

AT&T's Randall Stephenson on Investing in America

Randall L. Stephenson, Chairman of the Board, Chief Executive Officer, and President, AT&T Inc.
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SOUND BITES FROM MR. STEPHENSON'S SPEECH

First, we have to continue investing aggressively in our country's technology infrastructure. For AT&T, that means advanced communications networks and capabilities that drive economic growth and productivity. **Second**, we have to invest more in America's people's infrastructure—high-tech jobs, better education, and new ideas for providing health care. **One thing** has proven to increase commercial velocity more than anything else—communications networks. It started with fixed-line voice calls, then cellphones, then the Internet and broadband, and now mobile broadband devices like the iPhone are taking commercial velocity to a whole new level. **One study** projects that wireless broadband alone will add about \$860 billion to U.S. GDP over the next decade. **If you want** to make American businesses more competitive and help them invest more in America's future, few things would have a bigger impact than new ideas for reining in healthcare costs. **The number one issue** we as a country face, we at AT&T face, are the healthcare costs and the healthcare cost trends, and these trends and these costs are not sustainable. **Our growth** is all about mobility. I believe everything that you do today, every application that you use on your desktop, everything that you do at home, over time your expectation as a consumer or a business is that it will be mobile. **Last year**, AT&T spent about \$9 billion buying nothing but airwaves. We spent that money because we believe that the demand for these wireless services is going to continue to grow and is going to grow via wireless, so you are going to need more and more spectrum to deliver the kind of services that you and I are going to expect over time. So think mobility, **less regulation** results in more investment.

DAVID RUBENSTEIN: [David Rubenstein, President of The Economic Club of Washington, welcomes Club members and guests and introduces Mr. Stephenson.]

RANDALL STEPHENSON: Thank you, David. It's an honor to come here, to our Nation's Capital, and speak about the future of this young country—The American experiment. It has produced levels of prosperity like the world has never seen. It's a prosperity driven by a fairly simple formula—the unleashed power of free markets combined with a commitment of equal opportunity for all its citizens. This experiment has had its ups and its downs. But that's the beauty of the experiment—for every downturn, there has been an upturn. Free and open markets produce tremendous growth over time, but the growth comes in cycles. Always has, always will. It seems the draw of the human spirit toward prosperity is too strong for downturns to persist for long.

Clearly, the economic problems we face today are complex, and I won't pretend they will be resolved overnight. But despite all the pessimism, I'm confident that we'll come through this cycle as we have all the others—smarter, more efficient, and poised for

growth. We should all commend the new Administration for their willingness to take bold action to try and stem the length of the downturn. But, at AT&T, we don't believe we should simply wait on the government to solve our problems. President Obama had it exactly right in his speech to Congress 2 weeks ago when he said, "The answers to our problems exist in our laboratories and universities; in our fields and our factories; in the imaginations of our entrepreneurs and the pride of the hardest-working people on Earth." I couldn't agree more. It's the individual tinkering in a garage and the leaders of companies big and small who make a difference. It's someone with big dreams, new ideas, and the courage to take risks and invest.

We need a lot more of that spirit right now from Corporate America, to invest in America's future, to help get our economy back on track, and create sustainable growth, opportunity, and prosperity. My number one job at AT&T is to ensure that our company grows over the long term. And the only way I know to do that is by *investing*—investing in areas that drive sustainable growth. For me, that means two things: Technology and people.

First, we have to continue investing aggressively in our country's technology infrastructure. For AT&T, that means advanced communications networks and capabilities that drive economic growth and productivity. Second, we have to invest more in America's people's infrastructure—high-tech jobs, better education, and new ideas for providing health care. Let me share with you the investments we're making in each area, starting with technology and the one variable that has always been at the core of economic growth and prosperity – and that's connectivity. It's a simple equation: When and where people connect, commercial velocity accelerates and economies grow. The secret ingredient for unleashing the power of free markets is connecting people, whether it's roads, railways, or airports. It's been that way throughout history. But one thing has proven to increase commercial velocity more than anything else—communications networks. It started with fixed-line voice calls, then cellphones, then the Internet and broadband, and now mobile broadband devices like the iPhone are taking commercial velocity to a whole new level.

