



Attachment 21

2006 Annual Report AT&T Inc.

Delivering on our promise

To Our Stockholders

AT&T is a company with a tradition of delivering on our promises. I'm pleased to report that in 2006, we continued that tradition. We promised to increase stockholder value, and we did. We promised to position our company for long-term growth, and we did.

The year also marked another step in a strategy to establish AT&T as the leader in nearly every industry segment. Our acquisition of BellSouth Corporation, which allowed us to consolidate ownership of Cingular Wireless, was the latest major step in executing that strategy. That acquisition secured AT&T's position as the global standard-bearer in communications for many years to come.

We have arrived at this point after a series of moves that transformed our company and changed the industry. And, as owners in the business, you might ask what the new AT&T is all about.

That is a fair question, which I am pleased to answer. The new AT&T is ...

The Nation's Wireless Leader

By the end of 2006, we served 61 million wireless customers. We have the nation's largest wireless digital voice and data network. And 2006 wireless revenues totaled \$37.5 billion, generating our highest-ever wireless net income of \$2.5 billion.

Today, we own one of the most advanced and robust wireless networks anywhere, and we are making the most of the opportunity. For example, we now offer high speed Internet access on wireless handsets in more than 165 U.S. cities, allowing customers to download videos, e-mail, games and music faster than ever. We also migrated virtually all of our wireless traffic to our advanced GSM network. Using a single worldwide technology standard like GSM makes us more cost-efficient and accelerates the rollout of next-generation products.

That's why we were selected as the only U.S. wireless carrier to sell the much-anticipated Apple iPhone. This truly revolutionary product combines a mobile phone, widescreen video iPod and Internet access into a single device.

A Leader in Serving Business Customers in the United States and Around the World

In almost every category, we continued to be the U.S. leader in meeting the always-growing communications needs of businesses of all sizes.

To keep pace with our customers — and to keep ahead of our competitors — we continued to invest in state-of-the-art technology and to improve our capabilities. Our acquisition of US internetworking strengthened our position in the growing application management services market. And we expanded our reach in key Asian markets, with strategic relationships in India and Vietnam. In fact, we were the first foreign telecom operator to be granted a license to provide telecom services in India.

We also tapped new markets by making products and services originally designed for large businesses, such as network security and business-continuity services, available to small and midsize businesses. As a result, small and midsize business revenue in our local service territory grew at a double-digit pace in the second half of the year.

AT&T has achieved seven consecutive quarters of double-digit year-over-year growth in adjusted earnings per share.

Leading the IP Revolution



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AT&T is a leader in transitioning customers to services that rely on Internet Protocol (IP). IP technology lowers costs and allows for integrated platforms and service offerings that transform the way customers use their PCs, wireless devices and wired phones — even televisions.

Our network is the most robust in the world. It carries more than 9.59 petabytes of data traffic on an average business day — the approximate equivalent of transmitting every printed word in the Library of Congress nearly every minute. And the network reaches almost every country while delivering unrivaled reliability of up to 99.999 percent.

Our superior IP network has positioned AT&T as a premier provider of broadband service to homes and businesses. Today, including DSL, IP television service and satellite, we have more broadband lines in service — more than 12 million — than any of our competitors, and we continue to add subscribers.

Our high speed broadband has opened the door to a new opportunity — video. In fact, our IP-based AT&T U-verse SM service offers much more than video. AT&T U-verse completes the quadruple play of communications and entertainment services — video, voice, data and wireless.

Committed to Delivering World-Class Customer Service

New technology is exciting. However, one thing that separates us from our peers is how we treat our customers, and we are constantly evaluating how to provide the best service. We continue to implement a number of improvements in our customer service capabilities, which have allowed us to resolve even more customer issues on the first — and only — call to us. We have introduced faster installations, which can now be done in the evenings and on weekends, and DSL plans without early termination fees. For our business customers, we have reduced the time it takes to provide some services by as much as 75 percent and introduced innovations such as a pilot program to significantly reduce errors in customer billing. As a result of our commitment to service, AT&T has won numerous industry analyst awards for customer service, network reliability and product innovation. *Fortune* Magazine's 2006 "Most Admired" Telecommunications Company in America and in the World A Respected Leader in American Business. AT&T's industry leadership extends beyond the products and services we provide. We are proud that in the past year AT&T has been recognized for its unwavering commitment to diversity and inclusion, receiving more than 20 notable awards and recognitions. *Forbes* Magazine's 2007 "Company of the Year" An Engine for Creating Stockholder Value. By any measure, we had a great year. But I'm most proud of the value we returned to our stockholders. Our total stockholder return in 2006 was more than 53 percent, the second-highest return for all Dow industrials stocks. We also achieved our seventh consecutive quarter of adjusted double-digit year-over-year EPS growth. And adjusted EPS for the year was 36 percent higher than in 2005. We also demonstrated our commitment to stockholder value by launching a plan to repurchase \$10 billion in stock by the end of 2007, and we got a strong start toward this goal by repurchasing \$2.7 billion in 2006. In addition, we increased our dividend for the 22nd consecutive year — a record unmatched in our industry. Positioned for a Strong 2007. Given all that we have achieved, some might say that 2006 will be a tough act to follow. I disagree. In many ways, in 2006, we only set the stage for this year. As we move into 2007, our goals are to:

- Build on our success in wireless by continuing to add subscribers, generating higher data revenues and boosting margins.
- Deliver the value of the BellSouth acquisition.
- Strengthen our ability to compete in the video market as we scale our new video services.
- Grow our enterprise business.
- Continue to build AT&T as the brand that our current and future customers rely on to meet all of their communications and entertainment needs.

