



Press Release

**Dominion
Bond
Rating
Service**

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Corporates
Alternate Carriers, Telecommunications and Wireless

DBRS Confirms AT&T Inc., BellSouth, Cingular and AT&T Corp. Ratings

Bloomberg Headline DBRS Confirms AT&T Inc., BellSouth, Cingular and AT&T Corp.

Dominion Bond Rating Service (DBRS) has today confirmed the ratings of AT&T Inc. (AT&T Inc. or the Company) at "A" for its Senior Unsecured Notes and R-1 (low) for its Commercial Paper. DBRS also confirmed the ratings of its affiliated companies following the announcement that AT&T Inc. completed its all-stock \$85.6 billion acquisition of BellSouth (roughly \$107 billion in total enterprise value). These confirmation include the following:

- AT&T Corporation's (AT&T Corp.) Guaranteed US Notes at "A"
- BellSouth Corporation's (BellSouth) Debentures and Senior Unsecured Notes at "A" and its Commercial Paper at R-1 (low)
- Cingular Wireless II, LLC's (Cingular) Senior Unsecured Notes at A (low).

DBRS has assigned ratings to Cingular's Co-obliged Notes at "A," of which AT&T Inc. has agreed to become a co-obligor. DBRS has also assigned a rating of "A" to BellSouth's Guaranteed Notes, guaranteed by AT&T Inc. DBRS has also discontinued its rating on AT&T Corp.'s unguaranteed notes. All trends are Stable.

These rating actions follow the recent regulatory approval received by the Federal Communications Commission (FCC), which was preceded by the necessary state and Department of Justice approvals earlier this year. This action remains consistent with DBRS's confirmation of the aforementioned ratings when the transaction was originally announced on March 6, 2006.

DBRS notes that this acquisition has created a massive telecommunications operator with significant scale (roughly 66 million access lines, more than 11 million DSL subscribers and ownership of the largest wireless carrier in the United States, Cingular, with approximately 59 million subscribers). Additionally, this acquisition has given the Company significant last-mile access and strong market presence in the residential and enterprise communications markets in the United States. The Company will also carry the AT&T name and brand (Cingular and BellSouth will begin to be re-branded in 2007), which is one of the most respected brands in the world. While DBRS notes that AT&T did commit to a number of merger commitments to ensure the FCC's approval, none of these are significant enough to change the business risk profile of the Company.

From a financial perspective, DBRS notes that the new company has a strong balance sheet that will generate sizeable free cash flow (the Company is forecasting free cash flow after dividends in excess of \$4 billion in 2007 and \$6 billion in 2008), supported by strong balance sheets at AT&T Inc., BellSouth and Cingular and the all-equity nature of this transaction. As a result, the Company's consolidated credit metrics are expected to remain strong, with percentage debt in the capital structure to remain below 40%, net debt-to-EBITDA below 1.6 times, cash flow-to-debt above 0.45 times and EBITDA interest coverage above 10.0 times. However, DBRS expects the Company's free cash flow in 2006 and 2007 to be directed toward its sizeable two-year share repurchase program (between \$10 billion and \$11 billion expected to be repurchased in 2006 and 2007), which will effectively cash fund the equity premium involved with the acquisition of BellSouth. DBRS expects this program to be funded through free cash flow and cash on hand over this time frame, with no material increase in the Company's consolidated leverage.

DBRS expects liquidity to be significant, with AT&T Inc.'s credit facility (\$10 billion now that the transaction has closed, with the ability to raise the facility upon the consent of its lenders to \$12 billion) and cash on hand sufficient to back its commercial paper (CP) program (\$12 billion authorized). While DBRS notes that AT&T Inc. has a sizeable amount of debt maturing over the next year (nearly \$9 billion on a pro forma basis as at September 30, 2006), a sizeable portion is CP outstanding at both AT&T Inc. and BellSouth. The AT&T Inc. CP will likely be termed out and the BellSouth CP is expected to be refinanced by AT&T Inc. as it matures. DBRS expects that the remaining long-term debt will be refinanced upon maturity, with AT&T Inc. the main debt issuer in the group going forward.

