the last three years, it booked a net pension credit of \$232 million in 2002, which DBRS has not adjusted out of its income statement.
- During 2002, AT&T used an assumed rate of return of 9.0% (still somewhat high), down 50 basis points from the previous year.
- It also reduced its discount rate by 75 basis points to 6.5% (somewhat more conservative in comparison to the RBOCS who utilized 6.75%).
- AT&T has seen its pension fund asset base reduce by \$5.6 billion over the last two years, while its liabilities have increased by nearly \$2 billion.
- Therefore, its net pension surplus has declined dramatically from over \$8 billion in 2000 to just over \$600 million in 2002.

- AT&T's Management pension plan and nonqualified pension plans had deficits, and as a result, AT&T recorded an additional minimum pension liability of \$699 million in 2002.
- The offset to this liability was an intangible asset of \$410 million and a charge to other comprehensive income of \$289 million (\$179 million net of tax).

Outlook:

- AT&T has indicated the rate of return for plan assets in 2003 will be 8.5%, similar to the U.S. RBOCs.
- With the discount rate maintained at 6.5%, it appears that the pension credit will be further reduced in 2003, with DBRS estimating an amount between \$50 million to \$100 million.
- Pension fund assets are expected to improve in 2003 due to the strong performance of the stock market year-to-date, so the pension surplus will grow.
- Overall, AT&T does not have a pension problem.

RESTRUCTURING OF AT&T CORPORATION

The following summarizes major restructuring events over the past three years at AT&T Corporation:

- (1) October 25, 2000: AT&T announced a restructuring plan to fully separate or issue separate tracked stocks to reflect the performance of AT&T's four major operating units: (Consumer, Business, Wireless, and Broadband).
- (2) July 9, 2001: AT&T split off AT&T Wireless as a separate, independent traded company.
- (3) August 10, 2001: Liberty Media splitoff as an independently traded entity.
- (4) November 18, 2002: AT&T spun off AT&T Broadband to its shareholders. Immediately following the spinoff, AT&T Broadband combined with Comcast Corporation.
- (5) AT&T now has two divisions: the Consumer and Business segments that provide local, long distance, data, and Internet services.

SEGMENTED OPERATIONS

AT&T Business Services

(US\$ millions)	<u>9 months</u> Sept. 2003	<u>9 months</u> Sept. 2002	<u>12 months</u> Sept. 2003	<u>12 months</u> Dec. 2002	<u>12 months</u> Dec. 2001
Revenue Breakdown					
LD voice	8,635	9,401	11,488	12,254	n/a
Local voice	1,098	819	1,434	1,155	n/a
Subtotal voice	9,733	10,220	12,922	13,409	n/a
Data services	5,942	6,181	8,021	8,260	n/a
IP&E services	1,380	1,235	1,822	1,677	n/a
Subtotal data	7,322	7,416	9,843	9,937	n/a
Outsourcing, professional & other	2,070	2,334	2,948	3,212	n/a
Total revenue	19,125	19,970	25,713	26,558	27,705
EBITDA (1)	5,264	5,861	7,044	7,641	8,325
EBIT (1)	1,843	2,488	2,450	3,095	3,642
Capex	2,153	2,417	3,450	3,714	5,422
EBITDA margin	27.5%	29.4%	27.4%	28.8%	30.0%
EBIT margin	9.6%	12.5%	9.5%	11.7%	13.1%

(1) EBITDA and EBIT exclude restructuring and impairment charges. In addition, EBITDA and EBIT have been adjusted for 2002 and 2001 relating to accounting misstatements revealed in Q3 2003.

Background:

AT&T Business Services offers a variety of global telecommunications services to small and mid-sized businesses, large domestic and international businesses, and government agencies. Services include long distance, international, toll-free and local voice, data/IP, and wholesale transport services.

Summary:

EBITDA for the nine months ending September 2003 was \$5.3 billion, declining 10.2% versus the prior year comparable attributable to:

- Pressure on long distance revenue from competition, wireless, and e-mail substitution and pricing per minute declines.
- Data revenue negatively affected by a weak business environment, carriers emerging from bankruptcy protection, network grooming, and contracts repricing at lower market rates.
- Outsourcing and professional fees were negatively affected by network grooming, increasing service aggregator competition, and AT&T not including its Latin American results in this segment after Q1 2003.