Every time we've invested and built new communications networks and capabilities, commercial velocity has accelerated. And commercial velocity is how economies grow, how jobs are created—it is the core source of prosperity. That's true around the world. Even in today's economy, the underlying demand for connectivity is strong. Traffic on our network is growing about 50% a year—most of it video and data. Last summer, we finished building the most advanced Internet backbone in the world. Within 3 years, we expect traffic on it will have quadrupled. To stay ahead of the demand curve, we're continuing to invest aggressively—\$38 billion in the past 2 years, more than any other U.S. telecom or technology company.

And this year, we plan to invest another \$17 billion to \$18 billion, most of it to extend and enhance our wireless and wired broadband networks even more. I'm pleased President Obama has made having a modern communications infrastructure a priority. Few things could have a bigger impact on sustained economic growth. And the economic

ecosystem that develops around these infrastructure investments is substantial. Ten years ago, AT&T built the largest wired broadband network in the U.S., which enabled Internet start ups with great ideas to flourish and create entire new industries. Those little start ups are now household names— Google, Amazon, eBay, and many others. You're seeing the same economic multiplier with mobile broadband, and you'll see it again as we invest in even faster, 4th generation wireless broadband networks.

The potential is huge. One study projects that wireless broadband alone will add about \$860 billion to U.S. GDP over the next decade. But our investments in technology are not just about driving commerce. These investments provide a path to a cleaner, more sustainable environment. A great example is our partnership with Cisco to offer Telepresence—a hi-def, high-fidelity videoconferencing solution that's so good it's like being in the same room with someone. We've installed it in several of our locations around the world, and my air travel alone is down 44%. Now, multiply that capability across Corporate America. Then think about taking Telepresence down market to mid-size firms, small businesses and consumers.

Now imagine having hi- def videoconferencing on your wireless device. We're testing it in our labs right now, and we believe it's going to be a game changer for how businesses operate, for the velocity of commerce, and for how we live our lives. Economists say that if U.S. companies were to substitute video conferencing for just 10% of business air travel, the U.S. could reduce carbon emissions by about 35 million tons annually. But our commitment to energy efficiency goes beyond our products. It also includes how we run our business. Every day, AT&T connects close to 300 million people around the world. That requires enormous service and support, including a fleet of about 85,000 vehicles.

Today, I'm proud to announce that AT&T is making the largest- ever commitment by an American company to purchase alternative-fuel vehicles. This \$565 million commitment involves two initiatives. First, over the next 5 years, we will purchase about 8,000 vehicles that run on compressed natural gas. The vehicles will be built by the U.S. auto industry. They will produce about 25% less greenhouse gas emissions than traditional vehicles. Natural gas is cheaper, cleaner, and we have plenty of it here domestically.

Our second initiative involves replacing nearly all our 7,100 passenger vehicles over the next 10 years with alternative fuel vehicles. We'll start with electric hybrids, which are 39% more fuel efficient and reduce greenhouse gas emissions close to 30%. With these two new multi- year commitments, our total alternative- fuel fleet will grow from about 100 today to more than 15,000 by 2020. This fleet will significantly lower our fuel costs and over the next 10 years reduce our consumption of traditional gasoline by nearly 49 million gallons. It's good for the environment. It reduces our reliance on foreign oil, a point Boone Pickens and I have discussed at length. And it gives a big boost to America's alternative fuel industry, creating the opportunity for new clean-energy jobs. This commitment underscores my central point. American businesses can – and will – play a critically important role in future economic growth through the investments

we make today.

America's future also depends on how well we invest in our people and our communities. And that starts with jobs. The vast majority of AT&T's 300,000 employees are based here in the U.S. Nearly 60% of them are union-represented, giving us the largest full-time union workforce of any company in America – more than the Big 3 automakers combined. We're proud of that, and proud of the strong partnership we've built with our unions over the years. Larry Cohen, president of the Communications Workers of America, is a good partner and, I'm proud to say, a good friend. He does a terrific job representing his members, and he understands the importance of U.S. companies investing in good high-tech jobs with good wages and benefits. While our overall workforce is declining because of the economy and falling demand for wired voice services, we expect to add 3,000 new high-tech, union represented jobs this Year, in growth area of wireless, broadband, and video.