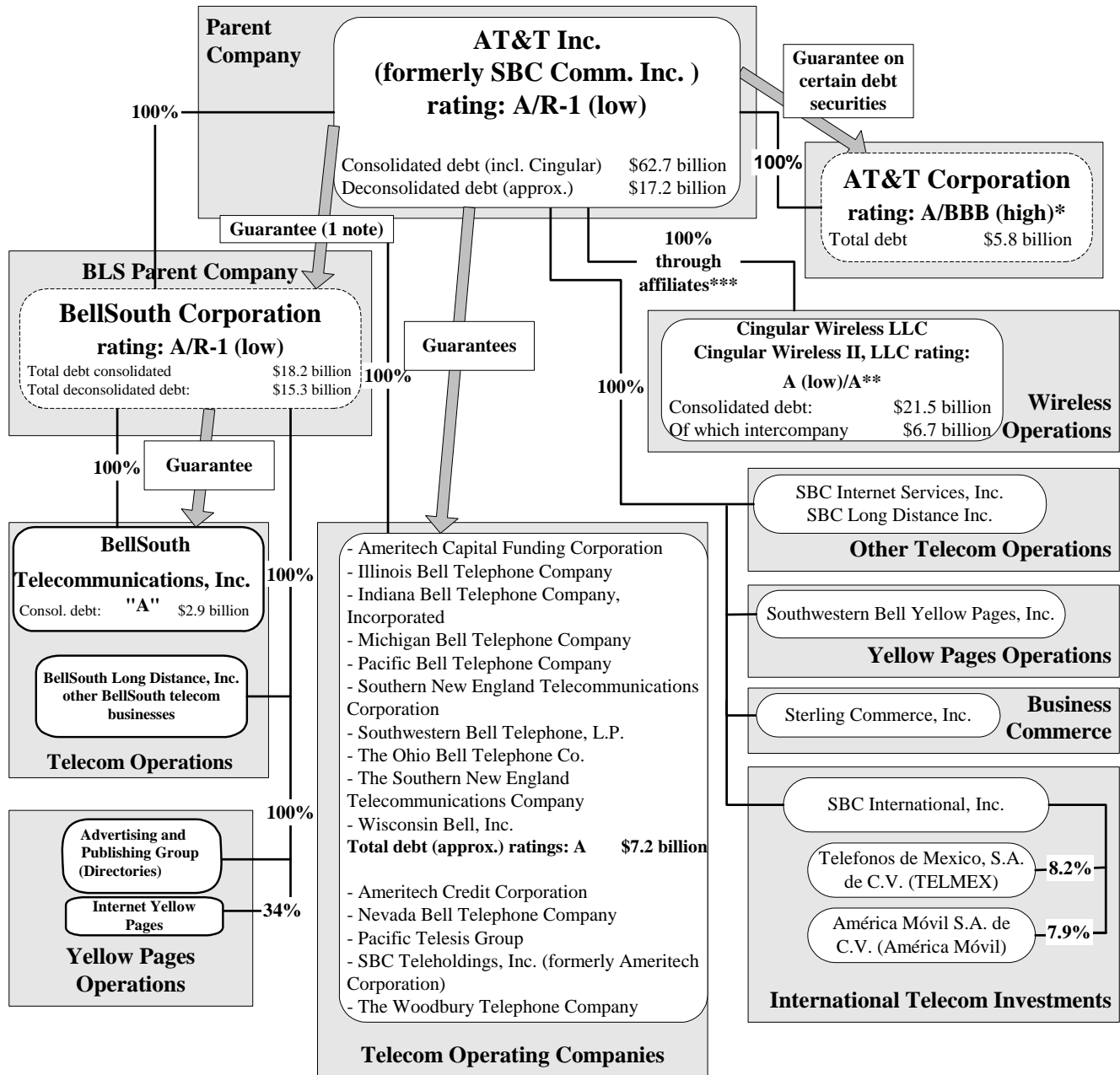
The confirmation of the ratings also assumes that the business risk profile of the combined company will not significantly change as it continues to defend its core business and customer base against increasing competition (in the residential segment) and fundamental challenges remain in the enterprise segment despite its strong position in this market. This will include its bundling capabilities and its rollout of video (IPTV) services across its legacy territory (now 21 states) in order to increase the stickiness of its customers and attempt to mitigate access line erosion. Despite competition remaining ongoing, DBRS does acknowledge that as a result of this transaction, AT&T Inc.'s pro forma revenue mix for 2007 will see its revenue exposure to the increasingly competitive consumer segment reduced to 23%, while exposure to the growing wireless segment will be higher at 34%.