Most important, we'll continue to work hard to deliver value to our stockholders. I am grateful for your confidence, and I look forward to the opportunities ahead for AT&T.

Edward E. Whitacre Jr.
Chairman and Chief Executive Officer
February 26, 2007



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AT&T Inc. Financial Review 2006

: 2006 AT&T Annual Report

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	2006	2005	2004	2003	2002
Financial Data¹					
Operating revenues	\$63,055	\$43,764	\$40,733	\$40,498	\$42,821
Operating expenses	\$52,767	\$37,596	\$34,832	\$34,214	\$34,383
Operating income	\$10,288	\$6,168	\$5,901	\$6,284	\$8,438
Interest expense	\$1,843	\$1,456	\$1,023	\$1,191	\$1,382
Equity in net income of affiliates	\$2,043	\$609	\$873	\$1,253	\$1,921
Other income (expense) – net	\$16	\$14	\$922	\$1,767	\$733
Income taxes	\$3,525	\$932	\$2,186	\$2,857	\$2,910
Income from continuing operations	\$7,356	\$4,786	\$4,979	\$5,859	\$7,361
Income from discontinued operations, net of tax⁴	\$ —	\$ —	\$908	\$112	\$112
Income before extraordinary item and cumulative effect of accounting changes	\$7,356	\$4,786	\$5,887	\$5,971	\$7,473
Net income⁵	\$7,356	\$4,786	\$5,887	\$8,505	\$5,653
Earnings per common share:					
Income from continuing operations	\$1.89	\$1.42	\$1.50	\$1.77	\$2.21
Income before extraordinary item and cumulative effect of accounting changes	\$1.89	\$1.42	\$1.78	\$1.80	\$2.24
Net income⁵	\$1.89	\$1.42	\$1.78	\$2.56	\$1.70
Earnings per common share – assuming dilution: Income from continuing operations					
Income before extraordinary item and cumulative effect of accounting changes	\$1.89	\$1.42	\$1.77	\$1.80	\$2.23
Net income⁵	\$1.89	\$1.42	\$1.77	\$2.56	\$1.69
Total assets	\$270,634	\$145,632	\$110,265	\$102,016	\$95,170
Long-term debt	\$50,063	\$26,115	\$21,231	\$16,097	\$18,578
Construction and capital expenditures	\$8,320	\$5,576	\$5,099	\$5,219	\$6,808
Dividends declared per common share ⁶	\$1.35	\$1.30	\$1.26	\$1.41	\$1.08
Book value per common share	\$18.52	\$14.11	\$12.27	\$11.57	\$10.01
Ratio of earnings to fixed charges	5.01	4.11	6.32	6.55	6.2
Debt ratio	34.10%	35.90%	40.00%	32.00%	39.90%
Weighted-average common shares outstanding (000,000)	3,882	3,368	3,310	3,318	3,330
Weighted-average common shares outstanding with dilution (000,000)	3,902	3,379	3,322	3,329	3,348
End of period common shares outstanding (000,000)	6,239	3,877	3,301	3,305	3,318
Operating Data					
Network access lines in service (000) ⁷	66,470	49,413	52,356	54,683	57,083
DSL lines in service (000) ⁷	12,161	6,921	5,104	3,515	2,199
Wireless customers (000) ⁸	60,962	54,144	49,132	24,027	21,925
Number of employees	302,770	189,950	162,700	168,950	175,980



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1 Amounts in the above table have been prepared in accordance with U.S. generally accepted accounting principles.

2 Our 2006 income statement amounts reflect results from BellSouth Corporation (BellSouth) and AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, for the two days following the December 29, 2006 acquisition. Our 2006 balance sheet and end-of-year metrics include 100% of BellSouth and AT&T Mobility.

3 Our 2005 income statement amounts reflect results from AT&T Corp. for the 43 days following the November 18, 2005 acquisition. Our 2005 balance sheet and end-of year metrics include 100% of ATTC.

4 Our financial statements for all periods presented reflect results from our sold directory advertising business in Illinois and northwest Indiana as discontinued operations. The operational results and the gain associated with the sale of that business are presented in "Income from discontinued operations, net of tax."

5 Amounts include the following extraordinary item and cumulative effect of accounting changes: 2003, extraordinary loss of \$7 related to the adoption of Financial Accounting Standards Board Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" and the cumulative effect of accounting changes of \$2,541, which includes a \$3,677 benefit related to the adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" and a \$1,136 charge related to the January 1, 2003 change in the method in which we recognize revenues and expenses related to publishing directories from the "issue basis" method to the "amortization" method; 2002, charges related to a January 1, 2002 adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

6 Dividends declared by AT&T's Board of Directors reflect the following: 2003, includes three additional dividends totaling \$0.25 per share above our regular quarterly dividend payout.

7 The number presented reflects in-region lines in service (i.e., the 13 states historically served by us). The 2006 number includes BellSouth lines in service.

8 The number presented represents, for all periods presented, 100% of AT&T Mobility cellular/PCS customers. The 2004 number includes customers from the acquisition of AT&T Wireless Services, Inc. Prior to the December 29, 2006 BellSouth acquisition, AT&T Mobility was a joint venture in which we owned 60% and was accounted for under the equity method.

The Government can access AT&T's Annual Report in its entirety at http://www.att.com/Investor/ATT_Annual/index.html.