With the new jobs we're adding this year, we'll fulfill a commitment we made 2 years ago, in partnership with Larry Cohen, to add 5,000 high-tech jobs to our U.S. payroll. The majority of these are jobs our vendors had off-shored to other countries. It starts with jobs, but I believe U.S. companies must also be committed to providing their employees with modern and affordable healthcare coverage. I applaud President Obama's commitment to tackle the health care issue.

If you want to make American businesses more competitive and help them invest more in America's future, few things would have a bigger impact than new ideas for reining in healthcare costs. AT&T spends \$5.5 billion annually providing health care to 1.2 million employees, retirees, and their dependents. A few years ago, we took a new approach to rein in healthcare costs while continuing to provide access to good quality care. We implemented a consumer-driven healthcare plan covering more than a quarter million of our managers, retirees, and their dependents. It requires employees to take an active role in managing their healthcare. And the results have been impressive.

Employees continue to have world- class access to affordable, quality care. And employee out-of-pocket costs and company costs have actually declined. Compare that with a 7% annual increase in healthcare costs nationally. Another new idea where we've partnered with the CWA in recent contracts is having employees who earn less pay less for healthcare than higher-wage employees or managers do. It's a simple but very fair and reasonable approach to providing affordable healthcare. There's another issue I want to raise, and that's America's high school dropout crisis. I believe it's the biggest threat to America's long-term economic growth and prosperity. The stats say it all. Each year, more than 1 million of our kids drop out of high school. And nearly one-third of public high school students fail to graduate with their classmates. This is a problem we must fix. And I strongly believe the business community must play a leading role.

One of the first things I did when I became chairman was to direct our Foundation to focus all of its attention and resources on the high school dropout crisis. Last year, AT&T launched a new \$100 million initiative called Aspire to tackle the problem. It's the

biggest and most significant investment in education in our company's history. The bulk of our giving goes to schools and nonprofits that are already doing great work today, but need more money to scale their success. But it's not just about money. It's about being personally committed to helping the next generation aspire to do great things. That's why we're working with Junior Achievement to offer 100,000 young people the opportunity to job-shadow with AT&T employees. A student named Alex shadowed me for a half-day. He sent me an e-mail later to say he had decided to go to college and major in business. Today, he's a freshman at the University of Texas. I'm not an education expert, but I do know that solving the dropout epidemic will take all of us working together—educators, parents, government, and America's business community.

These are a few of the ways that AT&T is investing in America's future. But we're hardly alone. Tens of thousands of businesses – large and small – are investing in their people, their communities, and in opportunities that will create jobs and strengthen our economy. That's how we create sustainable, long-term economic growth. And I believe it's something the business community is uniquely suited to deliver. The time to invest in America's future is now. And we're proud to do our part. We look forward to joining President Obama, policymakers, and other U.S. companies in laying the groundwork for a more prosperous tomorrow. By working together—and investing together— we can accelerate the economic recovery. Thank you for inviting me today. I look forward to your questions.

QUESTIONS AND ANSWERS

QUESTIONER: What type of cell phone do you use? And do you use an Apple iPhone?

MR. STEPHENSON: I use the iPhone. In fact I was a Blackberry addict for many, many years, and it is still a great product. We sell a lot of Blackberries. I told Steve Jobs, the day I put my Blackberry away is the day you have a product that is ready for corporate class emails and so forth, and that's the only device I'm carrying.

QUESTIONER: Where do you see the greatest growth opportunities for AT&T, in the United States or outside the United States?

MR. STEPHENSON: Our growth is all about mobility. I believe everything that you do today, every application that you use on your desktop, everything that you do at home, over time your expectation as a consumer or a business is that it will be mobile. We are on an evangelical tear to ensure everything that we offer our customers is mobile. That's why you say, last year, AT&T, spent about \$9 billion in investment on buying nothing but airwaves. We spent that money because we believe that the demand for these wireless services is going to continue to grow and is going to grow via wireless, so you are going to need more and more spectrum to deliver the kind of services that you and I are going to expect over time.

So think mobility, and when you look outside the United States, in emerging markets, you're seeing that phenomenon actually play out quicker than in

developed countries right now. We think the opportunities outside the United States will be significant. We are doing a lot outside the United State in our enterprise business segment. But wireless is going to be a big opportunity for us inside and outside the U.S.

QUESTIONER: Companies are cutting dividends. Your stock is at a 7% dividend yield. How safe is AT&T dividend and cash flow?