DBRS believes that the added execution risk placed on the Company – in addition to executing on two sizeable transitions over the past two years, including its acquisition of AT&T Corp. (closed in November 2005) and Cingular's acquisition of AT&T Wireless Services, Inc. (closed in October 2004) – appears to be manageable given that this transaction is a horizontal merger involving two companies that have past working knowledge of one another. Integration costs are expected to be most substantial in 2007 at a projected \$2 billion, but these will be accompanied by significant synergies of \$2 billion by 2008, which will increase to \$3 billion by 2010.

DBRS has maintained a differential on the ratings of the new AT&T Inc. and its wholly owned entity, Cingular. DBRS has discontinued its rating on the non-guaranteed AT&T Corp. notes because separate disclosure is no longer available for this entity. As a result, DBRS will continue to rate AT&T Inc. and Cingular separately based on their own business and financial risk profiles.

As referenced above, AT&T Inc. has guaranteed BellSouth's \$1.2 billion August 15, 2008, floating rate note. Additionally, AT&T Inc. has agreed to become a co-obligor on two Cingular notes, including (1) \$750 million 7.5% notes due May 1, 2007; and (2) \$2 billion 8.125% notes due May 1, 2012. As a result of the BellSouth guarantee, DBRS expects that BellSouth will no longer issue financial statements.

Below is a detailed corporate structure, including DBRS's ratings.



* AT&T Inc. guarantees certain debt issues of AT&T Corporation. As such, these issues carry the same "A" rating as AT&T Inc. The debt that was not guaranteed is rated BBB (high).
 ** AT&T Inc. has become a co-obligor on two of Cingular Wireless II, LLC's notes.
 *** Cingular continues to be 60% owned by AT&T Inc. and 40% by BellSouth, which is wholly owned by AT&T Inc.
 Note: Debt figures are based on the pro forma figures at September 30, 2006.

Notes:

All figures are in U.S. dollars unless otherwise noted.
 These ratings are based on public information.

<u>Issuer</u>	<u>Debt Rated</u>	<u>Rating Action</u>	<u>Rating</u>	<u>Trend</u>
AT&T Inc.	Commercial Paper	Confirmed	R-1 (low)	Stable
AT&T Inc.	Senior Unsecured Notes	Confirmed	A	Stable
Ameritech Capital Funding Corporation	Senior Notes and Debentures	Confirmed	A	Stable
Illinois Bell Telephone Company	Senior Notes and Debentures	Confirmed	A	Stable
Indiana Bell Telephone Company, Incorporated	Senior Notes and Debentures	Confirmed	A	Stable
Michigan Bell Telephone Company	Senior Notes and Debentures	Confirmed	A	Stable
Pacific Bell Telephone Company	Senior Notes and Debentures	Confirmed	A	Stable
Southern New England Telecommunications Corporation	Senior Notes and Debentures	Confirmed	A	Stable
Southwestern Bell Telephone, L.P.	Senior Notes and Debentures	Confirmed	A	Stable
Ohio Bell Telephone Co., The	Senior Notes and Debentures	Confirmed	A	Stable
Southern New England Telephone Company, The	Senior Notes and Debentures	Confirmed	A	Stable
Wisconsin Bell, Inc.	Senior Notes and Debentures	Confirmed	A	Stable
BellSouth Corporation	Commercial Paper	Confirmed	R-1 (low)	Stable
BellSouth Corporation	Debentures	Confirmed	A	Stable
BellSouth Corporation	Senior Unsecured Notes	Confirmed	A	Stable
BellSouth Corporation	Guaranteed Notes	New Rating	A	Stable
BellSouth Telecommunications, Inc.	Debentures	Confirmed	A	Stable
BellSouth Telecommunications, Inc.	Senior Unsecured Notes	Confirmed	A	Stable
AT&T Corporation	Medium-Term Notes	Discontinued	--	--
AT&T Corporation	Senior Unsecured Notes	Discontinued	--	--
AT&T Corporation	Guaranteed US Notes	Confirmed	A	Stable
AT&T Corporation	Guaranteed Euro Notes	Discontinued	--	--
		– Repaid		
Cingular Wireless II, LLC	Senior Unsecured Notes	Confirmed	A (low)	Stable
Cingular Wireless II, LLC	Co-obliged Notes	New Rating	A	Stable

DBRS will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at info@dbrs.com.

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