Slightly offsetting these declines were:

- Improved business local access revenues, with local lines growing to 4.3 million from 3.4 million at the end of September 2002.
- Continued growth in Internet Protocol and Enhanced Services, driven by managed services as well as applications such as web hosting and web security.
- Cost reductions through reduced headcount.

As a result, EBITDA margins contracted to 27.5% for the latest nine months compared to 29.4% in the comparable period.

- However, in response to declining EBITDA, capex was reduced by 11% to \$2.15 billion for the latest period.
- This resulted in a capex to revenue ratio of 11.2%, which is quite high in comparison to many other alternative carriers.
- AT&T has not starved its capex like many alternative carriers who face funding constraints, even those who have emerged from bankruptcy.

Outlook:

- Revenue is expected to continue to decline in the low to mid-single digit range in the near term related to:
 - MCI and Global Crossing emerging from with recapitalized balance sheets and potentially becoming more aggressive in term of data pricing.
 - Long distance revenue being pressure by further RBOC entrance into the enterprise market on a national basis.
 - Continued wireless and e-mail substitution.
 - This is offset by continued growth in IP as the economy begins to recover and increased local revenues facilitated by UNE-P.
- EBITDA will likely continue to decline also at low single digit rate, with EBITDA margins expected to remain at around 25% to 27% with headcount reductions and process improvements countering some of the revenue loss.
- Capex is expected to stay at around \$3 billion unless business demand picks up.

AT&T Consumer Services

(US\$ millions)	<u>9 months</u> <u>Sept. 2003</u>	<u>9 months</u> <u>Sept. 2002</u>	<u>12 months</u> <u>Sept. 2003</u>	<u>12 months</u> <u>Dec. 2002</u>	<u>12 months</u> <u>Dec. 2001</u>
Revenue Breakdown					
Standalone LD, transactional	5,860	8,038	8,235	10,413	n/a
Bundled services	1,405	753	1,766	1,114	n/a
Total Revenue	7,265	8,791	10,001	11,527	14,843
EBITDA	1,736	2,364	2,405	3,033	4,898
EBIT	1,630	2,191	2,242	2,803	4,698
Cap ex	61	95	93	127	141
EBITDA margin	23.9%	26.9%	24.0%	26.3%	33.0%
EBIT margin	22.4%	24.9%	22.4%	24.3%	31.7%
Local customers (thousands)	3,547	1,916	3,547	2,423	1,266
(1) EBITDA and EBIT exclude restructuring and impairment charges.			46%		

Background:

AT&T Consumer Services provides a variety of communication services to residential customers including domestic and international long distance, collect calling, and prepaid phone cards, local and local toll, and dial-up Internet. AT&T has local consumer operations in Michigan, Ohio, Illinois, New York, Texas, Georgia, New Jersey, California, Maryland, Massachusetts, Virginia, Indiana, Arizona, Minnesota, and Wisconsin.

Summary:

EBITDA for the nine months ending September 30, 2003, was \$1.73 billion, a decline of 27% versus the prior year comparable attributable to:

- Long distance revenue declining significantly, attributable to RBOC competition, increased usage of dial-around services, wireless and Internet substitution, and customer migration to lower priced products and calling plans.
- Partially offsetting this decline was the near doubling of Bundled Service revenue driven by an 85% increase in

local access lines to 3.5 million with operations in 15 states.

- Even with headcount reductions, EBITDA margins declined to just under 24% for the latest nine months versus almost 27% in the prior year comparable.

Outlook:

- Overall revenue will likely continue to be pressured as long distance revenue will be negatively affected by:
 - RBOC bundling efforts that will further erode long distance market share and pricing;
 - Increased wireless substitution through national one rate plans; and
 - Further migration to lower cost plans and increased usage of dial around services.
- Countering this will be the growth in local access revenues as AT&T rolls out its service utilizing UNE-P to 35 states by year-end 2003.
- EBITDA and EBIT margins will continue to decline towards the 20% range.