MR. STEPHENSON: That's a very common question these days as you might guess. That's obviously a question you have to be very cautious in how you answer. We are very proud of this company. This company was "birthed" in 1984 out of AT&T. We have been a company now for over 25 years. All 25 years we have been in existence, we have increased our dividend, and that includes back in 2001, 2002 when our industry was in a crisis mode. In fact, I'll be honest with you, this environment is tough. It is a very difficult environment.

But it really isn't much more difficult in our industry than what we experienced in the 2001-2002 timeframe. During that timeframe, we continued to increase our dividend throughout that environment. We are proud of that history, and as a company we are going to continue investing.

QUESTIONER: You have a good relationship with labor unions. What is your position on carchex?

MR. STEPHENSON: We are probably one of the least affected companies because we have a very large percentage of our workforce that is represented by the union. There are obviously aspects of the labor Free Choice Act that we do not endorse. Secret ballots, we think, are inherently important and we think that ought to be a part of anything we do going forward. First, contract arbitration, how that manifests itself is obviously very important. We are probably less affected than most companies in the U.S.

QUESTIONER: How long before the iPhone has video capability, and when will we see 4G broadband?

MR. STEPHENSON: Well it depends on how you define video capability. I can pull it out and watch a YouTube video right now, or if people email me videos I can watch those on the iPhone now. When you mean live streaming video, I do not know when Steve Jobs is going to bring that capability into the Apple iPhone. We have products now that have live streaming video on them. In fact, I'll give you a quick commercial. If you go buy one of our video streaming products, you will get every game in the NCAA tournaments free. But these technologies are going to evolve. They are evolving so fast. They are evolving at light speed. Our technologies are obsolescing. That is why you have to continue to invest in these networks.

QUESTIONER: How do we get on the electric grid the commercial velocity we are getting on our communication grid?

MR. STEPHENSON: I am having a hard enough time tackling the telecom side of this thing, much less the electrical grid. I believe that a lot of what you are seeing in telecom is a result of the regulatory environment that has been put in place over the past few years. These businesses, whether it be electric or whether it be telecom, require unbelievable amounts of investment. Billions and billions of dollars of capital have to be committed to these industries to continue to push the technological curve.

I will tell you, arithmetically, this isn't speculation, this isn't my opinion, if you want to stifle investment and if you want to slow down the amount of capital attracted into these industries, put burdens and regulatory requirements on these industries. There is a direct inverse correlation. Less regulation results in more investment. We have seen it play itself out. I can give you specific data and details going back over time, where you can just see this inverse relationship. Putting the right structure in place to make sure folks aren't disadvantaged, but giving some kind of line of sight and visibility to returns for investment put into these industries, will drive investment into them.

QUESTIONER: You became head of AT&T at the age of 47, the same age as Barack Obama became President of the United States. Have you ever considered running for office or going into government? Why?

MR. STEPHENSON: No. Because ... [Laughter.]

QUESTIONER: Can you comment on AT&T's commitment to ensuring that the technologies it develops are accessible to people with disabilities?

MR. STEPHENSON: I think we have a really good track record here. The source of the question may be something specific that I am not aware of, but I think regardless of what type of impairments or disabilities folks have, we have a real good track record of addressing those. Everything from hearing impaired to vision impaired. We have products, we have capabilities, we have support centers, that literally do nothing but support folks with those kinds of needs. Our objective is always to make sure that we bring products and services to market that meet those kinds of needs, whether it be video product or anything else.

QUESTIONER: If you had to pick one, will Verizon buy Vodafone or will Vodafone buy Verizon?

MR. STEPHENSON: You tell me. I would like to know that as well. I have absolutely no idea if one or neither one of those will ever happen.

QUESTIONER: What keeps you up at night in terms of worrying about your company?

MR. STEPHENSON: We actually just finished a big labor negotiation on our wireless contract. It was a hard-fought negotiation, and I feel we came to a really good place with our labor union. Now what we call our core contract, our fixed-line contracts, are coming up, and the contract expires on April 4th.

You heard in my remarks, the number one issue we as a country face, we at AT&T face, are the healthcare costs and the healthcare cost trends, and these trends and these costs are not sustainable. They are not sustainable for us as a country. They are not sustainable for us as a company. So we have to find some creative unique ways of addressing this, in this labor negotiation coming up. I would tell you that is one of the main areas that keep me awake literally. Set that aside, the kind of investment required to keep the telecom information and infrastructure state of the art and moving forward is really significant, and the obsolescence curves that we are riding now in this industry are impressive.

