

Updated as of March 31, 2006

Employee FAQs related to the BellSouth-AT&amp;T merger

Background and Terms of the Merger**Q: Why is AT&T acquiring BellSouth?**

**A:** Communications services are in a state of continuing change. In the past few years, we have seen the value of consolidation as it has provided new opportunities for growth and innovation. The merger of Cingular and AT&T Wireless, for example, has resulted in customer growth, increased investment and innovation of new products and services. We have also seen tremendous progress with the convergence of wireline and wireless technologies. We believe the merger of AT&T and BellSouth will result in further progress and advances in communication services. The combined company's strong financial position means the ability to invest in next-generation products, services and technology. We will be better able to meet customer demands and compete successfully.

This combination is good for shareholders. Our shareholders will receive a 17.9% premium over the closing price on March 3, which is the trading day before the merger agreement was signed. In addition, after the merger closes, we expect our shareholders to benefit from AT&T's higher annual dividend. Based on the exchange ratio, AT&T's annual dividend of \$1.33 is the equivalent of \$1.76 for each outstanding BellSouth share, representing a 52% increase to BellSouth's current dividend.

It also provides our employees the opportunity to work for the most respected telecommunications company in the U.S. and one of the most respected companies in the world. Both companies are known for their customer service and network excellence. And both companies value diversity and inclusion.

**Q: What are the terms of the deal?**

**A:** BellSouth shareholders will receive 1.325 shares of AT&T common stock for each BellSouth share that they hold. Based on AT&T's stock price at the close of trading on March 3, 2006, the trading day before the merger agreement was signed, this exchange ratio equals \$37.08 per share. The transaction is expected to be tax-free to BellSouth shareholders.

**Q: AT&T announced that the net present value of expected synergies is estimated to be approximately \$18 billion. Where will the cost savings come from?**

**A:** Almost all of the efficiencies are expected to come from reduced costs over and above expected cost improvements from the ongoing productivity initiatives of BellSouth, AT&T and Cingular.

- The largest savings are expected to come from backbone network operations and IT, as facilities and operations are consolidated, and from increased capital efficiencies.
- Substantial savings will come from eliminating duplicate corporate functions.
- Additional savings will come from overlapping customer sales and service operations.

**Q: Why was the acquisition deal announced publicly before it was announced to BellSouth employees? Why weren't we told first?**

**A:** Because BellSouth is a publicly held corporation, we are required to make material information, such as announcements of pending mergers and acquisitions, accessible to the general public at the same time that we inform our employees.

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**Impact on compensation and benefits**

**Q:** Will the pending merger affect BellSouth's compensation and benefits prior to the closing and how soon after the closing might benefits be changed?

**A:** The merger agreement does not require BellSouth to terminate or reduce any of its overall benefits and compensation programs. BellSouth's benefits plans and compensation programs in general will remain in effect and will continue to be administered in accordance with their terms until closing (although BellSouth continues to reserve the right to modify these programs in any way and in accordance with the needs of the business). In other words, the current compensation and benefits structures will continue "business as usual" through the closing. After closing, all decisions regarding benefits and compensation will be made by AT&T. However, under the merger agreement, AT&T has agreed that, for a period of time after the merger, BellSouth management employees will have compensation and benefit plans and programs that are no less favorable in the aggregate than they have at BellSouth. This commitment will continue for 12 months from the closing or until Dec. 31, 2007, whichever is later. Eventually, BellSouth employees will migrate to the benefit plans and programs of the AT&T companies.

BellSouth's 2005 bonus payments and CAD increases will proceed as planned, on schedule and unchanged as a result of this agreement. Bonuses will be paid on March 15. Management salary increases will be effective May 1. Bonuses for 2006 will be paid as earned in March 2007.

**Q:** What will happen to medical premiums for employees after the merger closes?

**A:** Any decisions regarding medical premiums after closing would be made by AT&T and, for represented employees, would be subject to the collective bargaining process.

**Q:** Will there be job consolidation after the closing occurs?

**A:** It is anticipated that the majority of BellSouth positions will be unaffected by the merger. However, headquarters staff, support functions and overlapping operations will be consolidated.

**Q:** Can any clarification be given around the 10,000 job reduction amongst the three companies that has recently been reported by the media? Are there any indications on how many of the 10,000 will be BellSouth employees?

**A:** No further information is available at this time.

**Q:** Will there be a severance package offered to employees who leave the combined company?

**A:** Employees who leave the combined company under certain circumstances will be provided benefits under a separation plan. The severance plan will be maintained for two years after closing for employees who separate after closing and who separate for reasons other than for cause (as defined under the enhanced separation plan). The general terms of the enhanced separation plan will be (1) a severance pay formula equal to 7% of base pay per year of service (minimum of 50% and maximum of 150%), (2) a pro-rated bonus payment, (3) rule of 65 for retiree medical (and 6 months paid COBRA for others), (4) rule of 65 for telephone concession, and (5) outplacement services.

**Q:** Do these severance terms apply to craft employees?

**A:** No, these severance terms and benefits apply to management employees only.

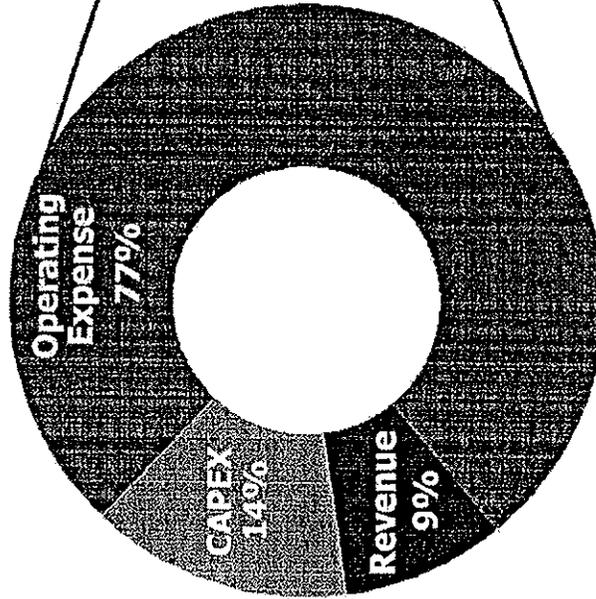


## **AT&T, Bellsouth Merger**

**Substantial Synergy Opportunities,  
Strengthened Growth Platforms in Wireless,  
Business and Integrated Services**

# Breakdown of Expected Synergies

Percentage Breakdown  
\$18 Billion of Net Synergies



Percentage Breakdown  
Operating Expense Synergies