GLOBAL TELCO COMPARATIVE GRID

Symbols = Above normal = Normal = Below normal							
Rank	Characteristics	Profitability	Balance Sheet	Cash Flow-to-Debt	Coverage Ratios	Size	Key Support/Other
1	NTT Corp.						
2	SBC Communications Inc.						
3	Belgacom S.A.						
4	BellSouth Corporation						
5	Bell Canada						
6	Verizon Communications Inc.						
7	ALLTEL Corporation						
8	Aliant Telecom Inc.						
9	Saskatchewan Telecommunications Holding						
10	Telefonica S.A.						
11	Manitoba Telecom Services Inc.						
12	Telecom Italia S.p.A.						
13	British Telecommunications plc						
14	Deutsche Telekom AG						
15	TELUS Corporation						
16	France Telecom SA						
17	AT&T Corporation						
18	Sprint Corporation						
19	Royal KPN N.V.						
20	Qwest Communications International Inc.						

Criteria	EBITDA Margins	Debt to Capital	Cash Flow to Debt	EBITDA Int. Coverage	Wireline Subscribers	Support/Other
	Above average	>42%	<45%	>0.40	>10.00	Gov't /Regul./ Shareholder
	Average	38%-42%	45%-55%	0.30-0.40	7.00-10.00	Regul./Shareholder
	Below average	<38%	>55%	<0.30	<7.00	None/Shareholder Drag

Summary:

- AT&T would rank near the bottom of global telco carriers, attributable to the significant declines in revenue and EBITDA it has experienced.
- Key strengths for AT&T include its brand name, large subscriber base, significant free cash flow and its ability to reduce debt over the past 12 months.
- However, AT&T faces possibly the highest business risk of any carrier listed above as it is being negatively affected by:
 - RBOC entrance into the long distance and data markets;
 - Wireless and e-mail substitution for long distance;
 - Data pricing pressure resulting from overcapacity and competitors emerging from bankruptcy protection.

GLOBAL TELCO FINANCIAL COMPARATIVES

(US\$ millions)*

	Date	Total Revenue*	EBITDA*	EBITDA Margin	EBITDA Coverage	Cash Flow/Debt	% Debt in Cap. Stru.
ALLTEL Corporation (1)	Sept. 2003	2,428	1,386	57.1%	8.03	0.38	46.4%
Aliant Telecom Inc.	Dec. 2002	1,191	573	48.2%	9.89	0.49	49.9%
AT&T Corporation	Sept. 2003	35,720	9,319	26.1%	7.29	0.42	56.8%
Belgacom S.A.	Dec. 2002	5,486	2,034	37.1%	25.19	2.32	13.5%
Bell Canada **	Mar. 2003	9,407	4,089	43.5%	7.22	0.39	53.1%
BellSouth Corporation (1)	June 2003	18,298	8,005	43.7%	8.86	0.49	44.7%
British Telecommunications plc	Mar. 2003	29,963	9,288	31.0%	3.55	0.24	85.5%
Deutsche Telekom AG (1)	Mar. 2003	32,122	10,984	34.2%	2.25	0.12	61.5%
France Telecom (1) (6)	June 2003	19,128	7,989	41.8%	3.56	0.16	82.0%
Manitoba Telecom Service Inc. (11)	June 2003	562	298	53.1%	14.03	0.62	37.3%
Nippon Telegraph and Telephone Corporation	Mar. 2003	84,024	32,939	39.2%	32.99	0.49	49.4%
Qwest Communications International Inc.	June 2003	14,460	3,966	27.4%	2.17	0.09	n/a
Royal KPN N.V. (1)	June 2003	9,111	3,153	34.6%	3.85	0.28	67.5%
Saskatchewan Tel. Holding Co. (1) (2)	Dec. 2002	594	254	42.7%	12.29	0.68	39.7%
SBC Communications Inc.	June 2003	42,247	14,983	35.5%	11.85	0.66	32.7%
Sprint Corporation (1)	June 2003	6,164	2,954	47.9%	4.87	0.25	63.7%
Telecom Italia S.p.A. (1) (10)	Mar. 2003	17,995	8,419	46.8%	5.58	0.21	64.2%
Telefonica S.A. (1) (5)	June 2003	10,733	4,709	43.9%	7.25	0.35	52.7%
TELUS Corporation (1) (4)	Sept. 2003	3,295	1,358	41.2%	4.05	0.23	53.0%
Verizon Communications Inc. (1)	Sept. 2003	39,763	16,120	40.5%	8.89	0.43	43.5%
High				57.1%	32.99	2.32	85.5%
Low				26.1%	2.17	0.09	13.5%
Median				41.8%	7.29	0.39	51.4%