I'll give you a classic case. We used to come in and put in a long-distance switch in these networks. Fifty years later, we are still operating it and it is still generating revenue. Ten years ago, we put a wireless technology infrastructure in place. It's a technology called TDMA. Most of you probably never even heard of it. That technology not only is obsolete, 10 years later it is out, out of our network and has been totally replaced. Now think about multibillion-dollar technological obsolescence curves riding those kinds of curves. We have got to make sure we get the policy right on this stuff, because this thing changes so fast that we as a country can be obsolete, our technology can be obsolete. This economic and commercial velocity I am talking about, it is absolutely in this day and age dependent on having this kind of infrastructure in place. So getting the policy right is really, really high on my priority right now.

QUESTIONER: What do you see as the future of fixed-line telephone service compared to wireless?

MR. STEPHENSON: Obviously fixed-line telephone service is declining. It's an interesting phenomenon, and that is what we have seen. When I started with this business almost 27 years ago, we had zero wireless customers and today we have 77 million wireless customers. What has happened is, your voice service has largely moved to the cell phone. It has become the default medium for communicating by voice. We still have these very valuable wires and infrastructure going into people's homes and into their businesses, so what did we do back in the late 90s? We developed technology to move data at a very high speed over those wires going into your house. We call it broadband.

As that technology developed and evolved, we had enough band width out of those pipes going into your house that now we are delivering video over that infrastructure. Well, that's a good thing, because what's happening? Your broadband is now moving to your cell phone. Well, that's okay. Broadband moved to wireless, now video is moving onto the fixed-line facilities. We will continue to evolve these kinds of services that we deliver over these infrastructures. There is always going to be some kind of value delivered over the wires going into the house. Voice is wireless, broadband will move to wireless, video moves now into the pipes. You'll see this thing just continue to evolve.

QUESTIONER: Your older brother got you a job at Southwestern Bell. He still works there, he now works for you. How does that work out?

MR. STEPHENSON: They like to get the boy with the silk tie in town a lot. Talk to him about what you guys are thinking up there. I tell people I got my job the old fashioned way—my brother. When I first took this particular job as Chairman, I am bound by the SEC related-party transition rules. My brother working for our company is technically a related-party transaction, and our Board has to authorize each year him continuing to work for AT&T. The first year I had this job, the Board did in fact approve his continued employment with our company, and I sent him a copy of the Board resolution and I said congratulations, you can stay on another year. And he responded back, if anyone has to leave, I was here first and I got you on, so you're leaving. But it's gone well.

RANDALL L. STEPHENSON

Randall L. Stephenson is Chairman of the Board, Chief Executive Officer, and President of AT&T Inc. He was appointed to the position in June 2007. Before being named Chairman and CEO, Mr. Stephenson served as Chief Operating Officer and was responsible for all wireless and wireline operations. He was named COO for SBC Communications Inc. in 2004 and continued as COO after the acquisitions of AT&T Corp. in 2005 and BellSouth in 2006. During his tenure as COO, the company outperformed its peers in nearly every category. Today, AT&T leads the industry in wireless, business, broadband, voice, and directory and is gaining momentum in the TV market.

Born in Oklahoma City, Mr. Stephenson began his career with Southwestern Bell Telephone in 1982 in information technology in Oklahoma. He progressed through leadership positions in finance, including an assignment in Mexico City, and in 1996 was named controller for SBC Communications. Mr. Stephenson served as Senior Vice President-Consumer Marketing and, before becoming COO, was Senior Executive Vice President and Chief Financial Officer for SBC. During this time, the company reduced its net debt from \$30 billion to almost zero by early 2004 and was in position to acquire AT&T Wireless, AT&T Corp., and BellSouth.

In 2005, Mr. Stephenson was appointed to the new AT&T's Board of Directors. Additionally, he served on the Cingular Wireless Board of Directors from 2001 to 2006 and was Chairman in 2003 – 2004. He is also a member of the Board of Directors of Emerson. Mr. Stephenson holds a B.S. in accounting from the University of Central Oklahoma and a Master of Accountancy degree from the University of Oklahoma.