	Date	NAS (3) (thousands)	Wireless (thousands)	DSL (thousands)	Capex*	Operating Cash*	Free Cash Flow*
ALLTEL Corporation	Sept. 2003	3,122	7,928	130	1,222	2,249	594
Aliant Telecom Inc. (7)	Dec. 2002	1,520	551	97	242	405	55
AT&T Corporation	Sept. 2003	7,847	-	n/a	3,572	6,929	2,732
Belgacom S.A.	Dec. 2002	4,798	4,253	517	1,077	1,267	(120)
Bell Canada **	Mar. 2003	11,626	3,430	1,104	1,804	2,823	(275)
BellSouth Corporation (1) (12)	June 2003	24,150	9,056	1,225	3,117	7,578	2,923
British Telecommunications plc	Mar. 2003	29,353	-	937	3,648	6,117	1,082
Deutsche Telekom AG (8)	Mar. 2003	58,200	59,800	3,400	6,339	7,760	(278)
France Telecom SA (6)(8)	June 2003	33,965	51,943	2,110	6,697	10,840	3,633
Manitoba Telecom Service Inc. (11)	June 2003	712	242	67	118	217	61
Nippon Telegraph and Telephone Corporation	Mar. 2003	50,714	43,861	n/a	13,273	26,263	12,369
Qwest Communications International Inc.	June 2003	16,504	854	560	1,854	2,136	282
Royal KPN N.V. (1)	June 2003	9,979	13,766	513	1,181	3,516	2,335
Saskatchewan Tel. Holding Co. (1) (2)	Dec. 2002	614	259	64	110	168	9
SBC Communications Inc. (12)	June 2003	55,807	13,584	2,773	5,223	12,166	3,149
Sprint Corporation (1)	June 2003	7,982	15,290	223	3,831	5,819	1,526
Telecom Italia S.p.A. (1) (8)	Mar. 2003	27,107	40,171	1,100	3,280	10,496	314
Telefonica S.A. (1) (5) (8)	June 2003	17,557	30,554	1,294	3,550	7,834	3,052
TELUS Corporation (1) (9)	Sept. 2003	4,883	3,265	516	819	1,234	302
Verizon Communications Inc. (1)	Sept. 2003	56,155	36,026	2,115	12,225	19,726	3,273

*Conversion rate: US\$ 1 = Cdn\$ 1.50; US\$ 1 = £ 1; US\$ 1 = ¥130.

**Reflects accounting restatements, Aliant at equity, Bell ExpressVu at cost.

(1) Segmented wireline data for total revenue, EBITDA, and EBITDA margin. (2) DBRS tax-adjusted SaskTel's revenue and EBITDA by \$47.9 million.

(3) Network access lines. (4) Excludes TELUS Communications (Québec) Inc. results. (5) Revenue and EBITDA reflect Spanish wireline operations only.

(6) France only wireline and ADSL. (7) DBRS estimate for capex, operating cash flow, and free cash flow. (8) Includes global wireless subscribers.

(9) Includes TELUS Communications (Québec) Inc. (10) Telecom Italia's ratios factor in Olivetti due to the merger between Telecom Italia S.p.A. and Olivetti.

(11) MTS excludes Bell Insignia results. (12) Wireless lines based on proportion of ownership interest in Cingular Wireless LLC (60% SBC, 40% BellSouth).

AT&T Corporation

Balance Sheet (US\$ millions)	Sept. 30			As at December 31		
	2003 (1)	2002	2001	2003 (1)	2002	2001
Assets				Liabilities & Equity		
Cash (1)	5,655	8,014	10,680	Short-term debt (1)	3,563	3,762
Accounts receivable and other	6,251	7,889	12,047	Other current liab.	7,362	8,262
Total Current Assets	11,906	15,903	22,727	Total Current. Liab.	10,925	12,024
Net fixed assets	24,719	25,604	26,803	Long-term debt (1)	12,759	18,812
Discontinued operations	0	0	101,503	Deferred & other	13,000	12,124
Other assets	8,387	9,139	9,134	Preferred equity	0	0
Goodwill and intangibles	5,199	4,626	5,314	Common equity	13,527	12,312
Total Assets	50,211	55,272	165,481	Total	50,211	55,272

	Current AT&T Corp. (2)			AT&T Corp. OLD (3)		
	For the 12 months ended			For the year ended December 31		
	Sept. 2003	Dec. 2002	Dec. 2001	2001	2000 (4)	1999 (5)
Current ratio	1.09	1.32	0.89	0.89	0.31	0.49
Asset coverage	1.51	1.34	2.50	0.73	1.40	0.80
Total assets/total debt	3.08	2.45	4.84	2.84	3.37	3.23
% total debt in capital structure (6)	56.8%	64.7%	38.3%	51.3%	39.2%	48.7%
Cash flow/total debt (6)(7)	0.42	0.34	0.27	0.18	0.19	0.32
Net debt to EBITDA (6)(7)	1.1	1.4	1.8	3.0	3.5	2.1
Free cash flow to net debt	26%	22%	13%	1%	-3%	(0.0)
% capital spending funded internally	176%	182%	152%	103%	84%	85%
Coverage Ratios						
EBITDA interest coverage(7)	7.29	7.33	8.96	4.82	6.70	12.39
EBIT interest coverage (7)	3.49	3.95	5.90	2.70	4.70	8.98
Profitability, Earnings Quality						
EBITDA margin (7)	26.1%	28.1%	31.7%	29.9%	35.7%	33.9%
EBIT margin (7)	12.5%	15.1%	20.9%	16.7%	25.1%	24.5%
ROE	15.3%	22.6%	9.2%	6.9%	6.9%	19.3%
Selected Results						
Total revenue	35,720	37,827	42,197	52,314	55,533	54,973
EBITDA (7)	9,319	10,613	13,375	15,622	19,846	18,627
EBIT (7)	4,455	5,725	8,816	8,757	13,922	13,490
Interest expense	1,278	1,448	1,493	3,242	2,964	1,503
Core net income (7)	2,065	2,780	4,760	3,585	7,123	7,792
Reported net income	2,041	(13,082)	7,715	9,229	4,669	3,428
Cash Flow Statement (US\$ millions)						
Core net income (7)	2,065	2,780	4,760	3,585	7,123	7,792
Depreciation	4,864	4,888	4,559	6,865	5,924	5,137
Operating cash flow	6,929	7,668	9,319	10,450	13,047	12,929
Capital expenditure	3,572	3,904	5,767	9,300	11,511	11,876
Dividends	625	555	549	885	3,341	2,847
Free cash flow (before work. cap. changes)	2,732	3,209	3,003	265	(1,805)	(1,794)
Changes in working capital	n/a	(820)	(1,712)	(103)	(3,089)	(2,574)
Acquisitions/dispositions/other	n/a	431	11,515	12,400	(25,196)	(14,075)
Cash before financing	n/a	2,820	12,806	12,562	(30,090)	(18,443)
Change in equity	n/a	2,684	10,113	10,113	9,832	14
Change in debt	n/a	(8,169)	(12,304)	(12,217)	19,304	16,314
Change in cash	n/a	(2,666)	10,615	10,458	(954)	(2,115)

(1) Balance sheet adjusted for \$1.084 billion of debt being recalled on October 22, 2003, plus premium.

(2) Reflects business and consumer operating segments. (3) Includes broadband division that was sold to Comcast.

(4) 2000 results consolidate MediaOne as of June 30, 2000. Net income before extraordinary items and cash flow from operations have been normalized to exclude non-recurring items. (5) 1999 results have been restated.

(6) Debt includes \$4.7 billion of subordinated debt securities for 1999 to 2001.

(7) EBITDA, EBIT, and core net income reflects \$125 million of expense restatements in their proper periods during 2001 and 2002. Restructuring and impairment charges are not included in EBITDA, EBIT, and core net income.